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**The impact of the economic and
financial crisis on youth employment:**

**Measures for labour market recovery in the
European Union, Canada and the United
States**

Niall O'Higgins

Youth
Employment
Programme

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Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*, which has now been widely adopted by the international community.¹

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work, in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.²

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.³

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

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¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

³ See <http://www.ilo.org/gea>. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work*, "Vision" document, ILO, 2006.

⁴ See <http://www.ilo.org/employment>.

Foreword

Youth is a crucial time of life when young people start fulfilling their aspirations, assume their economic independence and find their place in society. A difficult entry into the world of work has serious repercussions for young people, including a higher risk of poverty and a loss to society of valuable skills. While some young people eventually get a decent job, significant numbers remain trapped in temporary and low-paid jobs, often in the informal economy.

The global jobs crisis has hit young people hard. Youth are generally the first to lose their jobs in times of economic crises and the last to gain employment when the economy rebounds. Of the world's estimated 211 million unemployed people in 2009, nearly 40 per cent – or about 81 million – were between 15 and 24 years of age. The number of unemployed youth increased by 6.7 million in 2009 alone. European Union's countries (EU), Canada and the United States experienced the largest annual increase of the rate of unemployment of young people (4.6 percentage points between 2008 and 2009). In many countries, this grim unemployment picture is darkened further by the large number of youth engaged in poor quality and low paid jobs with intermittent and insecure work arrangements, including in the informal economy.

Youth unemployment and under-employment result in missed opportunities in terms of economic growth and development. Increasing pressure on the labour market can create social discontent if insufficient jobs are available for young women and men. However, young people's professional and personal development can be enhanced through effective school-to-work transition measures. This support is especially needed to mitigate the negative impact of the jobs crisis on youth employment outcomes.

In 2009, ILO member States signed a Global Jobs Pact, which pledges them to take active measures to prevent the impact of the crisis on the young labour force. The dramatic impact of the crisis on youth employment outcomes requires a continued support to labour market measures that have proven effective, especially in times of greater pressure for fiscal consolidation. Withdrawing these active employment measures too early could have dire consequences for the current generation of youth.

This working paper was prepared by Niall O'Higgins, Professor of Economics at the University of Salerno (Italy) and former youth employment specialist of the ILO. It forms part of the regional analyses the ILO has been conducting to improve the knowledge of the youth employment measures taken by countries to promote the recovery of the youth labour markets.

This paper is organized around four chapters. The first chapter introduces the salient aspects of the global crisis and its impact on youth employment. The second chapter analyses the effect of the crisis on the main youth labour market indicators, while the third one reviews the policies and programmes adopted by countries to mitigate the effects of the crisis on young people. The concluding chapter distils lessons learned from the recent and past crises and highlights a number of implications that may be considered by policy-makers while designing interventions to support young workers during economic recovery. The paper is complemented with an inventory of youth employment measures taken by countries during the recent crisis (Annex I).

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Acronyms

ALMP	Active Labour Market Policy
CBI	Confederation of British Industry
CEE	Central and Eastern Europe
EPL	Employment Protection Legislation
ESF	European Social Fund
ETC	Employment and Training Corporation (Malta)
EU	European Union
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
JSA	Job Search Assistance/Job Seeker Allowance
LFS	Labour Force Survey
LMP	Labour Market Policy
OECD	Organisation for Economic Co-operation and Development
OPHRD	Operational Programme Human Resources Development
PES	Public Employment Services

1. Introduction

It now appears that the worst of the recession in the European Union, Canada and the United States may be over – in terms of falling Gross Domestic Product (GDP). Recent estimates of the International Monetary Fund (IMF) suggest that global economic growth is expected to be around 4 per cent in 2010 – although advanced economies are likely to lag behind at around 2 per cent overall and just a little over 1 per cent in Europe (IMF, 2010).⁵ Yet, there are no signs that employment is picking up or unemployment falling as GDP begins to show signs of gradual recovery. Indeed the ILO (2009a) highlights that evidence from previous crises suggests that even once economic growth resumes, it takes on average four to five years before employment returns to its pre-crisis levels. Moreover, the impact on the specific individuals caught in the crisis may be even more long-lasting. Particularly for the young, unemployment early on in one's working life is likely to have repercussions which will be felt throughout their adult life (O'Higgins, 2001). Action is necessary therefore to seek to combat the detrimental long-term effects of the current crisis on those who are likely to be most affected by it. One of these groups, if not the main group, in this category is that of young people. This paper looks at the effects of the economic and financial crisis on the labour market experiences of young people in the European Union, Canada and the United States and discusses the policy responses which have thus far been introduced in an attempt to mitigate these deleterious effects.

Young people tend to be harder hit than adults by recessions. The problem is not just that young people's unemployment rates raise more than adult rates during a recession. This is true, but for several reasons this is not the key issue. The main point is that young people who are caught by the crisis are more vulnerable to its effects than are adults and that these effects are likely to be more long-lasting. This is not just because young people will have more time to suffer the consequences of their current unemployment, but also because they are at a formative stage in their lives; they are more educated and trained than are older people, but also their patterns of behavior are likely to be more affected by their experiences at an early stage in their working careers. Several studies have argued that young people are more affected by the crisis because their unemployment rates have risen by more percentage points than adults. This rather misses the point. In the European Union, Canada and the United States, relatively few young people participate in the labour market; the majority is in full-time education. Thus, a substantial percentage point rise in unemployment may actually affect only a relatively small group of people. It is not so much that more young people are affected, but that young people are more affected, by the crisis. It has long been recognized that the loss of work experience early on in life, with its implied loss of human capital (both that already acquired, and that which would be acquired were the person in work), is likely to translate into a lower earnings over the entire life-cycle (Ellwood, 1982).⁶ In part, at least, this is due to the fact that unemployment in early working life tends to lead to repeated unemployment spells later on (Arumpalam, 2001).

⁵ The European Commission has been slightly less optimistic about the prospects for recovery in Europe; however, the most recent Spring Forecasts (European Commission, 2010) predict growth of 1 per cent in both the euro-zone and the European Union as a whole for 2010.

⁶ More recently, Greg and Tominey (2005) have found a wage 'scar' from youth unemployment of up to 13-21 per cent at age 41. Similarly, Kletzer and Fairly (1999) and Mroz and Savage (2006) find evidence of long term wage reductions for young people experiencing unemployment early in their 'working' lives.

Unemployment and joblessness – particularly when prolonged – are associated with long-term negative effects on the employment and wage prospects of young people going through such spells.⁷ Youth unemployment and joblessness tend to be associated with higher crime rates. Fougere et al. (2009) have established that increased youth unemployment causes an increase in burglaries, thefts and drug offences. Unemployment is also associated with unhappiness – both for those experiencing it as well as those who are employed but fear unemployment in a time of high job insecurity (Bell and Blanchflower, 2010). It has also long been recognized that unemployment is associated with a series of negative health consequences, both physical and psychological which tend to grow disproportionately with the duration of unemployment.⁸

Verick (2009) has analysed in more detail the effects on unemployment, and in particular youth unemployment, of five major financial crises in Spain (1977), Norway (1987), Finland (1991), Sweden (1991) and Japan (1992). The main findings are that youth unemployment tends to peak more quickly, or at the same time, as the prime-age adult rate, but the increased rates of youth unemployment tend to be more durable in time even once the economy starts to recover. Moreover, Hoshi and Kashyap (2008) amongst others point out that the effects of the Japanese recession were particularly long lasting in part because the slow recognition of the extent of the “bad-loan” problem. Indeed, the Japanese recession was not particularly severe, but it was relatively long-lasting and, as a consequence, contributed to the emergence of a “lost generation” of Japanese youth with the emergence of disaffected groups of young people commonly such as “Freeters” characterized amongst other things by their lack of attachment to the mainstream labour market.

Although the youth unemployment rate provides crucial information on the labour market situation of young people, it is also important to look at what is happening to other indicators to gain some understanding of what are the likely consequences – and so, the appropriate youth employment policy responses – of the crisis. In particular, youth joblessness in addition to youth unemployment is an issue of concern in that it is associated with long-term labour market withdrawal and social exclusion. The inclusion of the jobless rate as a standard indicator would be of relevance to better understand the labour market problems faced by young people during the recession. As yet, however, it is not included in the range of otherwise reliable and timely indicators reported in the European Union, Canada and the United States.

The quality of employment is also important. The growing incidence of less stable forms of employment – and of temporary employment contracts in particular - is an issue of concern, particularly in the European Union and Canada.⁹ Although temporary jobs may

⁷ See, for example, Bell and Blanchflower (2009) and Ryan (2001) for discussions of this literature which goes back more than a quarter of a century to the seminal paper by Ellwood (1982). In what follows I make a distinction between unemployment and joblessness. The latter concept identifies all those who are neither in employment, education or training – referred to as NEET by the OECD. Thus, joblessness is a broader concept which all the unemployed but also those who are not actively searching for work, and, as is argued below, the youth jobless rate (the number of jobless as a proportion of the youth population) has a number of properties which make it a useful complementary indicator to the youth unemployment rate. The issue is discussed further in the text and, in more detail, in Annex II.

⁸ See Bell and Blanchflower (2010) and, in particular, the references cited therein.

⁹ In the United States, employment protection is extremely weak and consequently the distinction between temporary and permanent employment is of much less significance.

facilitate the entry of young people into work of some form, there is a danger that these unstable arrangements may persist rather than leading to permanent employment.

The nature of the youth labour market varies much across the countries considered here, as have the effects of the current recession on it. In thinking about policy responses, it is also important to recognize these cross- (and indeed within-) country differences. Above all, existing national labour market institutions differ quite widely and this has implications for both the shorter and longer-term impacts of the recession on young people.

2. Recent trends in youth employment and unemployment

2.1 Overall trends

The immediate effect of the financial and economic crisis throughout the countries considered here has been a substantial fall in labour demand due to the unusually large and widespread shock to aggregate demand. Figure 1 below, reports the absolute change in employment rates by age and sex between the third quarter of 2007 and the third quarter of 2009 – broadly corresponding to the beginning and end of the recession in GDP terms.¹⁰ The countries which were most severely affected by the crisis in GDP terms – the three Baltic countries and Ireland - are also those which were most severely affected in employment terms. However, figure 1 shows that also Spain, and particularly Spanish young people suffered severely in terms of the fall in employment. For the most part, the effects of the crisis were felt principally by males and in particular by young men as noted by the European Commission (2009). As the Commission notes, this is largely a result of the sectors that were most severely hit – manufacturing and construction – which are dominated by male workers. However, there is a substantial degree of variation across countries. In Estonia, for example, the employment rates of women fell nearly as much as for men and the employment of young women fell by slightly more than young men. In most countries, the employment rates of the young fell more than older age groups – indeed, not infrequently, the employment rates of older workers – particularly female workers - actually increased. Looking at the country groupings – taking a fairly conventional subdivision also employed by Verick (2009) amongst others¹¹ – and leaving aside the Baltics, there is much within group variation, but overall, it appears that both “Anglo” and “Mediterranean” countries fared relatively badly, with Continental European countries being least affected – in employment terms – by the crisis.

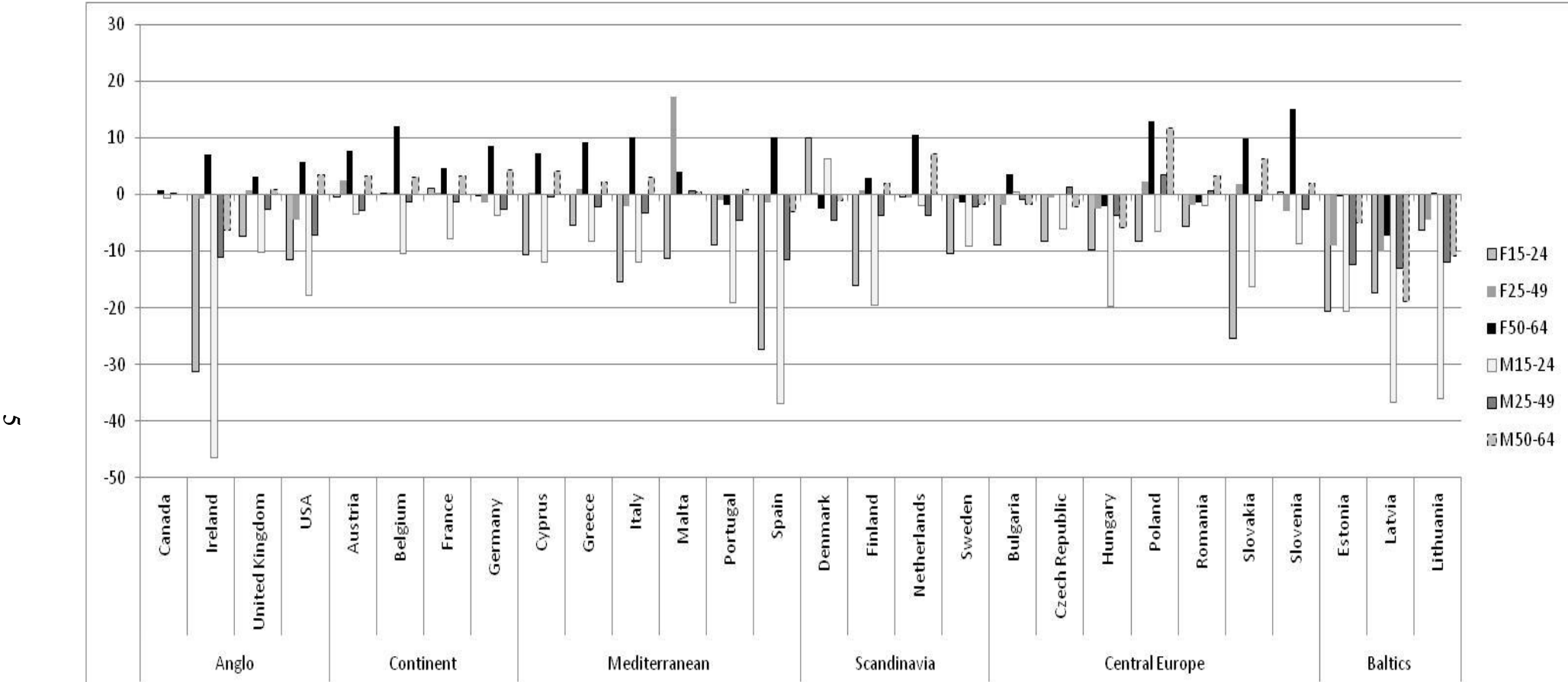
¹⁰ The timing of the crisis of course varied across countries with some – in particular Central and Eastern European (CEE) countries – tended to be hit later by the economic rather than by the financial crisis. It is also not clear that the crisis ended for all in the third quarter of 2009. As yet, the recovery is fragile particularly in Europe with again the newer Member States and Mediterranean countries being slower to recover. The use of the third quarter of 2009 is principally a convenient fixed point. Moreover, as noted above, the negative employment effects of the crisis are likely to persist from some considerable time to come.

¹¹ These broadly correspond to different models of labour market institutions. As with the timing of the recession, the use of these groups is a convenient, and, it is to be hoped, uncontroversial, simplification.

Figure 2 illustrates what happened to unemployment rates by sex in Europe as a whole. As noted above, the effects of the crisis were felt more by men, however, the figure illustrates that this only brought male unemployment rates in line with female unemployment rates.

Looking in more detail at what happened to unemployment rates by age and sex across individual countries (figure 3), one may observe that there was substantial variation in the impact of the recession. In all the countries considered in this paper – with the notable exception of Germany where unemployment rates actually fell for both young men and young women – young female unemployment rates increased less than those of young men. Once again, leaving aside the Baltic countries, Ireland and Spain, the Anglo countries seem to have fared worst, and the Continental European countries best in terms of rising unemployment, although the variation across groups is fairly modest and actually there is more in- (than across-) group variation in the change in youth unemployment rates. Particularly in the Central Europe grouping, the Czech Republic and Hungary fared relatively badly whilst in other countries – Poland in particular, youth unemployment rates actually fell.

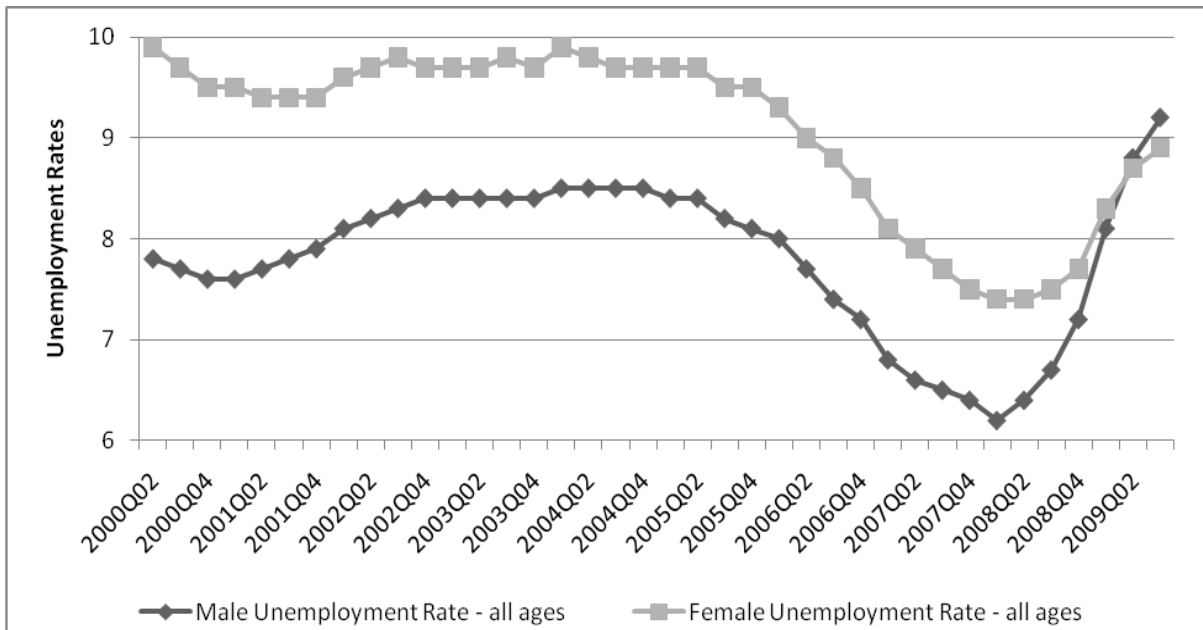
Figure 1: Percentage point change in employment rates by age and sex, 2007Q3 – 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database, except for Canada (from Statistics Canada: <http://www.statcan.gc.ca>) and the United States (USA) (from BLS database: <http://www.bls.gov/>).

