

- 5 The problem of jobless youth (15-24 years of age) shows no sign of abating. The global youth unemployment rate was estimated at 13% in 2013, with many countries across the world reporting their youth unemployment rate to be more than twice their national unemployment rate.

(a) Explain why youth unemployment is of concern to governments. [10]

(b) Discuss whether the openness of an economy is a significant determinant in the choice of policies to deal with youth unemployment. [15]

*Question requirements:*

- a) *Explain what youth unemployment is and the harmful effects that may arise from it which is of concern to governments. Thoughtful answers should exhibit the knowledge that youth unemployment poses a bigger problem than general unemployment.*
- b) *Acknowledge that demand expansion is not the only cause of youth unemployment; there are other causes, e.g. market rigidities, misalignment between education and workforce, mismatch between supply and demand. As such, openness of an economy is not a significant determinant in policy choices. Other determinants are in fact more significant.*

### **Suggested Answers for Q5(a)**

**Explain why youth unemployment is of concern to governments.** [10]

Unemployment is undesirable at any age, but evidence shows that people who struggle to find work during their early years in the labour market will be at a serious disadvantage for the rest of their careers. Problems of youth unemployment affect more than the youth; it has a major impact on society as well as the economy. And although typically higher in developing countries, youth unemployment has become a problem for many countries around the world, including developed ones.

Youth unemployment is of concern to governments because of the many long-term, negative consequences for the individual and for their country:

- **Wastage or even loss of resources:** The youth are the young and productive in a country's labour force. To be unemployed means a significant portion of the country's productive capacity untapped. Some unemployed youth resort to finding employment in unrelated or unfulfilling tracks – resources are not allocated efficiently and thus welfare is not maximised. For some countries, high youth unemployment causes youth to leave the country in search of employment; this further shrinks the workforce. High youth unemployment has led to social unrest (e.g. Greece) and political revolutions.
- **Substantial economic costs:** As the effects of youth unemployment can persist for years (e.g. 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. This includes higher welfare payments as well as opportunity costs from missing out on training and experience accumulation that typically occurs with young workers.
- **Decreased earnings and widening income disparity:** There will be decreased earnings over their entire lifetime for those who are unemployed in youth. Because youth are not able to build up skills or experience during their first years in the workforce, unemployed youth see a decrease in lifetime earnings when compared to those who had steady work or those who were unemployed as an adult. The lower salary can persist for 20 years after the unemployed period before the individual begins earning competitively to their peers. While not earning money during unemployment, the youth could be contributing to a pattern of poverty for their generation. Widespread youth unemployment leads to a generation that is excluded socially and at a great risk for poverty. It also widens the gap between the rich and poor even further.

- **Wage scarring:** The deterioration of labour market prospects that results directly from an initial spell of unemployment is termed a 'scar'; it can come in the form of either higher unemployment or a lower subsequent wage or a combination of both.
  - After a period of unemployment, the temptation to take just any work can be strong – young people unemployed for a long time were channelled into “non-regular” jobs where pay was low and opportunities for training and career progression few. Employers seeking new recruits for quality jobs generally prefer fresh graduates (of school or university) over the unemployed, leaving a cohort of people with declining long-term job prospects and reductions in long-term wages: they become “youth left behind” (words used in an OECD report) and the cycle continues.
  - After long-term unemployment, youth are in danger of losing skills, connections to their industry, and desire to work long into the future. After a period of unemployment during a recession, the individual will find it difficult to find work once the economy improves because they have a large gap in their work history. Instead, employers will be more likely to hire those in the next generation who are just out of school.
- **Impact on family and SOL:** Increasingly, more unemployed youth are moving back in with their parents. This has been seen as both an effect and a cause of high youth unemployment. Youth in many countries now live with their parents into their late-twenties. In families, it is common that when one person becomes unemployed, other members of the family begin looking for or securing employment. This is called the added-worker effect. This can sometimes take the form of employment in the informal sector (the part of the economy which is not taxed, monitored by any form of government or included in the measurement of GDP) when necessary. Being unemployed for a long period of time (in youth) has also been correlated to decreased happiness, job satisfaction and other mental health issues (they feel that they are a failure and are of no importance to their communities).

