

Why is youth unemployment so high?

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YOUTH unemployment is blighting a whole generation of youngsters. The International Labour Organisation estimates there are 75m 15-to-24-year-olds looking for work across the globe. But this figure excludes a large number of youngsters who do not participate in the labour market at all. Among the 34 members of the OECD, a club of rich nations, it is estimated there are 26m youths not in education, employment or training (so-called NEETs). Similarly, across the developing countries, the World Bank estimates that there are 262m such youths. All told, there are perhaps as many as 290m 15-to-24-year-olds not participating in the labour market—almost a quarter of the world's youth, and a group almost as large as the population of America. More young people are idle than ever before. Why?

Some of these youths choose not to work. About a quarter of the 290m are south Asian women who do not work for cultural reasons. And under-24s who are working are disproportionately engaged in informal or temporary employment. In the rich world, it is estimated that a third of under-24s are on temporary contracts; in developing countries a fifth are unpaid labourers or work in the informal sector. That is better than not working at all, but is hardly cause for celebration. In total, nearly half of the world's young are contributing to the labour market less effectively than they could be.

This is not simply the result of the financial crisis, though that is part of the explanation, having affected young people in the rich world particularly badly. Youth unemployment has increased by 30% across the OECD, and in Spain it has doubled to 20% as proportion of the youth population. In the developing world, meanwhile, a second contributory factor is that many countries with fast-growing populations also have inefficient labour markets. Almost half the world's young people live in South Asia, the Middle East and Africa, the regions with the highest shares of youngsters out of work or working informally. (It is no coincidence that South Africa has some of the strictest rules on hiring and firing and one of the worst youth-unemployment problems in sub-Saharan Africa.) A third factor is the growing mismatch between the skills that youngsters have and the vacancies that employers want to fill. Germany, which has a relatively low level of youth unemployment, places a lot of emphasis on high-quality vocational courses, apprenticeships and links with industry. But it is an exception.

The effects of youth unemployment can persist for years. Those who begin their careers without work are more likely to have lower wages and suffer joblessness again later in life. The economic loss can be substantial, too, and not just in the form of higher welfare payments. Part of these losses may be due to missing out on training and experience accumulation that typically occurs with young workers. But younger workers typically change jobs at much higher rates than their older counterparts, and these job switches are responsible for most of a worker's wage growth early in a career. Workers forced into bad matches or no matches end up on a productivity trajectory well below what they might otherwise have expected. One estimate suggests that the total economic loss from youth unemployment was equivalent to 1.2% of GDP in Europe in 2011. Realising this problem, governments are trying to address the mismatch between skills and jobs: apprenticeships in Britain have increased in recent years, for example. There is evidence too that companies are investing more in the young and revamping their training programmes. New technology is providing educational opportunities to people who might otherwise remain outside the job market. There is some cause for hope, then. But the scale of the problem is daunting.