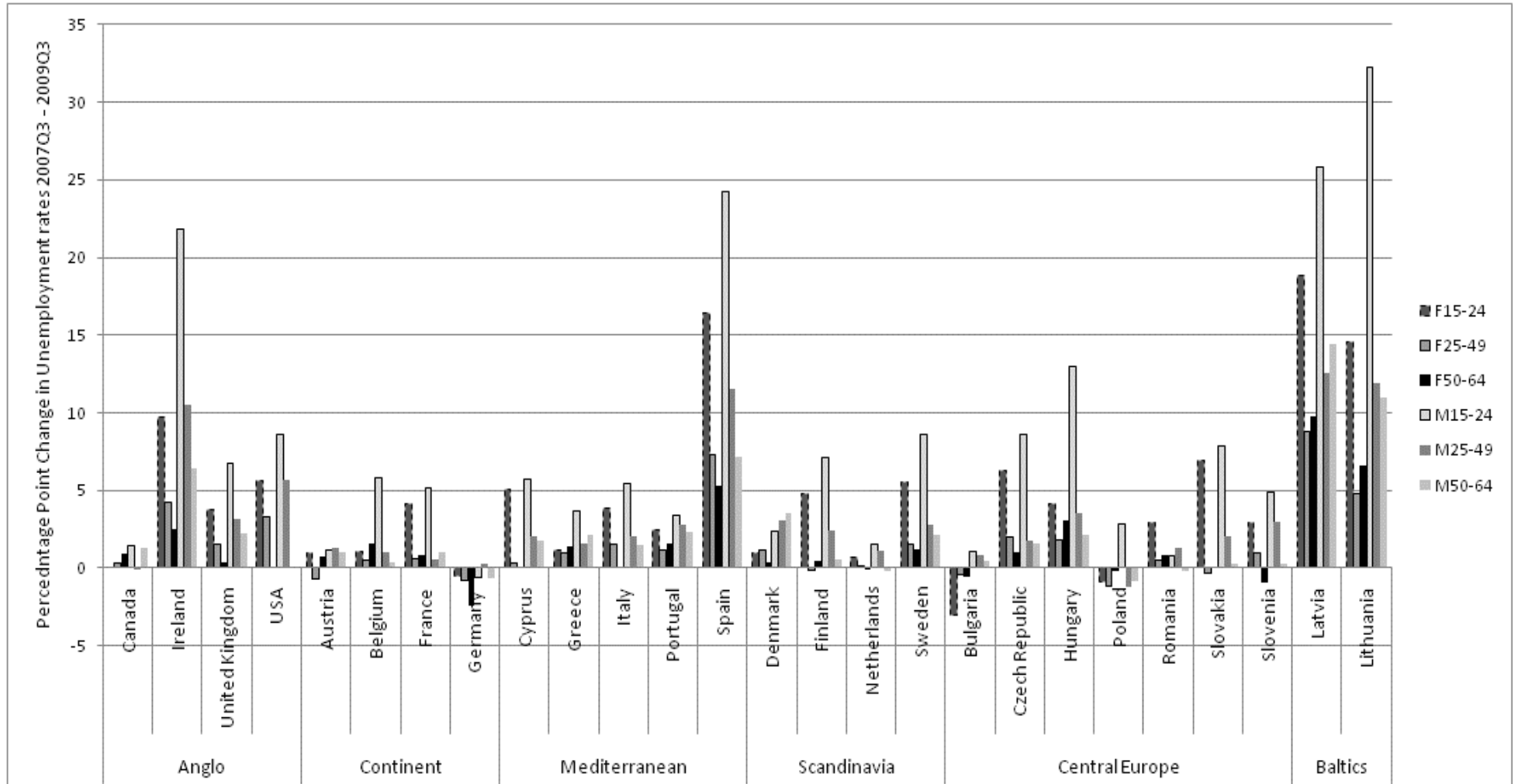
Notes: For Canada, data by gender is not available for youth; for the United States the figure reports the percentage change in employment (not the percentage point change in employment rate). In both cases, monthly data is used covering the period October 2007 to October 2009

Figure 2: Seasonally adjusted aggregate unemployment rates in the European Union by sex, 2000-2009



Source: calculated from Eurostat seasonally adjusted quarterly LFS data.

Figure 3: Percentage point change in unemployment rates by age and sex, 2007Q3 – 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_ifs/data/database, except for Canada (from Statistics Canada: <http://www.statcan.gc.ca>) and the United States (from BLS database: <http://www.bls.gov/>).

Notes: For Canada and the United States, monthly data is used covering the period October 2007 to October 2009.

2.2 Youth unemployment and adult unemployment rates

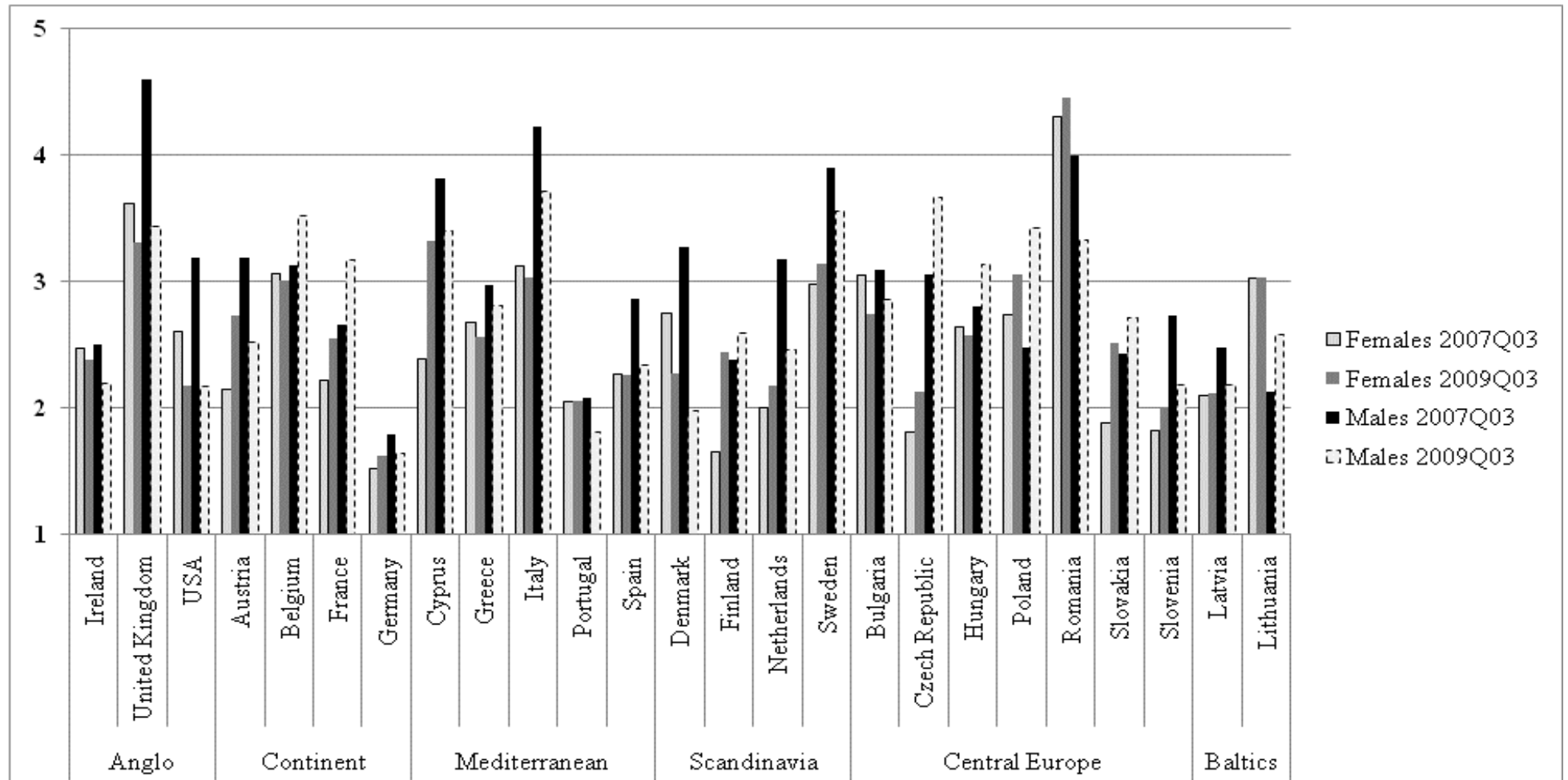
Youth unemployment rates are significantly higher than prime-age adult rates almost everywhere for a number of reasons (O'Higgins, 2001, OECD, 2009a). Consequently, it is not very surprising that during the crisis, the percentage point increase in unemployment rates was, in absolute terms, higher for young people than for prime-age workers (Figure 3). The exception was in Germany (where youth unemployment rates actually fell) and Austria with their dual apprenticeship systems, young male unemployment rates increased less than prime age workers.

There are big differences across countries in the extent to which young people as opposed to adults were hit by the crisis. These differences do not appear to bear direct relation to the depth of the recession. Figure 4 reports the ratios of youth unemployment rates to those of prime age adults for males and females, over the two-year period (2007Q3-2009Q3). It can be observed that neither the ratio, nor the change in the ratio, bears much relation to the overall changes in youth employment and unemployment rates. For males, the countries which had the highest youth-adult ratio before the crisis (Cyprus, Italy, Romania, Sweden and the United Kingdom) all saw a fall in the ratio – implying that in these countries, the relative rise in unemployment was less pronounced for young men than for male prime-age adults. This was not the case for females. In Sweden and Romania, the ratio actually increased.

To emphasize this, Figure 5 reports the (absolute) change in the ratio of youth and prime-age adult unemployment rates for males and females. This figure shows in which countries young people were disproportionately affected by the crisis. As can be observed from the preceding figures – and emphasized in Verick (2009) – the unemployment rates of young people almost invariably increased more than those of adults in absolute (percentage point) terms. Yet, often albeit not invariably in the past, the ratio of youth to adult unemployment rates has moved in an opposite direction to the aggregate unemployment rate (Figure 6). This is another way of saying that the elasticity of the youth unemployment rate to the adult unemployment rate has tended to be less than one. A cursory examination of Figure 5, however, is sufficient to identify this was not the case in the current recession. Very often, young people were indeed disproportionately affected by the crisis, not just in terms of the percentage point rise but also in the proportionate or percentage increase in unemployment rates.¹² On the other hand, this phenomenon appears to bear no relation to the percentage increase in itself. In this regard, it may be observed that Lithuania may be singled out as a country which was heavily hit by the crisis; and the burden was felt disproportionately by young men. Overall, the correlation between the percentage change in youth unemployment rates and the youth-to-adult ratio of the changes is practically zero for both young men and young women.

¹² The usually reported figure of the percentage point increase refers to the absolute change $= UR_t - UR_{t-x}$ (where UR stands for Unemployment Rate at time t and at time t-x, i.e. some time before that). The percentage change in unemployment rate is given by $100*(UR_t - UR_{t-x})/UR_{t-x}$. That is, the change in unemployment rate proportionate to the base or initial rate. The larger the base rate UR_{t-x} , the smaller will be the percentage change corresponding to a given absolute change in the unemployment rate. Since the youth unemployment rate is higher than the adult rate, the percentage point change paints a more dramatic albeit less accurate picture of the relative change in the situation of young people compared to adults than does the use of the percentage change.

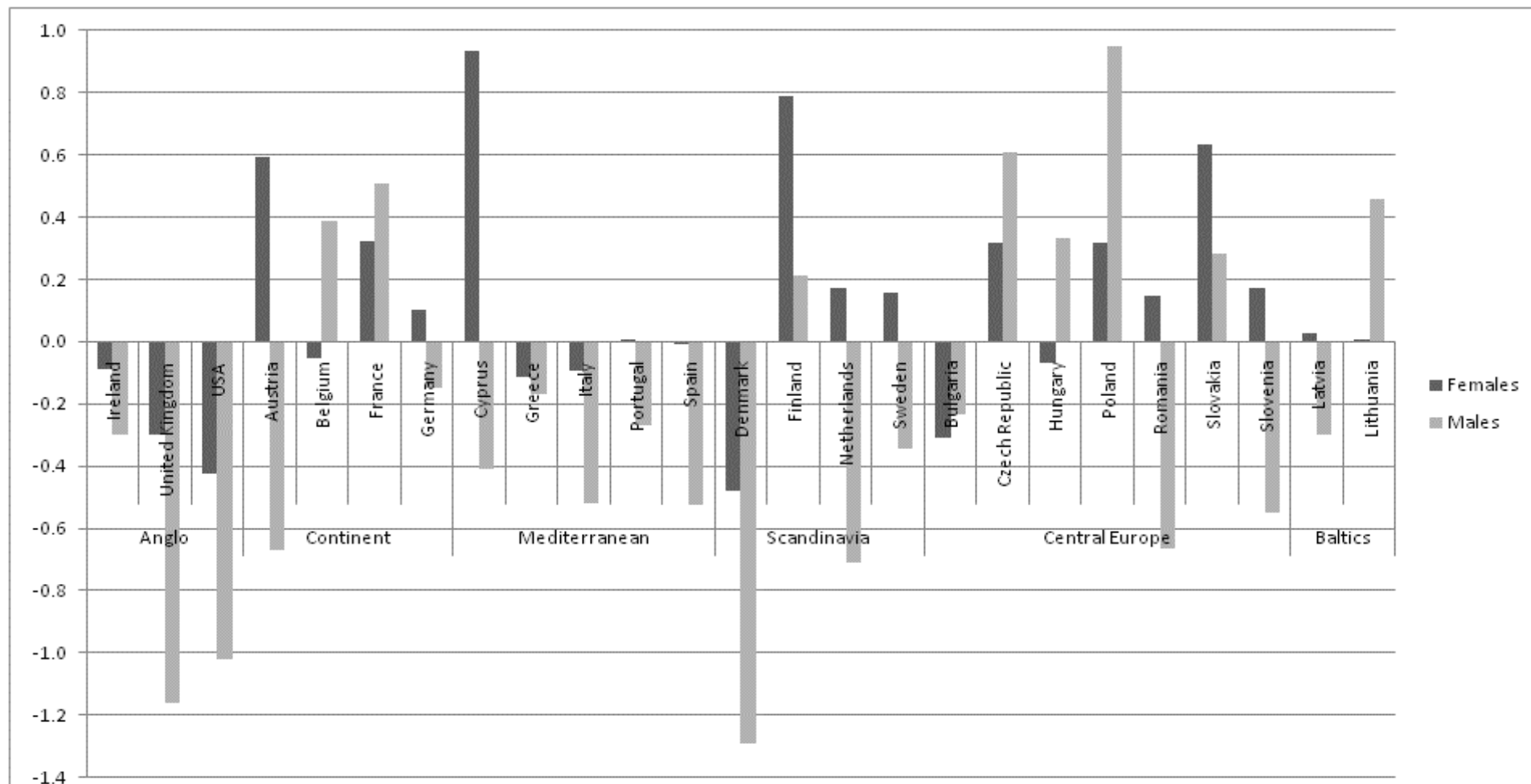
Figure 4: Ratio of youth to prime age adult unemployment rates by age and sex, 2007Q3 – 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database, except for Canada (from Statistics Canada: <http://www.statcan.gc.ca>) and the United States (from BLS database: <http://www.bls.gov/>).

Notes: The figure reports the youth unemployment rate/prime age adult unemployment rate by gender. For Canada and the United States, monthly data is used covering the period October 2007 to October 2009.

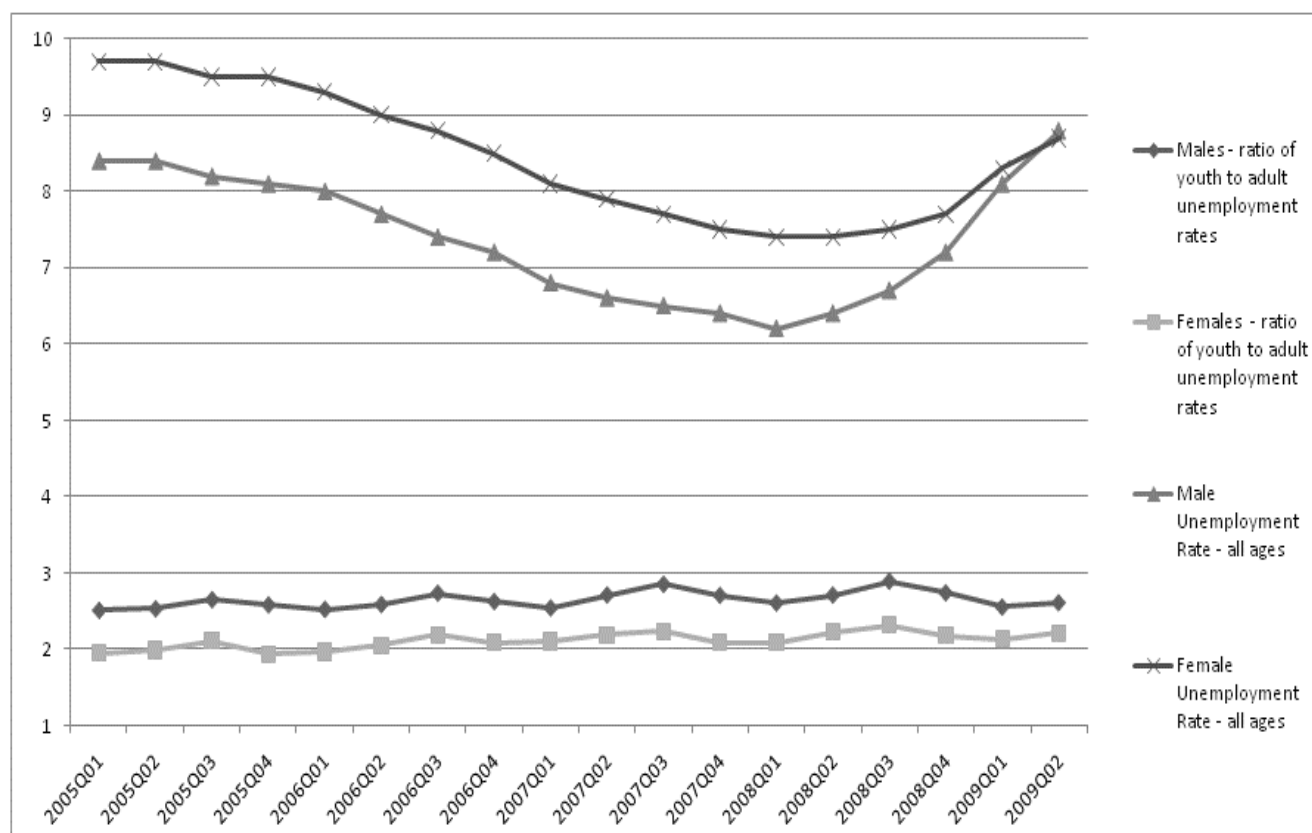
Figure 5: Change in the ratio of youth to prime age adult unemployment rates by sex, 2007Q3 – 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database, except for Canada (from Statistics Canada: <http://www.statcan.gc.ca>) and the United States (from BLS database: <http://www.bls.gov/>).

Notes: the figure reports change in the ratio of youth to prime age adult unemployment rates. A positive value indicates that young people were disproportionately affected by the recession in terms of the percentage increase in unemployment rates. For Canada and the United States, monthly data is used covering the period October 2007 to October 2009.

Figure 6: Aggregate unemployment rates and ratio of youth to adult unemployment rates in the European Union by sex, 2005-2009



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database

2.3 Long-term unemployment

The negative consequences of unemployment are largely associated with longer durations of unemployment. Short spells of frictional unemployment are more or less an inevitable consequence of job search. Being on average less settled in their occupational choices and more mobile than adult workers, young people tend to experience unemployment spells more frequently than adults. This is one reason why youth unemployment rates are much higher than those of prime-age adults with the partial exception of countries operating a dual apprenticeship system (O'Higgins, 2001). Some have argued that high youth unemployment is not so serious since unemployment spells tend to be of shorter duration for young people, yet, in actual fact, this is not necessarily the case (O'Higgins, 2003; Ryan, 2001).