Level	Descriptors for Q5(a)	Marks
L3	• Developed explanation of specific problems arising from youth unemployment, with some links to other macroeconomic goals	9-10
	• Developed explanation of problems arising from youth unemployment with sound economic reasoning	7-8
L2	• <b>Developed explanation</b> of the problems arising from unemployment in general, but not specific to youth unemployment <u>OR</u> • <b>Undeveloped explanation</b> of specific problems arising from youth unemployment	5-6
L1	• Listing or mere description of points, with some conceptual inaccuracies	3-4
	• Many conceptual errors	1-2
	• Irrelevant answers	

### **Suggested Answers for Q5(b)**

**Discuss whether the openness of an economy is a significant determinant in the choice of policies to deal with youth unemployment. [15]**

***NOTE to students:*** The overly-detailed suggested answers are not expected in your Prelims answers but will prepare you in the area of youth unemployment for the eventual A-level exams. For the Prelims exam, good answers are those which can acknowledge the need for demand- and supply-side considerations in policy choices, i.e. openness of an economy is not a significant determinant in policy choices.

**Introduction:** The main thrusts in dealing with youth unemployment are job creation through demand expansion and improving the employability of the country's youth through sound education and training policies. While most economies are open, the degree of openness varies and this has implication on the choice of policies for AD expansion.

**Thesis argument:** The openness of an economy can be a determinant in the choice of policies to deal with youth unemployment. This is because the extent of a country's openness can affect its choice of policies with respect to expansion of aggregate demand and the extent of the significance depends on the relative importance between domestic and external demand. Large, open economies have greater flexibility in tapping on domestic demand for demand expansion as opposed to small, open economies.

Underlying this premise is the widely-held view that youth unemployment is best corrected by boosting economic growth. There is some evidence that changes in economic performance have had a larger effect on youth unemployment than the overall unemployment rate, e.g. some countries reported that their youth unemployment rate in the few years after the 2008 recession has jumped to more than double their national average. The rationale is that when there is a general hiring freeze, the youth unemployment rate grows as more youth move from schools into the workforce.

- Based on the above premise, boosting economic growth is thus considered to be one quick way of reducing the rate of youth unemployment. For a small and open economy, the smallness of its small domestic demand means that it has to depend on external demand for economic growth. In this case, its choice of policies to reduce youth unemployment would be somehow determined (or limited) by the openness of its economy.
- For example, during times of global economic slowdown, the small and open economy would be one of the first to be hit by sluggish external demand and a fall in foreign direct investment. Consequently, employment prospects in the country would deteriorate, and the government, in its attempt to reduce unemployment rate, would try to employ demand-management policies to boost domestic demand. However, the choice of policies would be affected by the extent of the openness of the economy.
- This is because a small and open economy has a small AD which would limit the effectiveness of expansionary fiscal and monetary policies. As the economy is also reliant on imports due to its lack of resources, the country's small multiplier would further limit its choice of demand-management policies.

**Counter arguments:** However, the openness of an economy is not a significant determinant in the choice of policies to deal with youth unemployment. There are many causes behind the youth unemployment rate and sluggish economic performance is but only one. Therefore, correct identification of other causes of youth unemployment will help countries identify the factors which influence their choice of policies. In fact, because improving employability of youth usually requires education and training to be better aligned with the changing needs of industries and to remove barriers of taking up employment among the jobless, the approach to tackle youth unemployment is fundamentally similar for all countries irrespective of their degree of openness.

**The following are other factors (or other more significant factors) which will determine/influence the choice of policies to deal with youth unemployment:**

- Inflexible/rigid labour markets (e.g. high taxes on labour, high minimum wages, strict laws and regulations on firing people): Although labour markets are generally left to operate under forces of demand and supply, the fact is that rigidities exist which affect the efficient working of market forces. Relevant policies are those which would be able to work through or help to reduce the inflexibility of labour markets. Examples of where the inflexibility lies:
  - Older employees have more job experience and job security. This means that the newest employees (usually the youngest) are more likely to be let go than an older employee who has been there for a long time. Similarly, workers with temporary contracts do not have as many rights as older workers who have permanent contracts.
  - Youth also have smaller social networks and less experience searching for work, making it a more difficult process where they are likely to find less success than older employees. Mobility is another factor in the youth unemployment rate. When the attachment to home is strong and when youth rely on parents for financial support, youth are often less mobile and less able to move locations to find a job than older workers who can move their entire family. The youth being supported financially by their parents are also able to wait longer before accepting a job, meaning that they remain unemployed for a longer period of time.
  - Example: One might think that the effect of 'scarring' might be blunted by the overall ageing of the population by increasing demand for labour. But Japan's youth joblessness, which surged after its financial crisis in the early 1990s, has stayed high despite a fast fall in the overall workforce. A large number of *hikikomori* (reclusive adolescents or adults who withdraw from social life) live with their parents, rarely leaving home and withdrawn from the workforce.