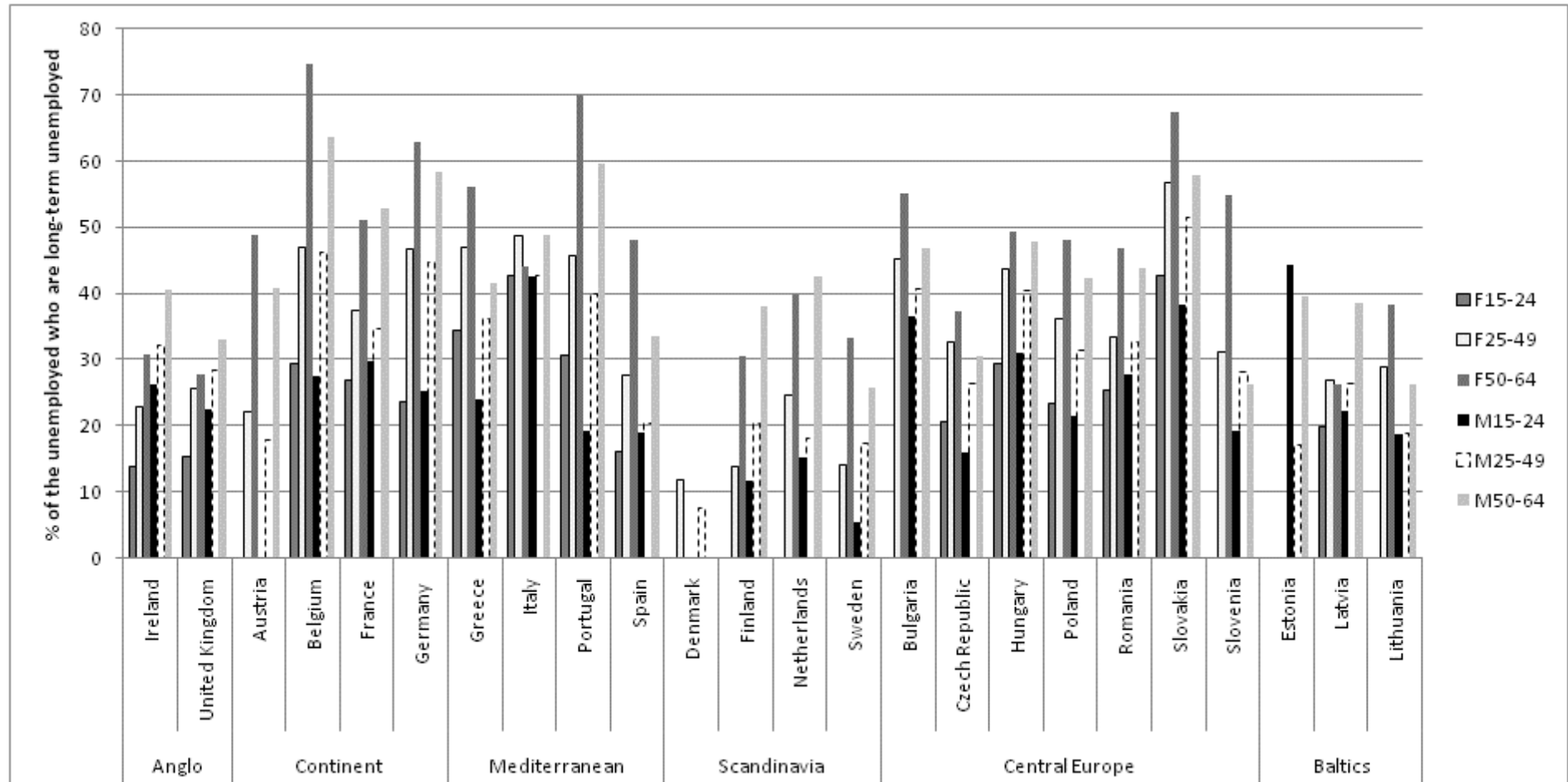
In the context of the current recession, it is pertinent to look at what has happened to long-term unemployment for different age groups across countries. Changes in the incidence of long-term unemployment – the proportion of the unemployed who have been so for more than one year – principally reflect two phenomena. The incidence of long-term unemployment will tend to: a) increase if the recession affected outflows from, more than inflows to, unemployment – that is if the fall in new hires was greater than the increase in redundancies; and/or b) fall with the introduction of new Active Labour Market Policies (ALMPs) targeting the long-term unemployed. Figure 7 reports the information on incidence of long-term unemployment in the third quarter of 2009, and, to focus on changes in the incidence, Figure 8 shows the variations in incidence of long-term unemployment over the period 2007Q3 – 2009Q3 for males and females by age group.

It can be observed that, almost everywhere, the incidence of long-term unemployment is higher for the older age groups. In this regard, Estonia stands out as an exception: the incidence of long-term unemployment is much higher for young males than for prime age males. Also, in several other countries – in particular, in Italy, Latvia, Lithuania, the Netherlands and Spain– there is little difference between the incidence of long-term unemployment for young and prime-age males.

Looking at the changes in the incidence of long-term unemployment, the picture is rather different to that emerging from an examination of overall unemployment changes. In particular, it seems that young people and above-all, young women were the hardest hit in terms of lengthening spells of unemployment. Put simply, the higher unemployment of adult men (and also adult women to a lesser extent) arising from the recession has had much to do with increased inflows into unemployment – more men have been made redundant. For young people and above-all young women, the recession has largely manifested itself in terms of increased difficulties in finding work. The major exception is Spain where the incidence of long-term unemployment for all age groups, except for older males, increases. This is a particularly worrying development given the overall dramatic increase in unemployment rates.

As noted above, these figures also reflect to some extent the introduction or expansion of ALMPs adopted to mitigate the labour market effects of the crisis. The full impact of the recession on long-term unemployment will not be felt for some time. However, one important message from the information thus far available is that countries need to take action to prevent a relatively temporary fall in labour demand producing a cohort of long-term unemployed young people with few prospects of the future.

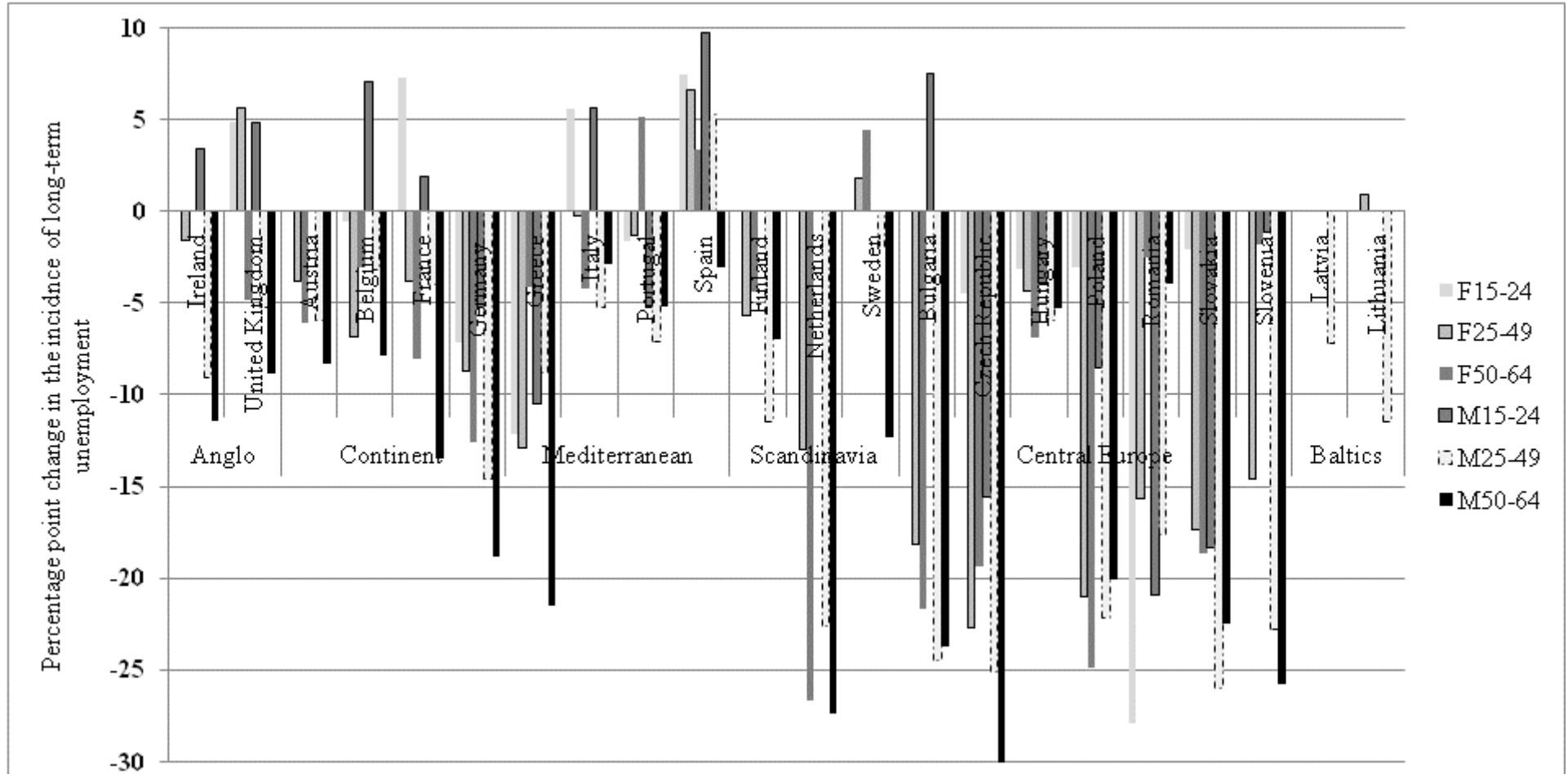
Figure 7: Incidence of long-term unemployment in the European Union by age and sex, 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database

Note: The incidence of long-term unemployment is defined here as the proportion of the unemployed who have been so for at least one year. Data availability limits the countries included here. For the countries for which some data was available, on the date of access (19/6/2010), data was unavailable from the EUROSTAT database for young (15-24) women in Austria, Denmark, Finland, Netherlands, Sweden, Bulgaria, Slovenia, Estonia and Lithuania; prime age (25-49) females in Estonia; Older (50-64) females in Denmark and Estonia; young men in Austria and Denmark; and, older males in Denmark.

Figure 8: Percentage point changes in the incidence of long-term unemployment in the European Union by age and sex, 2007Q3 – 2009Q3



Source: Author calculations Eurostat, European Labour Force Survey data, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_ifs/data/database.

Note: See note to figure 7 above. Available data was insufficient to calculate the change in the incidence of long-term unemployment for young (15-24) women in Ireland, Austria, Finland, Netherlands, Sweden, Bulgaria, Slovenia, Latvia and Lithuania; prime age (25-49) females in Latvia; Older (50-64) females in Ireland, Latvia and Lithuania; young men in Austria, Finland, Netherlands, Sweden, Latvia and Lithuania; and, older males in Latvia and Lithuania.

2.4 Education, labour demand and the crisis

Although with substantial cross-country variation, the employment rates of young people tend to increase with level of education in almost all countries considered (see Figure 9). The Mediterranean countries are characterized by relatively low youth employment rates for all levels of education and relatively small differences in employment rates by level of education. For instance, amongst Italian young males, the employment rates of those with tertiary education are actually lower than those with a completed secondary diploma.¹³ In most countries, however, employment rates of those who have not completed secondary education across a wide range of countries are very low. This is particularly noticeable in the countries of Central Europe and of the Baltics, but is by no means limited to these areas.

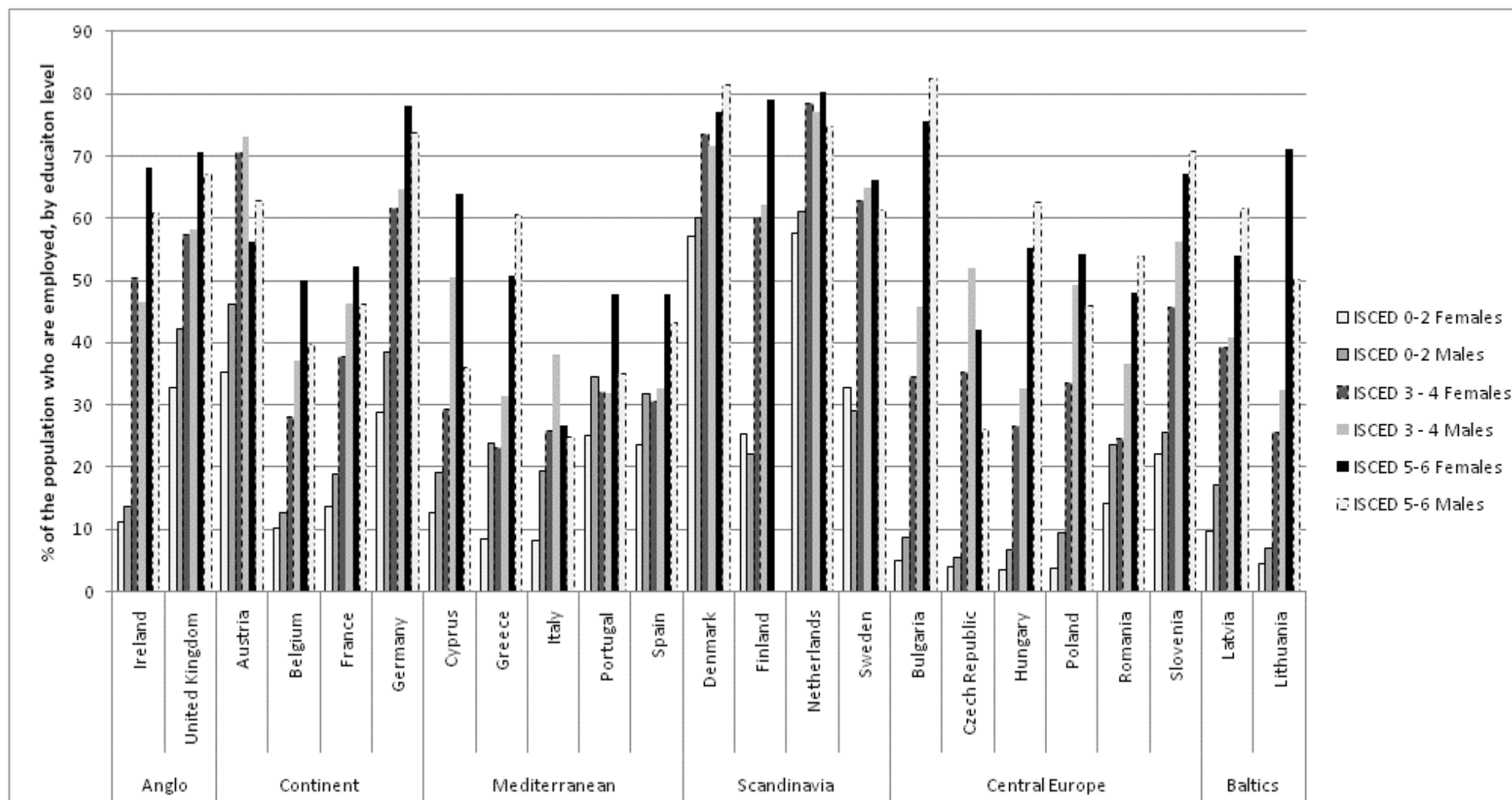
As regards the change in employment rates, reflecting changes in the demand for those young workers with differing levels of education, it appears that it is those with higher levels of education who were usually the most adversely affected by the fall in labour demand accompanying the financial crisis albeit with the ubiquitous significant cross-country variation (see Figure 10). Anglo and Scandinavian countries, particularly Sweden where the change in employment rates actually falls with level of education, represent partial exceptions. However, it is worth bearing in mind that the number of Scandinavian youth with less than secondary education is very small.

Thus, two major points emerge. First, labour force participation rates and also employment rates are very low amongst youth with lower levels of education, particularly those who have not completed secondary education.¹⁴ This raises the issue of labour market, and consequently social, exclusion. The extraordinarily low employment rates of those with very low levels of education is explained by labour market withdrawal and joblessness as well as by higher unemployment rates amongst those with low levels of education. Independently of the crisis, this should be an issue of concern to policy-makers. Second, somewhat in contrast to the first point, the crisis seems to have hit more young people with higher – and in particular tertiary – levels of education. However, some caution is in order. In many countries, a return to education may be easier for those with higher education, and consequently the big drop in employment rates does not necessarily signal a major problem. The situation will depend on the national and local economic conditions, but also on the national institutional framework which, despite a process of harmonization in Europe, differs significantly across countries. Although, on the whole, the crisis seems to have hit the more educated particularly hard, this is not true for all countries, nor to the same extent. Thus, careful analysis of the national context is required to seek specific policy action to counteract this aspect of the financial crisis.

¹³ This trend is related to the “Mediterranean Labour Market Model” and has to do with the role of family, as opposed to that of the State, as the guarantor of the income of family members other than the principal (usually male) breadwinner. There are a number of implications that go beyond the scope of this paper, which include the greater difficulty of young Mediterraneans in accessing full-time permanent jobs. See, for example, O’Higgins (2008) for further discussion of some of behavioural implications of this in Italy, or OECD (2007) for an analysis of the situation in Spain.

¹⁴ Although a substantial proportion of 15-24 year olds who have not completed secondary education are still participating in education, this would not account for the huge differences in employment rates that are observable in many countries.

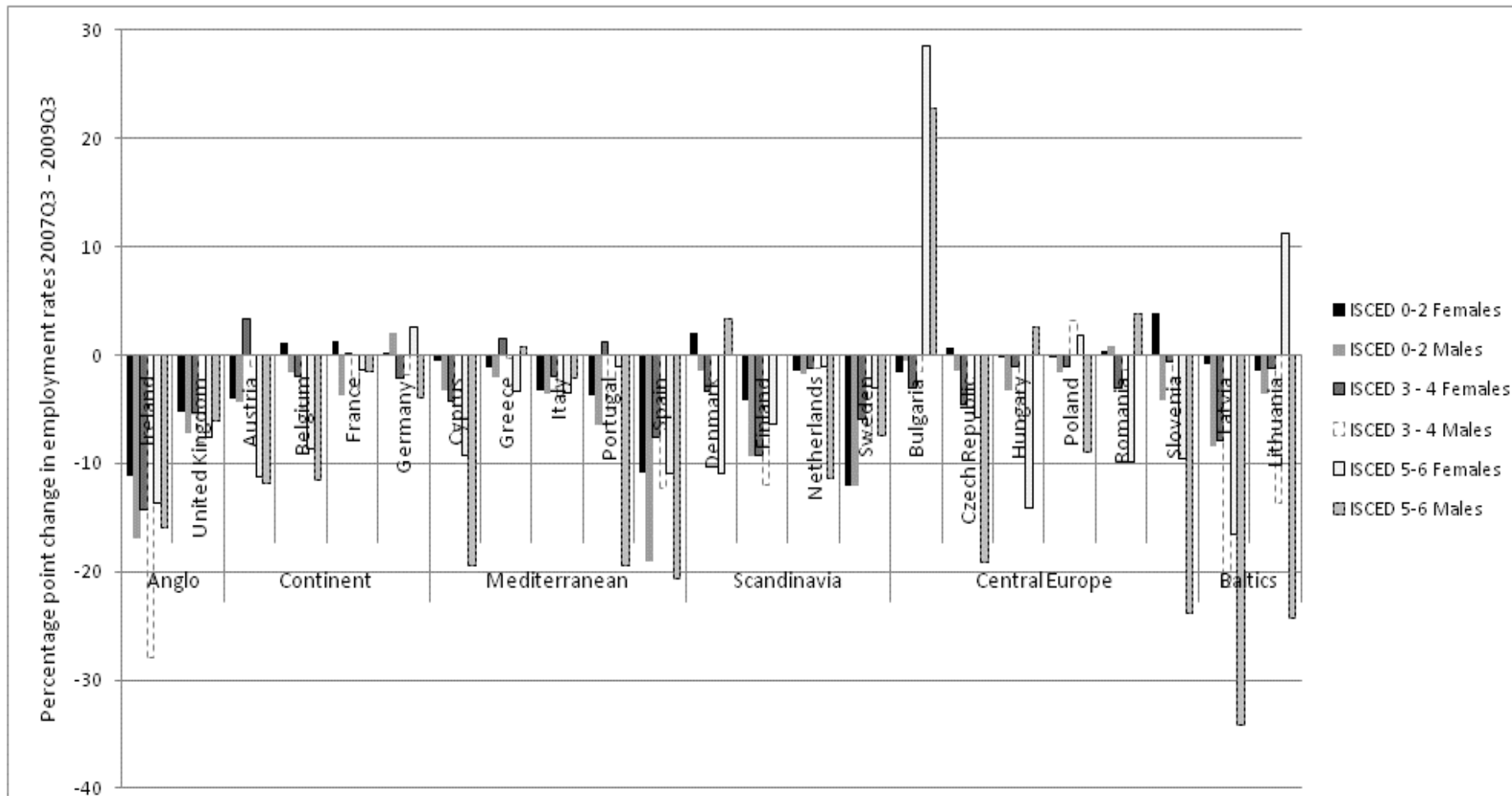
Figure 9: Employment rates of young people in the European Union by level of education and sex, 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_ifs/data/database.

Note: Countries for which data are available are included. Amongst the included countries, data are unavailable from the EURISTAT database for young male Fins with ISCED 5-6 level of education.

Figure 10: Percentage point change in employment rates of young people in the European Union by level of education and sex, 2007Q3 - 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database

Note: Countries for which data are available are included. Amongst the included countries, data are unavailable from the EUROSTAT database for young male Fins with ISCED 5-6 level of education

2.5 Temporary employment

The extent of temporary employment varies widely across Europe, Canada and the United States (see Figure 11). The general trend in recent years (in some cases decades) has been towards ever-increasing use of temporary contracts, particularly for young people. In all countries, the incidence of temporary employment tends to be much higher amongst young people than amongst older workers – although this difference is rather less pronounced for females.

The effects of a recession on temporary employment may comprise two opposing effects. First, those in temporary employment are likely to be the first to be laid off when aggregate demand falls because the costs to firms of doing so are lower than for permanent workers. On the other hand, temporary contractual forms may also be those most attractive to employers who wish to take on new workers in uncertain times. In as much as the latter effect exists, this may be particularly advantageous to young job seekers in gaining a foothold in the labour market. If the latter effect dominates, temporary employment may actually increase in absolute terms or at least as a percentage of total employment.

In general, the findings on the usefulness of temporary employment in promoting long-term employment are not very encouraging. Many studies find that temporary employment does not prove to be a very effective stepping-stone to permanent employment.¹⁵ Moreover, temporary employment contracts tend to discourage investment by firms in training (Arulampalam et al., 2004; Booth et al., 2002). In the case of Sweden, the recession of the early 1990s was the major driving force behind the spread of temporary contracts. The suggested implication being that the rapid expansion of temporary employment was a contributory factor to the recovery in employment in Sweden following the recession (Holmlund and Storrie, 2002).

During the recession temporary employment fell almost everywhere (see Figure 12) although, as a percentage of total employment this was not always the case (see Figure 13). In countries such as Czech Republic, Denmark, Greece, Hungary and Slovakia that were characterized by a moderate or low incidence of temporary employment prior to the crisis, the incidence of temporary employment has actually increased. Similarly, in Italy and Slovenia, where temporary contracts were already fairly widespread, the recession led to a further increase. In all of these countries, the increase in temporary employment as a percentage of total employment implies that temporary employment fell less than permanent employment amongst young people. This is a little surprising and runs contrary to the overall trend which saw a substantial drop in temporary employment during the recession (European Commission, 2009), as well as the common notion which suggests that temporary employees are the first to be made redundant in a recession. It suggests that to some extent young temporary replacements are

15 See, for example, the collection of papers in the symposium in the *Economic Journal*, vol. 112, no. 480, 2002. Of the four substantive papers in the collection, three find negative effects of temporary employment (Blanchard and Landier, 2002; Booth et al., 2002 and Dolado et al., 2002) with only one (Holmlund and Storrie, 2002) suggesting a (partially) positive role. Although, the general picture has not changed subsequently, some more analyses have found a positive role for temporary employment as a stepping-stone to permanent employment. For example, in their review of the literature, Zijl and Van Leeuwen (2005), report positive 'stepping-stone' effect for temporary jobs in Germany, the Netherlands and Italy, but not for Spain. Zijl et al. (2010) analysing the situation in the Netherlands in more detail find that although temporary jobs do shorten unemployment durations, they do not lead to an increase in the likelihood of being in regular employment subsequently.

being found for permanent employees made redundant during the recession and is an issue which would certainly be worth investigating in more detail at the country level.

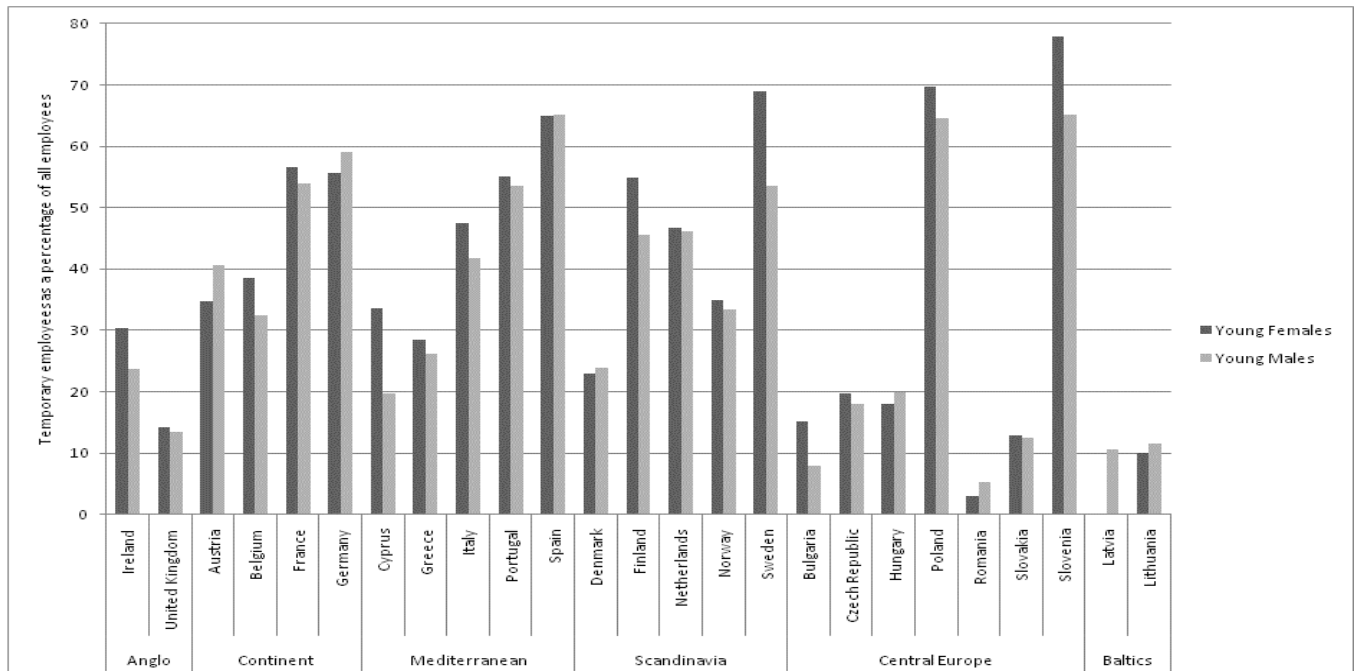
It is too early to make any assessment on whether the use of temporary employment will contribute to the recovery, although it is predictable that, as a consequence of the crisis, the incidence of temporary employment will rise – as occurred in Sweden in the 1990s. It is, however, evident that the incidence of temporary employment contributed to the severity of the employment effects of the crisis in some countries. Spain, in particular, was characterized by a particularly high pre-recession incidence of temporary employment and was the country where, without a particularly substantial fall in GDP, male employment rates – and particularly male youth employment rates – fell dramatically. More generally, for young women there is a moderate negative correlation (-0.24) between the incidence of temporary employment in the third quarter of 2007 and the change in employment rates between the third quarter of 2007 and the third quarter of 2009. For young men the correlation albeit negative is very weak (-0.06).¹⁶ The impact of the recession on employment rates depends on a number of other factors – most notably the severity of the recession itself. However, this evidence suggests that thus far temporary employment contracts have not counteracted the negative employment effects of the financial crisis.

Looking at the recent evidence it can be observed that, prior to the crisis, there was a great diversity in the incidence of temporary employment amongst young people in Europe (Figure 13). To some extent there is an inverse relation between the strictness of employment protection legislation (EPL) and the incidence of temporary employment amongst young people. For example, in the United Kingdom, which is characterized by weak EPL, the incidence of temporary employment is relatively low whereas in Mediterranean countries and in particular, in Italy, Portugal and Spain where EPL is relatively strong, the incidence of temporary employment is relatively high. A similar incidence can also be observed in France and Germany, other countries with relatively strong EPL. The situation in these Mediterranean countries is largely the consequence of policy choices made first in Spain in the 1980s and then in Italy and Portugal in the 1990s to introduce greater flexibility in labour markets in order to facilitate the entry of young people into employment.¹⁷ Prior to the crisis there was little difference in the incidence of temporary employment for young men and young women with a few exceptions – most notably Sweden, but also Poland and Slovenia – where the incidence of temporary employment was higher for young women.

¹⁶ The simple correlation coefficients were calculated for the sample included in the figure 12.

¹⁷ And at the same time is linked to the aforementioned “Mediterranean model” which has as its lynchpin, strong employment protection for the primary household breadwinner.

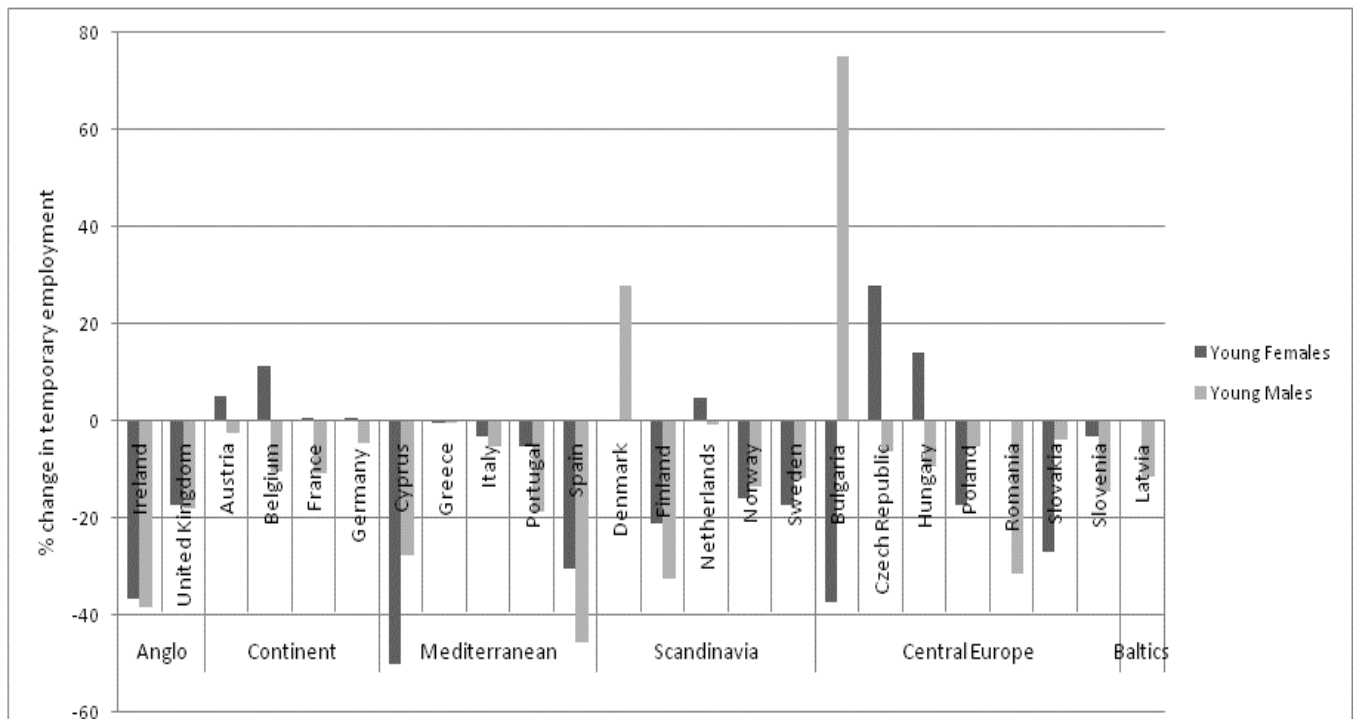
Figure 11: Incidence of temporary employment contracts among youth in the European Union by sex, 2007Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_ifs/data/database

Note: The figure reports the change in temporary employment as a percentage of the pre-crisis incidence. Countries included for which data are available. Amongst the countries included data on young females were not available for Romania and Latvia.

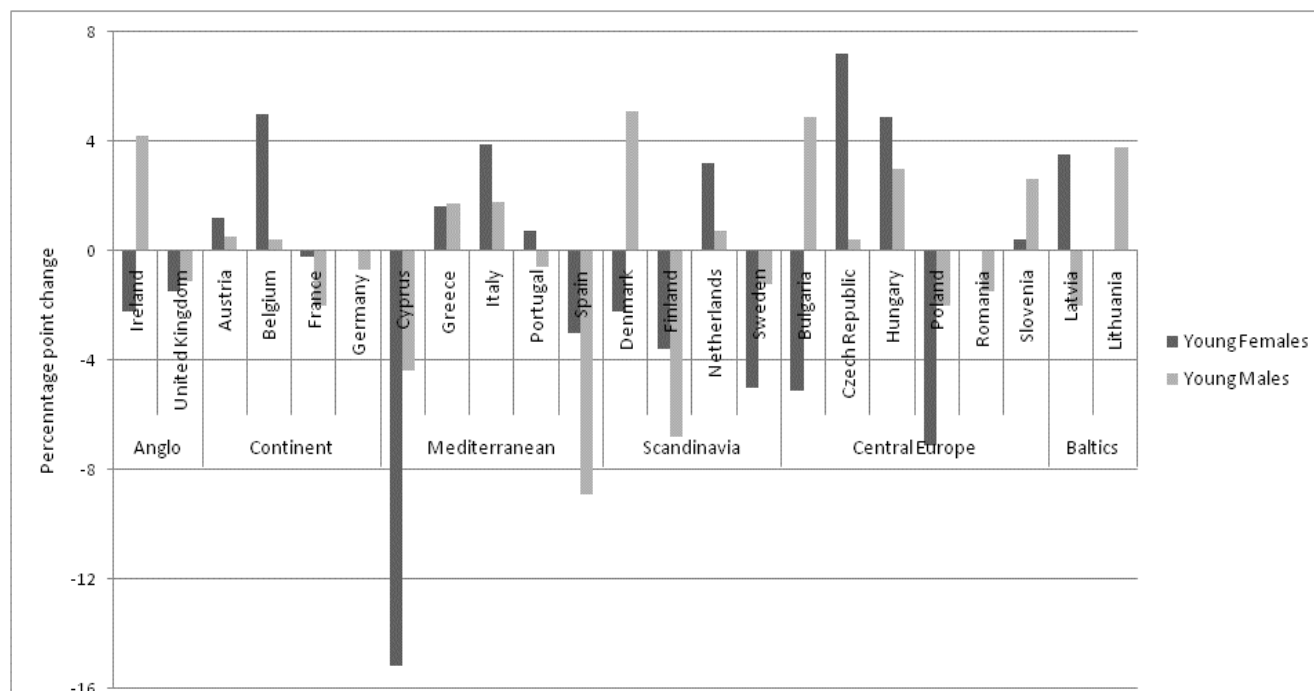
Figure 12: Percentage change in temporary employment of young people in the European Union by sex, 2007Q3 – 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_ifs/data/database

Note: Countries included for which data are available. Amongst the countries included data on young females were not available for Romania and Latvia.

Figure 13: Incidence of temporary employment contracts among youth in the European Union by sex, 2007Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_ifs/data/database

Note: Countries included for which data are available. Amongst the countries included, data on young females were not available for Latvia.

In the light of the discussion of temporary employment, it may be observed that the correlation between the change in unemployment rates (in percentage terms) and the strictness of employment protection legislation as measured by the OECD indicator is moderately strong but, contrary to the view often propounded – although less frequently supported by the data¹⁸ – turns out to be negative and of a similar entity for young men (-0.20), young women (-0.20) and adult men (-0.23), whilst being somewhat larger for adult women (-0.35).¹⁹ On the other hand, the correlation between the youth-adult ratio of changes in unemployment rates and the EPL index is moderately positive for both males (0.20) and females (0.23). That is, in countries with stricter employment protection legislation, unemployment rates amongst both young people and adults tended to increase less than in countries with weaker EPL. However, in countries with stronger EPL, the relative position of young people worsened – on average, their unemployment

¹⁸ See, for example, Bell and Blanchflower (2010) and/or Freeman (2007) for further discussion of this issue as well as the discussion below.

¹⁹ For the purposes of the correlations, a distinction between the young (under 25) and adults (over 25) was used. Simple correlation coefficients were calculated for the countries for which the OECD strictness of EPL indicator and data on the change in unemployment were available. Specifically, the countries considered were Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, United Kingdom and the United States. The correlation is only statistically significant ($p < 0.05$, one-tailed test) for adult women.

rates increased proportionately more than those of adults. Taken at face value,²⁰ these simple descriptive statistics suggest that stronger employment protection legislation tended to mitigate rather than worsen the negative effects on unemployment of the financial crisis for both young people and adults. At the same time, EPL did have a moderate impact on just how badly young people fared compared to adults. Neither proposition is particularly surprising. In countries with stronger EPL, firms will react more slowly to the crisis through the shedding of the workforce, due to the greater costs involved. At the same time, young workers tend to be much less subject to EPL, since on average they are less likely to have accumulated sufficient time on the job to qualify. Of relevance here is the fact that the increased use of temporary contracts will tend to accentuate this differential between younger and older workers, by further excluding young workers from employment protection.