- Mismatch between the supply of youth employees and the demand for them:
  - The most obvious reason for the mismatch is poor basic education. In many advanced economies (whether growing or shrinking), the jobless rate for people with less than a secondary-school education is twice as high as for those with university degrees.
  - There is also a growing mismatch between skills of youth and the vacancies that employers want to fill. A lesson in point would be Germany, which places a lot of emphasis on high-quality vocational courses, apprenticeships and links with industry, and which also has a relatively low level of youth unemployment.
  - The number of graduates is growing much faster than the number of job opportunities relevant to their level of qualifications. Thus there is a strong mismatch between the supply of and the demand for graduates, contributing growing youth unemployment.
  - Some economists argue that there is no oversupply since graduate salaries are generally stable or rising. But others suggest that there may be too many of the 'wrong type' of graduates, hence the mismatch between supply of graduates and demand from employers. The World Bank makes mention of a 'frictional' labour market where there are 'relatively high rates of tertiary graduate unemployment along with relatively high vacancy rates, or it takes a long time for employers to fill up positions. This is often an indication of skills shortages among graduate students.
  - UNESCO said that 'the number of unemployed graduates is partly caused by economic imbalances. The financial crisis and economic downturns in recent years are certainly the reasons for the reduction in the number of jobs' (but they also acknowledge that supply-side factors also contributed to high numbers of unemployed graduates; this 'over-supply' is an issue but only in some fields)
- Lack of alignment between education and workforce:
  - A close relationship between education and work can effectively help to reduce youth unemployment. A case in point is Germany – its long tradition of high-quality vocational education and apprenticeships have helped the country reduce youth unemployment in recent years despite only modest economic growth. Countries with high youth unemployment are short of such links e.g. few high-school leavers in France have any real experience of work; universities in north Africa focus on preparing students to fill civil-service jobs despite companies' complaints about the shortage of technical skills.
  - Training gaps may explain why over the past five years youth unemployment in flexible economies like America and Britain has risen more than in previous recessions and stayed high. Britain, which has one of the world's most flexible labour markets, more than twice as many young Britons (11.5% of the labour force) are unemployed as young Germans (3.9%). Incidentally, Britain also has a long-standing prejudice against practical education - in 2009 only about 8% of English employers trained apprentices compared with up to four times that number in the best continental European countries.
- Education expectations by employers: Youth are expected to have more education to compete for jobs than was true for previous generations, a phenomenon referred to as academic inflation. Youth are expected to stay in formal schooling for longer periods of time.
  - Because employers use credentials to screen applicants, more youth are forced to remain in education to meet the requirements of employers. This means a delayed entry into the workforce. The increasing amount of time that youth spend getting an education causes an equivalent rise in the average age when full-time employment begins.
  - From another angle, increased education expectations may also be blamed for rising youth unemployment. This is because education may be preparing youth for jobs that perhaps no longer exist when these youth finally graduate. Thus, along with increased education expectations comes a decrease in job availability.
- Nature of employment contracts: Young people are more likely to have temporary forms of work such as internships, seasonal jobs, contract work, and graduate research assistantships. In fact, the rise in the phenomenon of internships and other temporary work for youth has a significant influence on youth unemployment rates (and thus should determine the choice of policies).
  - Because their jobs are temporary contracts, youth are often the first to be laid off when a company downsizes. If they are laid off, youth are typically not eligible for redundancy payments because they only worked with the company for a short period of time. Once this work ends, many find themselves unemployed and disadvantaged in the job search.