2.7 Which indicators – unemployment and joblessness

Although full discussion of indicators of the school-to-work transition goes well beyond the scope of this paper, one major issue needs to be broached due to its relevance in times of recession. The most commonly used indicator of youth (and indeed adult) labour market problems is the youth unemployment rate. This measures the percentage of young people who are without a job but are actively seeking work. Thus, a high youth unemployment rate is undesirable in the sense that a substantial proportion of young people who are actively seeking work do not find it.

Yet the unemployment rate indicator has some drawbacks:

- (a) The youth unemployment rate does not necessarily give much idea of the extent of youth labour markets problems as they affect young people. If young people participate in education more or less until the age of 24, but most of those who do enter the labour market are unemployed, the youth unemployment rate will be very high but it will reflect a relatively small problem in terms of young people as a whole.
- (b) The youth unemployment rate is based on a rather restricted definition of the labour market as it does not include young people who would like to work but do not seek it because they know or believe that no suitable work is available: the discouraged workers. In the context of a recession, this issue becomes of major importance. Discouragement from the labour market is not independent of economic – or personal – circumstances. People may stop seeking work because they know or believe that no employment is available. Once thus excluded, they disappear from the statistics but also become part – or risk becoming part of a permanently excluded – and disaffected, or perhaps worse, apathetic – group.
- (c) There are many young people who choose to do ‘other things’ (e.g. have and/or look after children, enjoy leisure or travel (or indeed migrate to other countries), or participate in education). For most of them, this choice is unlikely to be independent of the quantity and quality of the work available. Taken from a school-to-work transition perspective – by which education and employment are, respectively, the desirable start and endpoints of the

²⁰ Although, the correlations are relatively weak throughout, they are however, consistent and consequently suggestive.

transition in young people's lives – the issue of whether youth are actually seeking work may not be very relevant.

- (d) Most importantly, all young people who are not usefully occupied represent a missed opportunity and a wasted potential.

The above-mentioned considerations have led some international agencies to look also at the more general indicator of joblessness or, in OECD parlance, the not in employment or education or training rate (NEET).²¹ This indicator defines the number of young people who are not in education or employment as a percentage of the age-specific population.²² Annex II looks in a little more detail at some of the advantages of this indicator. Unfortunately the jobless or NEET rate has not yet entered the standard lexicon of commonly reported indicators, nor is it calculable on the basis of the standard statistics available so it is not possible to consider the effects of the recession on joblessness. Yet such an analysis would be informative since the jobless rate:

- (a) Includes all young people who are not in some sort of “productive” or “useful” activity. Specifically it includes a potentially substantial group of people who are not actively seeking work but would do so if conditions in the labour market improved. Arguably it is precisely the discouraged young people who are most in need of intervention in terms of education, training and/or active labour market policies in order to prevent them from becoming entirely detached from the labour market;
- (b) Gives a sense of the size of youth labour market problems in relation to the youth population as a whole. The youth jobless rate is an indicator of the incidence of youth labour market problems amongst young people as a whole.²³
- (c) In combination with youth unemployment rates, the NEET rate would also help in the interpretation of the employment adjustment process and consequently in throwing further light on cross-country differences in youth unemployment rates.

²¹ See, for example, World Bank (2006).

²² The OECD (2009b) has recently further refined the concepts underlying this indicator and suggested two new albeit related categories – poorly integrated (young people who do not find stable jobs, but move between temporary employment, unemployment and inactivity) and left behind youth (those young people who face long-term joblessness).

²³ Thus, for example, if almost all young people continue in education until they are 24, then even if the youth unemployment rate is very high, the youth jobless rate will be low. One might argue consequently that this is not strictly speaking an indicator of labour market problems amongst young people. The debate is ongoing. I would argue that it is, at the very least, a useful additional indicator of youth labour market problems – or possibly more accurately school-to-work transition problems – for the reasons given above. Precisely this type of reasoning has led the European Commission to include the youth unemployment ratio (i.e. youth unemployment narrowly defined as a percentage of the youth population) in addition to the youth unemployment rate amongst the standard indicators reported in its *Employment in Europe* annual reports.

The youth jobless rate is a particularly relevant indicator in times of recession because it is precisely those people who drop out of the labour market who are most in danger of permanent exclusion. For these people the long-term consequences of the recession are likely to be most severe as they risk to be permanently excluded from the labour force as a consequence of the relatively short-term fall in labour demand. A recent OECD report (Scarpetta et al., 2010), has argued that priority should be placed on ensuring that the current recession does not have the effect of permanently augmenting the “youth left behind” as well as “poorly integrated youth”.

The group of young people neither in employment nor in education or training represented 11 per cent of the youth population in the OECD in 2007. Among them, two in three were already detached from the labour market, either because they had been unemployed for more than a year or were inactive and did not seek a job. More specifically, for the countries in this report, the NEET rate reached 10.2 per cent in 15 European Union member countries, 9.7 per cent in Canada, and 11.2 per cent in the United States in 2008 (Scarpetta et al., 2010).

As mentioned earlier, in addition to the youth unemployment rate it is important to consider also the rate of young discouraged workers. Together with unemployment, this indicator provides a better picture of the situation of young people in the labour market, especially in times of crisis. In France, for example, the number of young discouraged workers increased by 30.7 per cent between the third quarter of 2007 and that of 2009. This compared with the increase of 16.7 per cent for the overall rate of worker discouragement (ILO, 2010b). In Spain, the number of young discouraged workers increased by over 18 per cent between the third quarter 2007 and the same quarter of 2009 (ILO, 2010c).

3. Policies to mitigate the effects of the crisis on young people

Policies to mitigate or counteract the effects of recession on employment can be broadly divided into macroeconomic policies, educational policies and labour market policies and programmes (LMPs) which in turn may be subdivided into active (policies and programmes promoting employment and/or employability) and passive (income support). The distinction among these types of policies is not always entirely clear-cut. Moreover, measures relating to large-scale labour market policies may well have macroeconomic effects. More generally, passive labour market policies are often a significant component of (mainly non-discretionary) fiscal policy. The main emphasis in this paper is on labour market policies and programmes and, above-all, active labour market policies and programmes (ALMPs) although all three are clearly relevant to the labour market situation of young people.

As regards labour market policies, one may first divide these between passive and active policies. Passive policies are those which provide income support and generally comprise unemployment and some social security benefits for the unemployed, whilst active policies are concerned with improving the employment or employability of young people. There is, however, some overlap. Public works programmes are usually considered a part of active labour market policy, however, they tend to do very little to enhance the employment or employability of participants (Betcherman et al., 2004). This has led some authors to suggest that they should more properly be considered as income support rather than employment promotion mechanisms. Passive and active elements may also be combined and in general, the distinction is becoming more blurred with more innovative approaches to the promotion of employment through activation strategies.

Confining attention to strategies which aim to increase the likelihood of finding work and/or the employability of participants, active labour market policies include interventions to enhance human capital – usually through training and/or education; to promote employment – in

particular, employment subsidies and support for business start-ups and/or expansion; and, to enhance job search assistance.

Very often programmes involve more than one of these elements and indeed “comprehensive” programmes involve elements of all three of the above. One well-known example of this type of programmes is the “New Deal for Young People”, which was introduced in the United Kingdom in the late 1990s and, with some changes, remains operative to this day.

In addition to passive and active labour market interventions, policies affecting youth labour market integration also include legislation affecting the ease and costs of hiring and firing workers – in particular, minimum wage regulations and Employment Protection Legislation. The strictness – and type – of EPL is likely to have significant effects on the depth and duration of the employment effects of recessions as well as having important implications for the specific effects of recessions on the youth labour market as was noted above.²⁴

3.1 What do we know?

One major difference between the situation facing countries today and that facing countries going through recessions even ten or fifteen years ago is the much greater availability of timely information and analysis to support policy and programme choices.

3.1.1 Macroeconomic policies

The recent crisis of 2008-2009 represents the deepest downturn experienced throughout the world since the Second World War. Several recent studies have highlighted issues from past recessions which may inform our understanding of the current crisis. In particular, the IMF has analysed past recessions noting that:

- (a) recessions in advanced economies have become less severe (and expansions more lasting) over the last two decades;
- (b) those that have been associated with financial crises have been more severe and longer lasting than those arising from other shocks;
- (c) those which are synchronized across countries have also been deeper and longer lasting than those confined to one region; and,
- (d) recessions associated with both financial crises and global downturns have been particularly severe and durable (IMF, 2009a, chapter 3).

Although not terribly surprising, the findings are not very encouraging since the recent downturn was both global in extent and financial in origin. On the other hand, remedies are at hand. At the macroeconomic level, Keynesian expansive fiscal policies are found to be particularly effective in counteracting recessions associated with financial crises and, although less effective, monetary policy may play a useful supporting role.²⁵ The IMF (2009a) finds that

²⁴ See, for example O’Higgins (2001) and/or O’Higgins (2010) for a discussion of the impacts of these policies.

²⁵ Although the ability of countries to react through fiscal stimulus packages as well as their effectiveness is limited for countries with high levels of public debt, as is the case in many Central European countries, as well as in Italy and Greece.

during financial crises both expansionary fiscal and monetary policies tend to shorten the duration of recessions.²⁶

It might also be observed that the crisis in Spain which began in 1977 was characterized by a lengthy slowdown rather than a precipitous fall – somewhat similar to Japan – yet during this period unemployment rates, particularly youth unemployment rates, exploded. Unemployment rates amongst prime age men rose from 3.5 per cent to 15.4 per cent, for young men they increased from 8.5 per cent to 39.5 per cent and for young women from 10.6 per cent to 50.6 per cent. Indeed, youth unemployment rates only started to fall significantly in the late 1980s with the widespread introduction of temporary employment contracts. Moreover, as noted above, the extensive use of this type of contract along with the maintenance of existing EPL regulations for the prime-age workers may well have contributed to turning a relatively small fall in GDP into a major collapse in employment.

Recently the ILO (2010a) has analysed the nature of employment multipliers of expansionary fiscal policy and has found that:

- (a) The employment multiplier is positively correlated with the extent of cyclical unemployment – as indeed was suggested by Keynes some eighty years ago. The further implication is, however, that it is important to act quickly so as to reduce the risk of long-term unemployment and informality which will subsequently reduce the employment multiplier.
- (b) The employment multiplier is low for highly indebted countries due to the higher interest rates payable on such debt.²⁷
- (c) The appropriate use of above-all ALMPs can increase the employment multiplier by promoting employment at the microeconomic level whilst sustaining income and consequently demand at the macroeconomic level.

3.1.2 Education policy

It is now well established that higher levels of education amongst the population contribute to the longer run growth performance of countries (Sianesi and Van Reenan, 2003). Although some methodological issues remain to be resolved in the literature, the general findings are that a one-year increase in average education raises the level of output per capita by between three and six percent or over one percentage point faster economic growth. Whichever way one looks at it, education promotes growth. Indeed, the encouragement of educational participation up to the age of 18 is a key element of European Union policy. Yet, change in the educational sector is by its nature rather slow and ponderous. It takes substantial time for educational reforms to show results in the labour market. The relevance of this point in relation to the current recession is that the reduction in employment opportunities for young people may well provide an opportunity for governments to adopt measures which promote greater participation in education in the longer run. This could resort to positive labour market effects provided that education is relevant to labour demand.

Much ink has been spilled on the role of educational policy in supporting the effective transition of young people to employment by providing them with the appropriate skills so that

²⁶ Although, in their analysis of around 120 recessions, the IMF finds that impact of monetary policy is not statistically significant (IMF, 2009a, p. 123, table 3.3).

²⁷ Specifically, the effectiveness of fiscal measures tends to weaken when government debt exceeds 85-90% of GDP (Reinhart and Rogoff, 2010).

they can more easily find productive employment once they enter the labour market (O'Higgins, 2001). An important element in such discussion concerns the issue of quality and relevance of education.²⁸ However, during a severe recession, the central reasons for encouraging young people to remain in education are:

- (a) The availability of new employment opportunities is severely curtailed. That is, the opportunity cost for young people (and for society as a whole) of doing so is relatively low. Indeed, to some extent this will occur without any governmental support.
- (b) The contribution of better-educated youth to the process of recovery. Once employment opportunities begin to re-appear, the better-educated cohort and employers will reap the benefits of greater productivity.

Once in place, the greater participation in education, particularly if based on policy reform will become more permanent. In this sense, the recession actually facilitates the introduction of measures which could enhance countries' longer-term economic performance.

3.1.3 Passive labour market policies

By their nature, income support measures alone do not promote the employment of those receiving them, and, in as much as they may raise reservation wages, may impede a return to employment. However, in the context of a severe recession, passive income support is likely to play a major role in the short-run. Unemployment and social security benefits constitute a major automatic macroeconomic stabilizer. Thus, they do have an important role to play in maintaining incomes in the short-run.

The experience of the transition-induced recessions in some of the countries of Central and Eastern Europe (CEE) in the 1990s is quite informative. Transition to the market was of course a rather specific shock, involving a collapse in demand for some sectors and a rapid expansion in others, thus necessitating a rapid shift in industrial structure. The initial approach adopted throughout the region was one of rapid expansion of passive labour market policy – income support measures. These were followed by measures to maintain employment in failing enterprises. It was only rather slowly that countries began to introduce active labour market policy measures – such as training and wage subsidies to support the development of new and/or expanding industrial sectors. Thus, the approach was essentially remedial.²⁹ Over the transition period, the countries of Central and Eastern Europe and in particular those which subsequently joined the European Union became more pro-active in the adoption of activation strategies. Specifically, in the second half of the 1990s there was an increasing trend to shift labour market policy towards promoting employment in new and/or expanding sectors. The Commonwealth of Independent States' countries, on the other hand, tended to be more conservative and remedial in outlook and in particular, were more protective of existing low productivity forms of employment. Recovery was much quicker in the former group and part of the success is clearly to be attributed to the shift in policy focus.

At the same time, many countries significantly reduced unemployment benefit entitlement both in terms of its level and its duration. Here, the findings in the literature are relatively clear. In most studies, the duration of unemployment is positively linked to the level and duration of

²⁸ See, for example, O'Higgins (2010) and World Bank (2007) for more extensive discussions of these issues.

²⁹ Although Hungary and Poland introduced ALMPs in the early '90s, when the transition process began.

unemployment benefits in CEE as is the case also in studies of Western Europe.³⁰ However, in the current context, several observations on this are necessary. First, the disincentive effects are generally small. Second, the finding regarding disincentive effects is not universal; Lubyova and Van Ours (1999) find little evidence of disincentive effects in Slovakia and Earle and Pauna (1998) clearly reject the idea of disincentive effects in Romania. Third, in several studies, whilst the exit from unemployment is clearly increased, much of this exit is to inactivity rather than employment.³¹ Fourth, unemployment benefits played a fundamental role in reducing poverty during early transition (Vodopivec et al., 2003).

The crisis of 2008-2009 is rather different. However, some useful lessons may be taken from the experience of the transition-induced recessions in the countries of CEE. One lesson is that, in a region where open unemployment had not existed to any significant degree, were suddenly faced with large numbers of jobless people. When the recovery came, some groups got almost entirely left behind – the Roma being one obvious example.³² Throughout the region, the immediate reaction of governments was to introduce widespread and relatively generous income support for the unemployed and to protect existing employment through employment subsidies to firms experiencing a fall in demand. The policies of wide-scale passive income support over a long period, with little or no activation strategies led to the creation of substantial numbers of long-term unemployed; a legacy which still remains in some of these countries. This is not to say that income support was mistaken, just that such measures need to be accompanied by others which will constructively support the long-term employment and employability of those currently unemployed. The widespread use of subsidized employment in failing firms, rather than putting policies in place to constructively support the shift in industrial structure, however, proved to be a completely misplaced strategy. Much better to employ the unemployed on public infrastructure projects than maintaining employment in uneconomic firms.

Only a limited number of the existing unemployment insurance systems provide coverage to workers in non-standard employment or to those who have not reached a required minimum period of contribution to the unemployment insurance. Many young workers are not eligible to the unemployment benefit because they are engaged in temporary work or other forms of non-standard employment (e.g. on-call, seasonal, interim, short-time and part-time jobs).. For instance, in 2008 fourteen countries of the European Union had unemployment insurance systems which required a contribution period of at least twelve months. This makes it more difficult for young workers to have access to the benefit.³³

During the crisis, more than half of OECD countries have introduced a number of changes to extend the coverage of unemployment benefit to workers who were previously excluded. For instance, the United States increased funding to expand unemployment benefits to workers with short work history, including young workers (e.g. part-timers and temporary

³⁰ See, in particular, Vodopivec et al. (2003) on CEE and Atkinson and Micklewright (1991) and more recently Bassanini and Duval (2006) on OECD countries.

³¹ For example, Cazes and Scarpetta (1998) on Poland and Micklewright and Nagy (1998) on Hungary.

³² Although the context is very different, a parallel can be drawn on what happened in Japan during the 1990s with the emergence of substantial numbers of young people – the “freeters” – with little or no labour market attachment.

³³ Information extracted from the “Social Security Programs throughout the World, 2008–2009”, available at: <http://www.socialsecurity.gov/policy/docs/progdesc/index.html>

workers).³⁴ Similar reforms were introduced in France and Italy to extend coverage of unemployment insurance to young temporary workers who lost their job during the crisis. Reforms to the unemployment insurance were also introduced in Finland, Latvia, Slovenia and Sweden to reduce the period of employment required to become eligible to unemployment benefit. All these reforms are likely to increase unemployment insurance coverage of young workers.

3.1.4 Active labour market policies

There is now a fairly substantial body of literature, including several meta studies, on the effectiveness of different types of active labour market interventions.³⁵ Some of the relevant findings are as follows:

- (a) *Business cycle*. There is general agreement that training appears to be less useful in times of recession. Training programmes performed better when they were instituted during periods of economic expansion (Betcherman et al., 2004). This is quite a general finding.³⁶ During a recession, more emphasis should be put on employment subsidies and other measures aimed at creating employment and providing income support. This view has now been supported also by the analyses of the OECD (2009). Once economies start to grow, training and other policies (such as appropriate educational policy) may also play a more constructive role in supporting recovery.
- (b) *Targeting* – In general, evaluations have found discouraging results as regards the impact of active labour market policies on young people. Indeed, one of the central findings of the most recent study by Card et al. (2009) confirms this result. However, the analysis of Betcherman et al. (2007) finds that programmes which target disadvantaged youth seem to be more effective. Moreover, a general result from several reviews – going back to the relatively early analysis of Fay (1996) is that targeted programmes are more effective.
- (c) *Time period considered* – The most recent meta-analysis undertaken by Card et al. (2009) looks specifically at the timing of evaluations, and finds that this is an important characteristic in determining estimated effects. In particular, over the medium term (2-3 years after participation), labour market training is found to be particularly successful. Longer duration programmes which appear to be less effective than short programmes when looking at immediate impacts are found to have significant positive effects in the medium-term.

³⁴ Scarpetta, Sonnet, and Manfredi, (2010), Box 5, page 24.

³⁵ These include Betcherman et al. (2004), Betcherman et al. (2007), Card et al. (2009), Fay (1996), Grubb and Ryan (1999), Heckman et al. (1999), Kluve (2006), Martin and Grubb (2001) and Quintini and Martin (2006).

³⁶ Although not by Kluve (2006), whose study concludes that programmes work better in times of recession. The author's suggested explanation for this somewhat odd result is that in times of recession, the pool of potential candidates for programmes - which, *de facto* or *de iure*, are for the unemployed - will be of a higher average quality. Thus, the author's conclusion is that it is not that programmes are more effective during recessions, but rather that the average quality of participants tends to rise during such periods, leaving the basic conclusion outlined above unchallenged.

- (d) *Job search assistance* – Again, going back to the early study of Fay (1996), measures to improve job search assistance are found to be the most cost effective form of active labour market intervention. Having said this, once again, job search assistance is likely to be of greatest value when there are sufficient jobs available, so the problem is one of matching workers to jobs. In times of recession, this type of intervention is likely to be less effective.
- (e) *Comprehensive interventions* – Comprehensive programmes involve some combination of subsidized employment, training, self-employment support, guidance and counselling and so on. They have a long history in OECD countries and above all in the United States. In Europe and Latin America such programmes have achieved substantial success. One of the most cost-effective programmes, the United Kingdom’s New Deal for Young People, is illustrated in Box 1.
- (f) *Training context* – Amongst training programmes, those which involve on-the-job training have universally found to be more effective.
- (g) *Public versus private* – Similar to the above, programmes which involve some form of placement in the private sector also appear to work better.
- (h) *Social partners involvement* – The general consensus is that the involvement of the social partners is likely to enhance the effectiveness of programmes. Employers’ and workers’ organizations are involved in the design and implementation of ALMPs in many countries. However, the extent to which formal involvement is actually translated into a real input into the policy-making process varies enormously. Involving the social partners in the formulation and implementation of ALMP is likely to increase the effectiveness of such policies. There are several reasons why this may be so. The involvement of employers and workers implies a commitment on their part to the success of policies and programmes. The quality of programmes is also likely to be higher if the social partners are involved. Numerous studies have demonstrated that programmes which are more closely linked to private employers are likely to be more effective. Employers may use programmes as a recruitment and/or screening device. Also, the relevance of training is probably greater in the context of private employer involvement. The skills acquired are likely to be closer to those required by the labour market than those taught on programmes without such direct labour market links. The involvement of workers’ organizations can also help avoid some of the pitfalls of work experience and training programmes. In promoting the training content and through careful monitoring of implementation of programmes, workers’ organizations can guard against inadequate working conditions regarding programme participants, at the same time helping to promote their long-term prospects of good quality employment. They can also ensure that programme participants are not substituted for other categories of workers.

Box 1: The New Deal for Young People

In 1998, the British Government launched the New Deal for Young People, aimed at youngsters under the age of 25.

The programme is composed of several measures, with different options offered to different groups of the unemployed. The New Deal for Young People is compulsory for all those aged 18-24 who have been receiving the jobseekers allowance (JSA) for more than six months. Initially, individuals enter a "Gateway" period, where they are assigned a personal adviser who gives them extensive assistance with job search. If the participants are still on JSA at the end of the Gateway period (formally a period of 4 months), they are offered one of the following four options:

- i) Entry into full-time education or training for up to 12 months for youth without basic qualifications (without loss benefits);
- ii) A job for six months with a voluntary sector employer (paid a wage or allowance at least equal to social assistance plus £400 spread over six months);
- iii) A job on the Environmental Task Force (paid a wage or allowance at least equal to social assistance plus £400 spread over six months);
- iv) A subsidy to a prospective employer for six months, with training for at least one day a week (£60 per week plus an additional £750 training subsidy spread over six months).

If the option is refused, the claimant is liable to suffer a benefits sanction. Initially, sanctions take the form of withdrawal of benefit for two weeks, and further refusal may result in repeated four-weekly withdrawals. Individuals returning to unemployment within thirteen weeks after leaving an option go onto the follow-through programme of job assistance, which is essentially the same as Gateway.

Impact evaluations of the New Deal show that the programmes have been effective and young unemployed men are about 20 per cent more likely to gain jobs as a result of their participation in the programme. Part of this effect is due to subsidized jobs, part a pure "Gateway" element (enhanced job search), at least one fifth of the total effect. The job search assistance element of the New Deal element is more cost effective than the other ALMP options as there is no subsidy involved.

The New Deal stands as the least costly comprehensive intervention for youth in OECD countries. The cost per beneficiary served ranged from £454 to £790 (at constant 1999 prices). In addition, the cost per job created is under £4,000 (at constant 1999 prices) given an average placement rate of 17,250 participants per year (Van Reenen, 2003). The relative success of the programme is reflected also in the fact that it is still operational some 12 years after its inception, and indeed, for young people (18-24) participation is obligatory after 6 months spent claiming job-seekers allowance.

However, the initial programme was less successful with some ethnic groups, women and jobseekers with low qualifications. Also, sustainable employment outcomes proved difficult to achieve. In 2007, one in five young people who found work through the programme held a job lasting less than 13 weeks. As a result, the most difficult beneficiaries alternate short employment spells with benefit dependency.

Following these results, in October 2009, the Flexible New Deal was launched with some additional services being added particularly for disadvantaged young people. The main policy shift was the introduction of obligations on the part of participants. That is, refusal to accept an offer of a placement leads to disqualification from or reduction of benefits. Whilst this approach undoubtedly has the effect of reducing social security claimants, the evidence suggests that it is of limited usefulness in getting young people into productive employment.

Sources: OECD (2009c), O'Higgins (2001, 2010), Puerto and Rother (2007) and Van Reenen (2003). See also: <http://www.direct.gov.uk> and Knight (2010).

3.1.5 Labour market regulations

Labour market regulations concern, among other policies, those related with minimum wages and employment protection legislation. Both types of regulations are likely to affect young people more than other groups. Since young people are usually, by virtue of their age, either new or recent labour market entrants, they are more likely to be affected by employment protection legislation in as much as this impedes new hires. Similarly, they are likely to be disproportionately represented amongst the low paid and so may well be more affected than other groups by minimum wage legislation.

As regards minimum wages, despite the apparent plausibility of the argument that high levels of minimum wages tend to discourage the employment, particularly of young people, the evidence is somewhat mixed. The most recent review evidence presented by Neumark and Wascher (2007) finds estimates of the teenage employment elasticity with respect to the minimum wage which range from below -1 to above 0. The authors conclude overall that the existing evidence points towards negative employment effects of minimum wages for young people. Of 102 studies considered, nearly two-thirds found negative albeit often not statistically significant employment effects of minimum wages, whilst only eight found ‘convincing’ positive effects. However, an emphasis on demonstrating that the effects are generally negative rather than positive rather misses the central point which is that the effects of minimum wages in the vast majority of cases are found to be small. In this sense, these results are in line with the review of evidence presented in O’Higgins (2001, chapter 6) which found small or zero (i.e. not statistically significant) employment effects of minimum wages for young people.³⁷ Furthermore, Neumark and Wascher (2007) find that the effects of minimum wages vary considerably (from negative to positive) according to the presence of other labour market institutions (e.g. employment protection legislation, active labour market policies) and, in particular, the negative effects are most pronounced in unregulated labour markets.

As regards EPL, there seems to be a general idea that stricter EPL tends to lead to shallower but longer recessions. This view has been propounded recently by both the OECD (2009) and the IMF (2009b). Evidence already available on the 2008-2009 recession, presented here and elsewhere, confirms that countries with stronger EPL indeed have thus far suffered smaller employment losses than countries with weak EPL, such as Canada, the United Kingdom and the United States. There are exceptions and, in particular, the example of Spain suggests that the relation is not so clear cut, partly because of the way flexibility (through fixed term contracts for new labour market entrants) and security (through the protection of established workers) have been combined. Clearly, the issue is a little more complicated than simply being a question of more or less EPL.

Perhaps more importantly, the evidence on the positive relation between the strength of employment protection legislation and the duration of the employment consequences of recessions is to say the least, not very convincing. For example, IMF (2009b, pp. 13-17) presents a consideration of current and past recessions comparing:

- (a) the Germany and United States as examples of countries with weak and strong EPL, respectively; and,
- (b) groups of countries identified as having weak and strong EPL.

The report argues that the evidence supports the idea of strong EPL countries being characterized by longer recessions. However, the analysis of the dynamics of employment rates over past recessions in both cases, the evidence is rather weak. In the case of the United States, employment growth became positive nine quarters after the recession began, whereas in Germany, it took all of ten quarters to do so (IMF, 2009b, p. 15). However, the employment effects of the recession were much more severe in the United States than in Germany. Comparing groups of countries, the return to positive employment growth occurred on average after fourteen quarters in both low and “not low” EPL countries.³⁸ Moreover, the difference between the severity of the employment loss in the two country groups was even more

³⁷ Similar findings are reported also by Kolev and Saget (2005).

³⁸ The IMF distinguishes between low EPL countries – Canada, the United Kingdom and the United States – on the one hand and “others” (with medium to high EPL) on the other - comprising the other major OECD countries. See IMF (2009b, pp. 15-16) for details.

pronounced than for the Germany-United States comparison. What is very evident is the significantly greater volatility in employment growth in low EPL countries. Thus, whilst it is undoubtedly true that the rate at which employment growth recovers is greater in low EPL countries following a recession, since the drop in employment is so much more severe in such countries, this does not necessarily (nor it would appear from the evidence presented in the above-mentioned study) imply that employment returns to pre-crisis levels more quickly.

The idea of quicker employment adjustment being desirable may be appealing in theory. However, there are a number of reasons why this may not be so desirable in practice. As pointed out by Keynes nearly eighty years ago, the maintenance of income by reducing recession-induced job losses (as well as through unemployment benefits) will tend to attenuate the negative multiplier effects of the initial macroeconomic shock. In practice, the issue is an empirical one and not simple to resolve since many of the factors affecting outcomes are endogenous. It is evident however, that the simple descriptive evidence is not supportive of the idea that the solution to a essentially temporary albeit global negative shock to labour demand arising from the recession lies in greater labour market flexibility. This is of course somewhat different to the issue of a permanent shift in the structure of labour demand witnessed in the countries of Central and Eastern Europe following the transition to the market.

3.2 What is being done? An early assessment of the policy response to the crisis

All countries considered in this paper have adopted interventions at both macroeconomic and microeconomic levels in order to counteract the recession and to mitigate its negative labour market consequences, but the type of action adopted varies across countries.³⁹ It is useful to take a look at the current policy responses adopted in the European Union, Canada and the United States and, although it is far too early to effectively evaluate the impact of the differing approaches to the crisis, to undertake a preliminary assessment.

3.2.1 Macroeconomic intervention

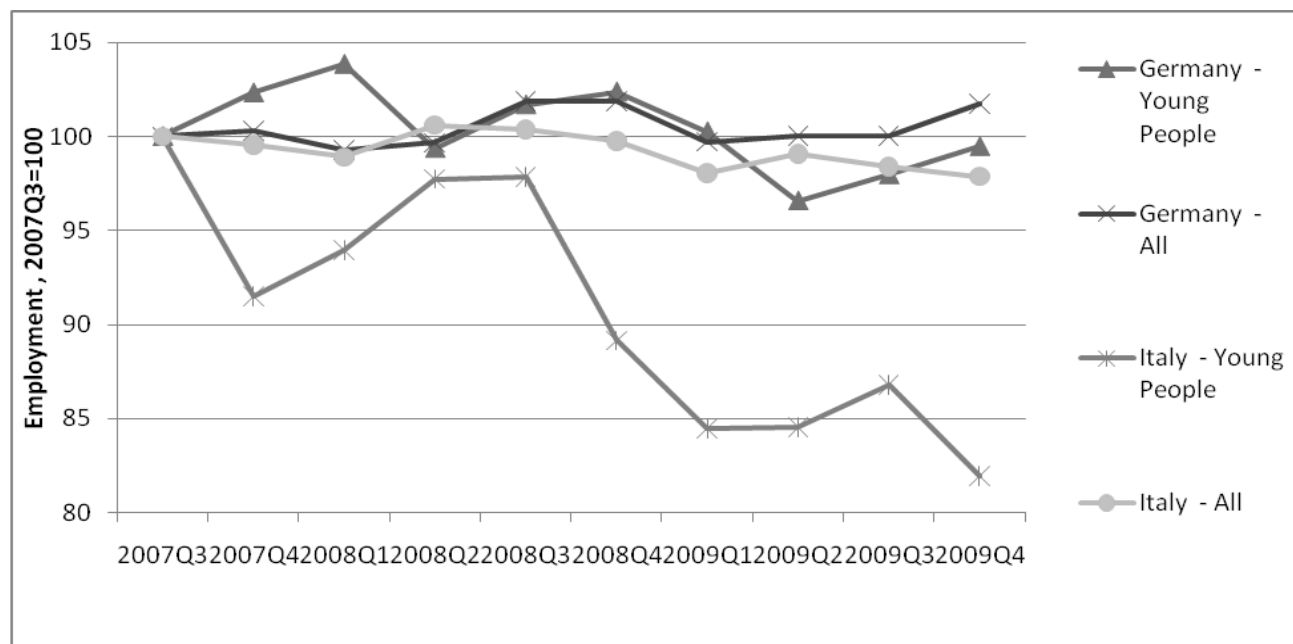
Canada, the United States and most countries of the European Union countries have adopted substantial expansionary fiscal policies.⁴⁰ There is general agreement – and indeed, the evidence reported above supports this – that expansionary fiscal policy is a necessary central element of the response. The early evidence suggests that countries which swiftly adopted aggressive stimulus packages, such as Germany, managed to cushion the effects of the crisis (ILO, 2010) whereas countries such as Italy which took little substantive action, and above-all, made no attempt to adopt a expansionary fiscal stance, fared much worse. Looking at the movements in the employment of young people, and all those of working age since the third quarter of 2007 (See Figure 14 below), it may be observed that in Germany the aggregate employment has already surpassed its pre-crisis level and youth employment has almost returned to that level. Moreover, both aggregate and youth employment are on an upward trajectory. In contrast, in Italy, the aggregate and youth employment continues on a downward trend so that by the end of 2009, youth employment was almost 20 per cent below its pre-crisis level. Of course, it would be improvident to attribute the difference in employment performance entirely to the difference in fiscal stance adopted by the two countries. Yet the figure is indicative and it is not unreasonable to suggest that differing fiscal policies played a significant

³⁹ Annex I includes a more extensive inventory of the specific labour market policy measures adopted as a response to the crisis.

⁴⁰ For Italy see Boeri (2009) and O'Higgins (forthcoming).

role in determining the contrasting outcomes. This is line with the findings of ILO (2010a) which indicate that a swift and aggressive stimulus package was a key element of the response in the six countries (including Germany and Canada) identified there as having been relatively successful in containing the effects of the crisis.

Figure 14: Youth and aggregate employment in Italy and Germany, 2007-2009



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database

Note: 2007Q3 = 100

3.2.2 Education policy

Some countries have extended support for education: for example, Canada has introduced extensions in funding of graduate scholarships and internship places and the United Kingdom has introduced support for 16 and 17 year olds remaining in education. Thus far, however, action has been piecemeal and some commentators (for example, Bell and Blanchflower, 2010; OECD, 2009a; OECD, 2009b) have argued that a period of reduced labour demand may well provide an opportunity for more systemic reform in the education system –for example, by increasing the school leaving age.

There are a number of reasons why now is a good time to take such action. In the European Union, at least, there is broad agreement that raising the school leaving age is desirable and indeed, the European Employment Strategy includes, as one of its key elements, the provision of education and training opportunities for all young people aged up to 18. Since countries are now going through a period of reduced labour demand, the opportunity costs of increasing the duration of educational participation across the board are relatively low, both for young people themselves and society as a whole. A lack of adequate employment opportunities for new labour market entrants – particularly those with low levels of education – means that staying on in education will involve relatively little sacrifice for the individuals involved. Similarly, the costs of supporting additional places in education should be set against the costs of inaction – more youth unemployment and joblessness with its associated direct (e.g. increased income support measures) and indirect (for example, increased crime and poorer health) social costs.

There are arguments to be made for support for greater educational participation at all levels. However, the nature of the interventions may differ for youth with lower and higher levels of education. For young people with low levels of education, problems associated with labour market entry are chronic in nature. Although these have been worsened by the crisis, the problem is of a permanent nature and should be confronted independently of the crisis. In this sense, the economic and financial crisis of 2008-2009 provides an opportunity to do so, but once introduced, such measures such as the raising of the school leaving age, perhaps associated with financial support for students from low-income families, need to be made permanent.

On the other hand, the crisis has also created serious problems of labour market entry also for youth with higher levels of education. For the latter, it is to be hoped at least, the problem is more temporary in nature and arises directly from the crisis itself. Interventions to support, for example, participation in further education and/or training beyond secondary level should only be temporary in this case. Again, the relatively low opportunity costs of supporting young people in education make it appropriate to intervene now.

In both cases, the potential longer term costs of inaction are high. The risk is of significantly enlarging the group of the long-term unemployed and/or jobless and disaffected youth, and of creating a “lost generation” of young people who entered the labour market at just the wrong time. Increasing educational participation is an important, albeit by no means the only, element in a strategy aimed at avoiding this risk.

3.2.3 Labour market interventions

As regards labour market policies, the approaches have been more varied as indicated by the specific interventions reported in Annex I. With respect to passive policies, several countries have increased support for the unemployed in one way or another. In some cases, this is explicitly temporary. For example, Poland introduced “refundable” support for unemployed workers to pay their mortgages for a period up to 12 months. Italy on the other hand has extended the coverage of unemployment benefits to include workers, mostly young workers, on temporary or fixed-term contracts and those on apprenticeships. The extension is discretionary in as much as it requires action by regions to activate it, which are also expected to pay 30 per cent of the costs.

Combining income support with training: A fruitful avenue to pursue

One of the more common approaches amongst governments in the European Union has been the introduction or extension of support for short-time working. This is a policy which lies on the borderline between passive and active labour market policy and generally comprises one or both of two elements: work-sharing – so that subsidies are conditional on additional workers being taken on; and/or training undertaken during the “unemployed” time. For example, France and Germany have extended their short-time (or work-sharing) schemes, extending the duration and level of subsidy for the employee or the employer. By March 2009, 1.26 million workers were covered by this scheme, up from only 155,000 a year earlier (Cazes et al., 2009). Similarly, Latvia and Luxembourg have introduced programmes which combine short-time working with support for training. Canada has also extended its Work-Sharing Programme to 52 weeks from a previous level of 38 weeks (Messenger, 2009). The basic idea underlying such measures – is that income support is provided for those working less than usual, but at the same time firms and individuals are encouraged to take advantage of low product demand to undertake productivity enhancing training to the long-run benefit of all. Thus, these measures combine short-term income support and employment maintenance aspects with longer term productivity enhancements. As with support for the greater educational participation, this type of intervention is likely to be relatively cost effective during a recession. It avoids some of the costs and negative consequences of redundancies but at the same time allows the upgrading of

workers skills at a time when the opportunity cost – the lost productive capacity – to firms is relatively low (Bassanini et al., 2005).