- Young people with take temporary internships and research assistant positions as a way to build their experience. Facing unemployment, they will also turn to unpaid work. The legitimacy of internships has begun to be questioned. The intent of an internship is to provide valuable work experience, typically to youth in or recently out of college. However, many interns have complained that they are simply performing basic grunt-work, rather than learning important knowledge and skills, which they can transfer when they eventually apply for permanent jobs.
- In many of the developed countries, it is estimated that 1/3 of under-24s who are working are disproportionately engaged in informal or temporary employment. In developing countries, about 1/5 are unpaid labourers or work in the informal sector. Although this is better than not working at all, it means nearly half of the world's youth are contributing to the labour market less effectively than they could be.
- Creative destruction and disruptive innovation: New technology is forcing firms to rethink their operations from the ground up. Companies are constantly redesigning work, e.g. separating routine tasks (which can be automated or contracted out) from skilled jobs. They are also constantly redesigning themselves by 'upsizing', 'downsizing' and 'contracting out'. As businesses go through a fast and aggressive period of creative destruction and/or disruptive innovation, the life expectancy of companies is declining. Retaining labour becomes more and more challenging, needless to say about the ability of firms to hire.
- Attitude of the youth: Some of these youths choose not to work. For example, some groups of Asian women may choose not to work for cultural reasons.

#### **Conclusion/synthesis:**

- The openness of an economy is a determinant but not a significant one in the context of youth unemployment because the real obstacles of the problem lie on the supply-side of the economy.
- Policies to deal with youth unemployment must be able to identify the causes of the problem at hand. As the issue of youth unemployment cannot be separated from larger questions about labour market and the task of promoting economic growth, the government cannot work alone. Whether or not chronic youth unemployment is fixable, there is enough evidence to suggest that it can be reduced through concerted efforts of government, business, education and young people themselves.
- In short, openness of an economy is not a significant determinant of the choice of policies in addressing youth unemployment because sluggish economy is not the most important cause of this jobless phenomenon. Even if it is, the issue of 'openness' will only affect countries which are small and open, not the large and open ones. To learn from countries which have reported some success in reducing youth unemployment, governments around the world should adopt long-term strategies to better align educational systems with labour market requirements, and also put in more efforts to promote entrepreneurship.

Level	Descriptors for Q5(b)	Marks
<b>L3</b>	<ul style="list-style-type: none"> <li>• <b>Balanced and developed discussion</b> <ul style="list-style-type: none"> <li>○ Understands that youth unemployment is not identical to general unemployment, and thus policy choices are not similar either</li> <li>○ 'Openness' may affect the choice of policies but only for demand management</li> <li>○ Shows clear understanding that the more significant approach for employability applies to all countries, regardless of the extent of openness</li> <li>○ Covers both demand- and supply-side considerations in policy choices</li> </ul> </li> </ul>	<b>9-11</b>
<b>L2</b>	<ul style="list-style-type: none"> <li>• <b>Developed but one-sided answer</b> <ul style="list-style-type: none"> <li>○ Considers only the 'openness' factor, i.e. significant or not significant, in relation to policy choice for demand expansion</li> <li>○ May be theoretical and not applied to the context of youth unemployment (i.e. talks about general unemployment)</li> </ul> </li> <li><u>OR</u></li> <li>• <b>Balanced but undeveloped discussion</b> <ul style="list-style-type: none"> <li>○ Acknowledges and argues that openness is not a significant determinant in the choice of policies to deal with youth unemployment</li> <li>○ Brings in other determinants which governments must consider when deciding on relevant policies to address youth unemployment</li> </ul> </li> </ul>	<b>6-8</b>
<b>L1</b>	<ul style="list-style-type: none"> <li>• Some conceptual errors</li> </ul>	<b>3-5</b>
	<ul style="list-style-type: none"> <li>• Many conceptual errors</li> <li>• Irrelevant answers</li> </ul>	<b>1-2</b>
<b>E2</b>	<ul style="list-style-type: none"> <li>• Whether or not 'openness' is a significant determinant is really not a question at all. Regardless of how open an economy is, the significant factors in determining the choice of policies are largely domestic/internal, e.g. extent of rigidity of labour, the closeness of alignment between education system and workforce requirements, etc.</li> </ul>	<b>3-4</b>
<b>E1</b>	<ul style="list-style-type: none"> <li>• Judgement not explained or supported with economic reasoning.</li> </ul>	<b>1-2</b>