Most countries have also introduced new and/or extended subsidized employment and training programmes for young people. As noted above, the usefulness of training programmes in particular, has been questioned. However, these programmes do provide income support in the short-term and, if carefully designed, may support the recovery process. A key issue relates to the length of the recovery process. The same logic which was applied to increased educational participation applies to labour market training. Such programmes have several functions whose usefulness will vary with the economic cycle. Typically, training and employment programmes provide participants with income support, skills training and, if involve private firms, access to potential longer term employment. For employers, such programmes will subsidize the employment and training of their workforce. In the short-term, during the crisis, the income support and low opportunity cost aspects are of key importance. In the longer-term, the training element becomes of more significance and may play a useful role in enhancing the productivity of individuals and the competitiveness of firms. It is important, however, to avoid some of the mistakes of policies adopted in the past to deal with acute labour market entry difficulties of young people. Thus, for example, in the United Kingdom in the 1980s, widespread rioting and alienation amongst disaffected young people – who, in the context of rapidly rising unemployment, found it impossible to get a job – led to the priority of getting young people “off the street”. One of the negative effects of the consequent Youth Training Scheme, which provided subsidized employment and training for unemployed young people, was that it included inadequate mechanisms of the monitoring of training provision and more generally the operation at the firm level of the programme. As a result, the programme did little to enhance the employment prospects of participants (O’Higgins, 1994) and indeed tended to lower the post-programme earnings of trainees.⁴¹

In any event, the approach adopted in several countries which seek to combine income support with measures to enhance the productivity, and therefore the longer-run employability, of young people seems to be a particularly fruitful avenue to pursue. It is far too early to make any kind of reasonable evaluation of these measures – all the more so, bearing in mind the recent findings in the evaluation literature mentioned above which suggests that the positive effects of longer programmes only emerge in the medium to long term – yet it is plausible to expect that such programmes, if appropriately designed and implemented, are likely to produce good results in the longer term.⁴²

Job Search Assistance

A number of countries have put emphasis on enhancing the role of Public Employment Services in providing job-search assistance (JSA). As noted above, it has been generally found that JSA measures are amongst the most cost effective type of ALMP. In times of recession – where the problem is not so much matching of job seekers to available jobs, but rather the lack of jobs, such measures are likely to be much less effective as noted by OECD (2009b). Thus, whilst JSA is of central importance in facilitating the job-matching process in general, it is

⁴¹ See O’Higgins (1994). Indeed, Dolton et al. (1994) argued that the programme actually reduced the likelihood of post-programme employment of participants. In practice, the programme was to improve the employment prospects of participants through two, more or less, explicit mechanisms: first, by reducing the wage expectations of participants; and second, by enhancing the skills of trainees. O’Higgins (1995) in a detailed analysis of the effects of the scheme on participants’ wage makes it clear that it was the first of these mechanisms which dominated.

⁴² See Card (2009).

unlikely that expansion of JSA in times of recession leads to a significant increase of the entry rates into jobs. If used as a policing mechanism, it may reduce the numbers of unemployment and social assistance benefit claimants. It may also encourage young people to accept job offers which are not commensurate to their skills thus reducing rather than increasing the efficiency of job matching, and, it may push young people towards informality and other forms of casual employment.

3.2.4 Labour market regulations

The evidence considered above suggests that whilst countries with less labour market flexibility have, for the most part, faced a less severe recession with employment rates falling and unemployment rates rising much less than in countries with more flexible labour markets, there is little evidence to support the notion that recovery is quicker in countries with labour markets that are more flexible. In Lithuania, one of the countries mostly severely hit by the current recession, the approach adopted has been to increase flexibility in the labour market by simplifying firing procedures. Whilst the general argument that greater ease in firing may make firms less hesitant to hire new workers may have some validity – although the evidence is rather mixed on this - when a country is going through an extremely deep recession, the main effect of greater flexibility will be to further worsen the labour market situation in the short-run. The reason is that the greater flexibility argument ignores the macroeconomic effects of mass redundancies. Increased flexibility will allow even more workers to be laid off in the short-run which will have the effect of further reducing income with the consequent negative Keynesian multiplier effects. In as much as greater flexibility improves efficiency in the labour market, this occurs at the microeconomic level, and, when demand is buoyant, may plausibly increase employment with also consequent beneficial macroeconomic effects. In the context of a substantial negative external shock, however, the increase in flexibility will simply provide incentives for firms to lay-off more workers and further worsen the macroeconomic situation. Thus, the benefits of greater flexibility are contrasted by the negative multiplier effects of higher short-run unemployment, impeding the macroeconomic recovery.

In Estonia, similar measures to increase flexibility have also recently been adopted. However, in this case the reduction of firing costs has been combined with an increase in unemployment and social assistance benefits. Thus, the negative multiplier effects of the likely resultant layoffs will, to some extent, be offset. Spain has also moved towards introducing further flexibility in the labour market. Since now the economy has begun to improve in this country, it is arguable that such an approach may bring some beneficial effects and may indeed support recovery encouraging firms to hire more workers. It remains to be seen whether this is the case. However, it is very clear that introducing greater flexibility in the midst of the recession is only going to make a bad situation worse.

3.3 What can be done? Some issues of concern

As noted in the introduction, 2010 has seen the return of positive economic growth in the European Union, Canada and the United States. As yet, the recovery is both gradual and uneven. However, it is timely to consider some issues concerned with the policy approach to be adopted during the recovery.

The key issue to be addressed relates to the longer term effects of the recession on the job prospects of young people entering the labour market during this period. It was noted above that one particular group of concern are jobless youth. Although comparable data are not yet available for a broad range of countries, the signs are that this group has increased during the recession. Labour force participation rates have fallen in many countries (ILO, 2010d) and Scarpetta et al. (2010) argue that this group – comprised above all of low educated young

people – are more susceptible to the scarring effects of unemployment and joblessness on leaving school. Possible policy options to contrast the growth of long-term joblessness include, first and foremost, policies to reduce early school leaving discussed above. Now is a good time to enact such reforms due to the relatively low opportunity costs. Moreover, preventative action has generally found to be more effective than remedial intervention (Betcherman et al., 2004; Godfrey, 2003). These can be complemented by guaranteed placements on a programme for those at risk of entering long-term unemployment particularly those with low skills. The concept of such a youth guarantee has long been part of the European Employment Strategy and of youth employment policy in a number of countries – particularly in Northern Europe. Several initiatives, such as the Young Person’s Guarantee in the United Kingdom have re-affirmed the validity of this concept during the crisis.

A second area of particular concern regards the forms of employment available to young people. It was noted above that a number of countries have already seen a rise in the incidence of temporary employment amongst young people. It is predictable that one of the longer run effects of the crisis will be to further increase the diffusion of temporary employment contracts as a means of facilitating labour market entry. Although, these contracts can and do facilitate young people’s entry into work, there is also the danger that they may lead to persistent job insecurity (ILO, 2010d). The experiences of Spain referred to above stands out in this regard. The development of such dual labour market forms is also clearly observable in other Mediterranean countries. Temporary employment involves not only less stable employment relations but also lower pay and fewer opportunities for training (ILO, 2008).

4. Conclusions and policy implications

A number of points have emerged from the analysis conducted in this paper. These may be informative for policy formulation in the EU, Canada and the US – and indeed elsewhere. The main points can be summarized as follows:

- (a) *Youth, the hardest hit by the crisis*- Young people are clearly a major loser from the crisis throughout the European Union, Canada and the United States. The degree to which young people, and different groups of young people, were affected has varied widely. The employment rates of young people fell most amongst those countries with the severest drop in GDP, i.e. Ireland and the Baltics. Although Spain experienced a relatively moderate downturn in GDP, the fall in employment rates of young men was only exceeded by Ireland and the increase in unemployment rates, by Latvia and Lithuania.
- (b) *Avoiding the emergence of hard-core excluded youth*. One lesson learned from the past concerns the dangers associated with long-term unemployment, or more broadly, jobless young people. It is to be hoped that recovery from the recession is already underway and employment will sooner rather than later return to its former levels. However, even if this happens, there is a danger that substantial groups of young people who have had the misfortune to enter the labour market in this difficult period run the risk of remaining permanently excluded from productive employment. A, if not the, key lesson from the past – both in the countries of Central and Eastern Europe, but also in Western Europe, Canada and the United States, is that policies need to have as their first priority the avoidance of a hard-core group of long-term unemployed.
- (c) *Avoiding the emergence of permanent instability*. Lessons from the past show that times of recession have typically been accompanied by an increase in temporary and other less stable

and less protected forms of employment. Such a trend towards a higher incidence of temporary jobs is already observable in some countries and it is predictable that such employment forms will expand with the recovery. Temporary contracts may facilitate the entry of young people into long-term employment, although the evidence on this is rather mixed. There is, however, the danger that the widespread diffusion in the use of temporary contracts will significantly increase the number of young people who remain in a permanent cycle of unstable employment or trapped into a spiral of temporary employment combined with spells of unemployment.

- (d) *The role of information* – One difference between the current context and that of countries going through recessions even ten or fifteen years ago is that now data is of better quality– this allows decision-making on policies based on more evidence and on up-to-date information. However, there is still room for improvement. In particular, the regular reporting of the NEET or jobless rate would significantly improve the quality of labour market monitoring.
- (e) *No one-size fits all* – It should be very clear from the preceding discussion that there has been a wide degree of variation in the nature and severity of the financial crisis as well as in the specific effects that the global recession had on young people. These differences depend on a number of factors – such as the existing institutional framework – which also interact with each other. The obvious consequence is that specific policy recommendations are conditional on national and local circumstances which need to be taken into account. Bearing this in mind, however, a number of regularities have emerged.
- (f) *Measures for the more or less educated?* – Although there is significant variation across countries, on the whole, employment rates have dropped more for those with higher levels of education. On the other hand, the risk of permanent exclusion is greater for those who are poorly educated. Thus, the discussion above justifies measures for both the more and less educated. For those with little education, the problem is a chronic one, and the crisis has marginally worsened their situation. For most of those with higher levels of education the problem should be of temporary nature and arising from the demand shock itself. Here the emphasis needs to be placed on maintaining labour market attachment of these young people and improving their skills until the crisis is over. Short-time working combined with training and/or educational support is one way of doing this.
- (g) *The role of employment protection legislation* - The findings presented here are consistent with the idea propounded by, amongst others the OECD (2009b) and the IMF (2009a), and experiences of previous recessions, that downturns tend to be shallower in countries with strong labour market institutions. The habitual corollary to this, that the negative effects of recessions last longer in strong EPL countries, is less supported by the evidence. It is undoubtedly true that in countries with low EPL, employment recovers at a faster rate once the economy starts to grow again. However, in such countries employment fell during the recession more than in countries with regulated labour markets. For this reason, the overall duration of the effect does not appear to differ greatly – at least on the basis of evidence from previous recessions. Labour hoarding by firms during a recession may well play a positive role in mitigating the negative macroeconomic multiplier effects associated with the initial fall in aggregate demand - very much as suggested by Keynes nearly eighty years ago. In part, one explanation for the very severe employment effects of the recession in Spain may lie in the dual nature of that country's labour market with a highly flexible labour

market for new entrants combined with more protected employment for established workers. Indeed, also in other Mediterranean countries such as Italy and Portugal with broadly similar dual labour market structures and which also suffered relatively modest initial falls in GDP, and which have progressively introduced more flexibility amongst labour market entrants in the wake of Spain, the fall in youth employment was substantial. More generally, the picture emerging is that those countries with weak employment protection such as the United Kingdom or the United States suffered significant drops in employment but these did not disproportionately affect young people. In Italy, Portugal and Spain, with their dual labour market structures, the drop in youth employment was much more severe than for older workers. Moreover, in countries with relatively strong EPL, the drop in employment was relatively moderate across the board.

- (h) *Combining passive with active labour market policy* - It is too early to be able to accurately assess the contribution of the combination of such policies. However, the preceding analysis it seems that policies which take advantage of the fall in labour demand to support a combination of training, short-time working and subsidized employment may well prove to be an effective response to the crisis. More generally, there is a strong argument in favour of taking advantage of the slack in the labour market to promote policies and programmes which will support the recovery by improving the human capital of the workforce, and particularly of young people. In this regard, programmes involving longer periods of subsidized employment and training for young people may well come into their own in this context. Although longer programmes have generally been found to be less effective than shorter ones, in the context of the recession, they may also play a useful income support role. The most recent findings in the ALMP evaluation literature (Card et al., 2009) support the notion that the positive effects of longer programmes emerge only in the medium term. This may in part account for their relatively poor performance in many previous evaluations. Thus, longer programmes (preferably based with private employers and adequately monitored) which combine the short-run income support role with the longer run goal of enhancing labour productivity may well be the most effective form of ALMP response to the crisis for young people.
- (i) *Comprehensive packages of youth employment interventions*. Several studies of youth employment programmes have shown that comprehensive youth employment interventions (i.e. that combine job-search assistance, career guidance, training, subsidized employment, self-employment support and job placement) are more successful than single measures. These interventions are more effective when they are: implemented at early stages of joblessness (unemployment, discouragement or inactivity); designed to respond to labour market requirements; targeted and tailored to individual needs and labour market disadvantages; linked to work experience; and implemented with the involvement of the private sector and of the social partners.
- (j) *A more radical approach to educational reform?* The general principle that a period of reduced labour demand lowers the opportunity cost (for individuals as well as for firms) of participating in other activities – and in particular, of increasing levels of human capital – may also be applied to education. Several countries have introduced minor extensions to support for educational participation. As both the OECD (2009b) and Bell and Blanchflower (2010) point out, now may be a good opportunity to encourage young people to remain in, or return to, education. The OECD (2009b) suggests raising the school-leaving age to eighteen (where it has not already been done) whilst Bell and Blanchflower (2010) argue for

measures to encourage greater participation. The key concern of course, should be avoiding that unemployment spells caused by temporary demand shocks become more permanent. Of course, the raising of the school-leaving age, in particular, would require a significant investment of resources. However, this is certainly the direction in which European Union policy is moving and the recession may well present the opportunity for more radical steps to be taken in this direction.

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Annex I:

Youth employment measures adopted to mitigate the consequences of the economic and financial crisis

This annex presents a partial inventory of policies and programmes introduced or extended in order to counteract the negative effects of the recession on young people. The inventory includes measures directed at young people, but also other measures which are likely to affect significantly the situation of young people even where they are not directly targeted at them. The country groupings follow those used by Verick (2009) and correspond broadly speaking to similarities in the nature of labour markets and labour market institutions in these countries rather than strict geographical boundaries.

Country	Type of Programme	Programme description	Target Group	Costs	Number of young people reached and estimates of effects
Anglo Countries					
CANADA	Employment Subsidy	New subsidized jobs programme targeted at Aboriginal people, youth and SME's hiring science or business graduates for up to one year.	Youth, Aboriginal people		
	Work sharing	Extension of duration of work sharing from 38 to 52 weeks during 2009 and 2010.	All workers		
	Employment subsidy	Employment subsidies for small businesses, non-profit organizations and public sector to offer summer jobs for youth and Freeze on employer and employee insurance contribution rates for 2009 and 2010.	Youth New and other workers		
	Training	Temporary extension of graduate scholarships and internship places and introduction of bonus payments for the completion of apprenticeships.	Tertiary graduates and apprentices		
IRELAND	Employment Subsidy	"Employment Subsidy Scheme" introduced in 2009 to support employment in companies affected by the crisis.	All workers	€9,100 per worker for 15 months €249,340,000 overall	27,400
	Work placement	The "Work Placement Programme" targeting young people was extended. It targets young graduates who have been awarded at level 7 or above on the National Qualifications Framework and young people receiving job seekers' allowance for at least 6 months.	Youth		2,000
	Job search assistance and training	Employment services, including local employment services, expanded to provide direct subsidies (support grants) for unemployed and pay for training and re-training with a budget up to Euro 2,500 per person.	All workers		
UNITED KINGDOM	Training	The "Train to Gain" initiative has been expanded to those at risk of redundancy as part of the Rapid Response Service. A survey carried out by the business organisation the Confederation of British Industry (CBI) showed that two thirds of companies have changed working practices to preserve jobs (such as flexible working and extended holidays).	All workers		

Country	Type of Programme	Programme description	Target Group	Costs	Number of young people reached and estimates of effects
	Employment and Training	The Future Jobs Fund aims to encourage local authorities and partners to create 150,000 new jobs for the benefit of the local community. The Fund targets primarily 18-24 year olds who have been out of work for a year. It supports a guarantee that from 2010 everyone in this age group who has been looking for work for a year will get an offer of a job or training lasting at least 6 months. The Young Person's Guarantee (early 2010) consists of a package of over £1 billion to support the creation of jobs for long-term unemployed youth and other unemployed who face significant disadvantage in the labour market. The programme consists of: a) support to take a job through sector-specific training, employment subsidies and on-the-job training; b) a work-focused training place, lasting up to six months; and, c) a place on a Community Task Force to improve individuals' employability and deliver services to local communities. The Programme Funding for Care First offers 50,000 traineeships to young people in the care sector. Social care providers receive a subsidy for offering employment and training to young people.	Youth	£1 Billion	150, 000
	Job search assistance	Public employment services expanded		£1,7 Billion were spent in 2009 to expand services	
UNITED STATES OF AMERICA	Employment subsidy	Expansion of existing programme of tax credits to apply to employers hiring older workers or disconnected youth (16-24 years old) in 2009 and 2010	Disconnected youth, veterans		
	Employment and training	Expansion of funding to support summer jobs for young people and to sponsor projects employing at-risk youth undertaking vocational training. Additional funding allocated for the construction, rehabilitation or acquisition of training centres for the Job Corps programme (residential training programme for disadvantaged 16-24 year old).	Youth, at-risk youth		
	Training	Competitive grants for training and job placement in high-growth and emerging industry sectors, with emphasis on jobs in the energy-efficient and renewable-energy industries and in the health care sector.	All workers		
	Job search assistance	Expansion in funding for job search assistance and career counselling provided through public employment services	Unemployed		
Continental Europe Countries					
AUSTRIA	Short-time working and Training	New opportunities for "partial employment" (extended from 12 to 18 months and 24 (since July 2009). These policies are connected to the policies to "up-skill employees" through training programmes.	All workers		47,000 (March 2009)

Country	Type of Programme	Programme description	Target Group	Costs	Number of young people reached and estimates of effects
	Training and Employment Subsidy	In 2009, the Government introduced the "Future for Youth" (19-24 year olds) to provide individualized training through PES and the "Youth foundations" which provides employment services to young people who lost their jobs after having worked at least three months. Other two measures introduced in 2008 are a "solidarity bonus" that provides funding to companies occupying short-time workers and the "youth employment package" provide training for young people. Several opportunities are being created in the green industry.	Young people (19-24, in 2009)		2,000 (in training in 2009)
	Job search assistance	Public employment services expanded with the recruitment of 200 new counsellors.	All workers		
BELGIUM	Short-time working	Short-time working programmes, which before the crisis applied only to blue-collar workers, have been extended to all workers. The condition for access is a reduction of 20 per cent in firm turnover. Workers are paid unemployment benefit for the hours not worked for up to 16 weeks on zero hours or the equivalent spread over 26 weeks. Training can be provided by regional governments.	All workers		
	Training	The Programme was established in 2009 to provide new employment opportunities to young people at regional and local levels. The Programme aims to increase the number of apprenticeships and vocational training opportunities.	Young people		
	Job search assistance	Employment services have been expanded and the staff of the Public Employment Service trained to deal with high-qualified job seekers in order to reduce the long-term effects of the crisis	All workers		
FRANCE	Short-time working	The "Partial Unemployment Scheme" has been reviewed and extended in 2009. The most important changes relate to the efficiency of the scheme (easier dialogue between entrepreneurs and the agencies providing support to enterprises during dismissals), the financial aspects (extension of maximum duration of short-time working from 600 to 800 hours, higher benefits covered by the State) and the possibility to access training opportunities.	All workers		
	Training and employment subsidies	A specific recovery plan has been introduced in 2009 to support young workers affected by the economic crisis. The amount of Euro1.3 billion funding has been pledged to assist 500,000 young people in 2010. The plan consists of: a) increased apprenticeship opportunities (320,000 between June 2009 and June 2010); b) provision of grants to employers recruiting young unemployed people; and c) provision of employment subsidies to approximately 30,000 young people to work in local governments and NGOs.	Young people (16-25)	1.3 billion Euro	500,000 (2009-2010)
	Job search assistance	The provision of public employment services has been improved with various measures, including through the establishment of a 24-hour internet portal for job seekers. A National Employment Council was set up to coordinate service provision.	All workers	26 billion Euro	

Country	Type of Programme	Programme description	Target Group	Costs	Number of young people reached and estimates of effects
GERMANY	Short-time working	Short-time work allowance extended from 6 to 24 months, accompanied by skills development opportunities (March 2009). Public Employment Services cover full training costs for those re-training for specific jobs (2009-2010). Employment subsidies available to employers that recruit re-trained workers.	All workers	1.12 million Euro	
	Job search assistance	Public Employment Services have been expanded to reduce the client/staff ratio. Social partners have established a "training pact" to improve effectiveness of training policies and programmes	Young people entering the labour market		
LUXEMBOURG	Working time and Training	The government started a training programme with co-financing of the European Social Fund (September 2009-September 2013). This programme targets unemployed people or workers belonging to companies that plan to reduce working time	All workers	14 million Euro	
Mediterranean Countries					
CYPRUS	Employment Subsidies and Training	A special Prevention Act has been implemented in 2009 (Human Resource Development Authority + Ministry of Labour). Two main policies: a) Employers can retain dismissed workers on training courses that specific to the firm and decided by the entrepreneurs. In the period February-June 2009, 44 firms submitted 313 projects (2,301 workers); subsidies amount to 303,142 Euro per worker. b) Training programmes organised by PES and the Ministry of Labour (in May 2009: 36 programmes for 560 unemployed). These programmes were specific to some sectors, with a special care for sectors (hotels, restaurants) where there are seasonal downturn which can be more difficult during the crisis.	All workers	303,142 Euro per worker + 1,142,000 Euro (estimated for the period 2009-2013)	
GREECE	Employment and Training	In April 2009, the Ministry of Employment announced an "anti-crisis action plan" aimed at preserving jobs and enhance job creation. Special attention is devoted to vulnerable groups. Within the anti-crisis action plan, a new programme of subsidized employment for young people has been introduced. Subsidies are also given to employees who hire unemployed young people. PES services and other agencies are running special training programmes for early school leavers young scientists and young entrepreneurs.	Young people		

Country	Type of Programme	Programme description	Target Group	Costs	Number of young people reached and estimates of effects
MALTA	Short-Time working and Training	"Malta Enterprise", with the assistance of the Employment and Training Corporation (ETC), provides cash grants to employers opting for a 4-day week working time and who were either planning to invest in their own organization or going to increase their employment capacity in the subsequent six months. Employers fulfilling the criteria are provided with cash grants which consist in a minimum wage to workers who receive training by ETC. Training consists of transferable skills and specific skills which can improve productivity of workers. This initiative is supported by the social partners.	All workers		
	Employment and training	Youth employment programme targeting youth under 25 years of age who are unemployed or are losing their current job and school leavers	Young people	726,046 Euro (supported by European Social Fund)	
ITALY	Income support and Training	A Government decree (DL 185/2008) transformed into law in January 2009 (Law 2/2009) widened the field of application of "discretionary" unemployment benefits. Coverage was extended to include workers on temporary contracts and apprentices.	Workers on temporary/fixed-term contracts, apprentices	Eight billion Euro (Funded by regional governments)	
	Job search assistance and training	The PARI programme provides access to employment for disadvantage groups by providing job-search assistance and training opportunities	Mainly young people		
PORTUGAL	Training	Apprenticeship measures in place since 1997 were amended in January 2009 with changes to extend access and participation. The programme is now open for young people aged 16 to 35 (previously maximum 30 years of age). The duration was extended from 9 to 12 months	Young people (16-35 years)		
	Short-time working and Training	Extension of measures allowing for the temporary reduction of working time (from 6 to 12 months). The employee receives two-thirds of the normal salary of which 30 per cent is funded by the employer and 70 per cent by the social security system. If an employee attends agreed vocational training during the period of reduced working time, the compensation is subsidized by the Public Employment Service.	All workers		

Country	Type of Programme	Programme description	Target Group	Costs	Number of young people reached and estimates of effects
	Training	The Qualification-Employment programme has been created. This was a temporary measure, in force up to 31 December 2009, with the following characteristics: 1) open to workers on reduced hours working; 2) vocational training should be delivered during working hours (more competition for the firm, more qualification for the workers); 3) 6 months, renewable for a further 6 months; and, 4) workers who refuse to participate in the vocational training actions offered to them under the programme lose the right to the benefits.	All workers on short-time working		
SPAIN	Employment Subsidy	The "Plan Empleo" has a special programme aimed to create new jobs for young unemployed people but also for unemployed people with family responsibilities. The programme consists of a local investment Fund and other specific interventions in sectors such as tourism.			
	Job search assistance	Assistance by the Public Employment Service increased in 2009	Young people and adults.	11 million Euro	300,000
Scandinavian Countries					
DENMARK	Short-time working and work sharing	Specific programmes were introduced to promote work-sharing or short-time working arrangements. Change in programmes regulating dismissals in order to extend them to small enterprises.	All workers		
	Training	Agreement among social partners to implement training programmes. Such programmes identify sectors and skills which are in need or are likely to be in need in the future. Rules for eligibility to these programmes were changed and unemployed young people can access after only 13 weeks of unemployment. The special targets of these programmes are low skilled job seekers.	Young people		

Country	Type of Programme	Programme description	Target Group	Costs	Number of young people reached and estimates of effects
FINLAND	Working time	In June 2009, 3,200 workers were working a reduced working week. For older workers the policy focus remains to retain them in the labour market. Rather than laying off older workers, employers are encouraged to use partial retirement schemes	All workers		
	Training and Employment Subsidy	The budget proposal includes a package of measures that aim at quickly and efficiently supporting employment and finding jobs for school leavers. Training for employment will be increased in the current, exceptionally difficult employment situation. To alleviate youth unemployment, additional funding is allocated to finding jobs for young people and increasing initial vocational training. The additional financial input amounts to a total of 50 million Euro, with additional 4.65 million Euro for outreach activities. Apprenticeship-type continuing education will also be offered to graduates of higher education.	Young unemployed	Euro 54.65 million	
NETHERLANDS	Short-time working and training	In November 2008, the government introduced a "short-time working regulation. Companies that can demonstrate they were facing a reduction of demand of at least 30 per cent can apply for this regulation. Workers receive the same wage but are involved in training or secondment. For these workers the company is compensated by the government. The programme works in conjunction with the Public Employment Service which started mobility centres in 30 regions. In March 2009, the government extended part-time unemployment benefits specifically directed to skilled workers who could be retained in the same company.	All workers	200 million Euro (March-April 2009) +950 million Euro (since April 2009)	20,000
	Training , Job search assistance and employment subsidies	In order to create new jobs, the government launched a Youth Action Plan in June 2009. It consists of five main outcomes that aim at a) keeping youngsters longer in education (10,000 youth with low education to continue; 16 million Euro); b) creating employment opportunities at local level (allocation of resources: 153 million Euro) to create; c) assisting youth through coaching and job-search assistance by Public Employment Service (10 million Euro); d) provision of real job opportunities (charities, apprenticeship) (25 million Euro); and, e) implementing specific interventions for vulnerable youngsters (40 million Euro).	Young people	250 million Euro	

Country	Type of Programme	Programme description	Target Group	Costs	Number of young people reached and estimates of effects
SWEDEN	Short-time working and passive labour market policies	Several Swedish companies have made arrangements with unions to reduce working time in order to avoid dismissals. Generally, wages and salaries are proportionally reduced. Employees keep their jobs but do not have any economic compensation for loss of working time. The working time reductions are most widespread in the metal- and engineering industries. The government is generally not involved in reduced working time arrangements. This is in general agreement with the Swedish government strategy to meet the crisis. Instead, the government mitigates social effects. Increasing support is given to research and development and investments in infrastructure and entrepreneurship aiming at future expansion of business and welfare.	All workers		
	Job search assistance	In addition to the already-existing "Job Programme" that targets young people entering the labour market after 90 days of unemployment, the Swedish Public Employment Service has established the following measures: a) local mentoring programmes through which local entrepreneurs and managers provide support to young unemployed people for establishing a first contact with the local labour market. b) job clubs on the internet operated by the customer service to provide virtual meetings with job coaches, chats with employers, guidance material and the ability to communicate with other young people online. The Career Guide includes proposals for various job-search strategies, tips and checklists to apply for a job, the rights and obligations at work and interviews with professionals in various industries. c) initiatives to promote youth entrepreneurship at the local level.	Young people		
Central Europe					
BULGARIA	Training with employment subsidy	Apprenticeship Programme (12 months maximum) that provides an allowance to students and employment subsidies to companies.	Young people with low education and early school leavers		
	Employment subsidy	Work placement in public administration is provided with funding from the Operational Programme for Human Resources Development (OPHRD).	University graduates		

Country	Type of Programme	Programme description	Target Group	Costs	Number of young people reached and estimates of effects
	Short-time working	Companies can double the time they can use part-time workers in the case of reduced volume of work. They can apply for subsidies to introduce partial employment	All workers but with special funding for training of young workers	120 BGN per month (3 months max) for part-time; 132 BGN per month for training (5 months max)	62,650 people
	Public works	Programmes of Public Expenditure for employment in construction and renovation (OPHRD co-funds training).	Applicable to all workers		9,000 + 83,000 in training
	Job search assistance and employment subsidy and Job Search Assistance	Individualized employment plans and subsidies for vulnerable groups to support employment of redundant young (e.g. single parents, youth with disabilities). Subsidies are available for training and employment in companies.	Disadvantaged youth		
CZECH REPUBLIC	Training	The Programme "Educate Yourself" was launched in March 2009 to support companies exposed to the impact of the economic and financial crisis. It provides training opportunities to part-time workers. The Programme is funded by the European Social Fund	All workers		27,563
	Training	The Programme "Anticipating Labour Market and Skill Needs" is designed to build a system of skills anticipation needs at national, regional and sectoral level.	Young people entering the labour market		
HUNGARY	Employment subsidies	Special subsidies to firms which create new jobs both in the IT sector and for small and medium firms creating at least 2 jobs (65-70% of job costs covered)..	All workers		
	Job search assistance and training	"Pathways to work" programme has been re-organised and now provides job search assistance and training	All workers		
	Public works programmes	Public works programmes were introduced to support long-term unemployed persons.	Long-term unemployed		80,000
	Job search Assistance	Regional employment offices have been granted additional funding to run tailor made services to integrate older workers, low-skilled and long-term unemployed individuals into the labour market	Vulnerable groups		

Country	Type of Programme	Programme description	Target Group	Costs	Number of young people reached and estimates of effects
POLAND	Short time working, unemployment benefit and training	Programme to allow for the reduction of working time to half for up to six months. Workers receive 100 per cent of unemployment benefit. Such scheme is subject to agreement between social partners, work council or employee representatives. Special incentives are also made available to support training during reduced hours working. The act also provides for greater flexibility in the organization of working time and limits temporary employment contracts to the period of no more than 24 months.	All workers		255,000
	Training	Public Employment Service can fund 12-month apprenticeships during which the young person receives 120 per cent of unemployment benefit.	Young people		170,000 young people reached
ROMANIA	Temporary employment subsidy and training	To prevent large-scale lay-offs, employers and workers can be exempt from payment of social security contributions during a temporary interruption of activity if employment is maintained. The Public Employment Service provides 50 per cent support for the cost of continuous vocational training for employees. Training grants for enterprises have also been introduced to up-skill the workforce.	All workers		
	Employment subsidy	Companies that recruit unemployed persons or keep workers threatened by unemployment receive a subsidy of 50 per cent of the salary to be paid to workers for up to 12 months. For hard to place workers (e.g. persons with disabilities, long-term unemployed) the subsidy can rise to 75 per cent for up to 24 months.	Unemployed and vulnerable workers	61 million Euro	
SLOVAKIA	Temporary employment subsidy	An amendment of the Labour Code, which came into force in March 2009 and will apply until December 2012, allows employers facing economic difficulties, in agreement with the trade unions, to provide time off during which the employee receives the basic wage. In addition, the Ministry in charge of employment adopted measures that preserved over 60,000 jobs, created around 3,000 new jobs and contributed to employees' wages.	All workers		63,000
	Training, work experience and job search assistance	Measures were introduced to provide youth with training and preparation for the labour market, including through job-search assistance. Such measures can be funded up to 100 per cent by the Public Employment Service and can further be supported with subsistence allowances (e.g. accommodation and transportation costs) and childcare. Training during working hours is also part of these measures. For young graduates without work experience, specific schemes are available.	Young people		

Country	Type of Programme	Programme description	Target Group	Costs	Number of young people reached and estimates of effects
SLOVENIA	Short-time working	An Act on the partial subsidizing of full-time jobs was passed in January 2009 to assist employers affected by the crisis. The subsidy aims to assist workers with a shortened working week of 36 hours or – on the basis of collective agreement – no less than 32 hours. A subsidy of 60 Euro is provided per month for those working 36 hours and additional 60 Euro for those working 32 hours.	All workers		By 15 July 2009, 782 applications were received from employers for 67,208 workers
	Employment subsidy	Measures to increase work experience during the final year of study have been strengthened and subsidies are available to employers for the recruitment of graduates. Subsidies for self-employment are also available for young people, as well as specific grants for those with low skills.	Young graduates		
Baltic countries					
ESTONIA	Training	In July 2009 the government extended the period of training for unemployed individuals and allowed workers to continue training even after finding temporary jobs	All workers		
	Job search assistance	Since 2008, the Government has started job search clubs for unemployed young individuals. These clubs take care of training and provide apprenticeship places.	Young job seekers		
	Income support	The Employment Contracts Act introduced on July 2009 reduces the advance dismissal time by 30 days and increases the level of unemployment and social security benefits.	All job-seekers		
LATVIA	Training	Employees working reduced hours have the opportunity to participate in training programmes. They receive a voucher of 711 Euro that can be spent in training programmes that have a maximum duration of 6 months.	All workers	9.9 million LVL (2009-2013); 1.8 million LVL (2009)	
	Public works programmes	The public work programme pays an allowance of about 142 Euro per month to participants paid to the beneficiaries is 142 Euro – equivalent to 80 per cent of the minimum wage. This programme is co-financed by the European Social Fund and the total allocation equalled 24 million LVL (34 million Euro). Programme participants can also participate in training programmes.	All workers	34 million Euro	38-50,000
LITHUANIA	Temporary employment subsidy	The “First job” programme provides employment subsidies to school leavers and graduates with a view to gaining work experience	Young people		

Sources: The inventory was compiled on the basis of documents available from the following organizations: Bureau of Labor statistics <http://www.bls.gov/>; European Employment Observatory, <http://www.eu-employment-observatory.net/>; OECD, www.oecd.org; and Service Canada <http://www.servicecanada.gc.ca/eng/subjects/employment/index.shtml> as well as from European National Employment services.

Annex II: The jobless rate

In order to further elucidate on some of the advantage of the jobless rate as an indicator, it is worth stating the simple formulas for the youth unemployment and jobless rates explicitly:

$$\text{Youth Unemployment Rate} \equiv \frac{\text{no. of young people who are unemployed}}{\text{no. of young people in the labour market}} \quad (1)$$

$$\text{Youth Jobless Rate} \equiv \frac{\text{no. of young people who are not employed or in education}}{\text{no. of young people}} \quad (2)$$

Clearly, the difference between the indicators lies in differences in both the numerators and the denominators of the expressions. Specifically, the numerator and denominator are both larger in the case of the jobless rate;⁴³ all those who are unemployed are by definition not in education or employment, but the latter also includes those not seeking work. Similarly not all young people participate in the labour market either because they participate in education or for some other reason do not actively search for work. The consequence is that the jobless rate may be bigger (or smaller) than the unemployment rate according to whether the proportion of the inactive population, as traditionally defined, which is not participating in education is greater (or less than) the proportion of the active population who are unemployed⁴⁴. In other words, other things being equal, the higher the educational participation rate, the lower will be the jobless rate *vis-à-vis* the unemployment rate.

In order to see the arguments concerning the superiority of the youth jobless rate, a little basic algebra may help. If U is the no. of unemployed young people, N the number of employed (young people),⁴⁵ E the number of young people in education, D the number of “discouraged” (young) people neither in employment, ILO unemployment or education and P is the (youth) population, two equivalent expressions for the (youth) unemployment rate, u, are:

⁴³ Strictly speaking, the numerator and denominator respectively of the jobless rate are actually “greater than or equal to” those of the youth unemployment rate, however, for them to be equal, all those not in employment would have to actively seeking work and no young people would be participating in education, conditions which will never be satisfied in practice.

⁴⁴ It is a matter of elementary algebra that, $\frac{a+b}{c+d} > \frac{a}{c} \Leftrightarrow \frac{b}{d} > \frac{a}{c}$. If a stands for the unemployed, b the number of those who are neither employed, (ILO) unemployed, or in education, c the size of the labour force, and d stands for the population not in the labour force, then we have the condition stated in the text.

⁴⁵ I use parentheses here since these formulas are obviously valid for any group of people, or indeed for the economy as a whole.

$$u = \frac{U}{U + N} \quad (1')$$

and since $P = N + U + D + E$

$$u = \frac{U}{P - E - D} \quad (1'')$$

Similarly two equivalent expressions for the (youth) jobless rate, j , are:

$$j = \frac{U + D}{P} \quad (2')$$

$$j = \frac{P - N - E}{P} = 1 - n - e \quad (2'')$$

where j is the jobless rate, n the employment rate and e the educational participation rate of young people. Assuming that the youth population is exogenously given, then - from (2'') - the youth jobless rate will fall (rise) if the proportion of young people in either employment or education rises (falls). On the other hand, - from (1'') - the unemployment rate will increase if, *ceteris paribus*, participation in education increases, but as with the jobless rate, from (1') will fall if employment increases. The point here is that, using the unemployment rate, an improvement in a “good” indicator – the educational participation rate – can produce a worsening of a “bad” indicator – the youth unemployment rate. For the jobless rate, improvements in either of the “good” indicators, educational participation and the employment rate, improve (i.e. reduce) the bad indicator, the jobless rate.

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