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Trends in the Youth Labour Market in Developing and Transition Countries

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1. INTRODUCTION

This paper looks at youth labour market trends concentrating on developing and transition countries. Questions relating to the integration of young people into decent work have in recent times once again begun to occupy a central position in Government Policy issues. Recently co-ordinated efforts also at the international level have begun to make themselves felt. In particular, on the initiative of Kofi Annan, UN Secretary-General, the Youth Employment Network (YEN) was established. This is a joint effort of the United Nations, the World Bank and the ILO and has provided a focus for the work of these organisations on problems related to youth employment and unemployment. This paper aims to provide a contribution to debate on the issues by giving an overview of trends in the youth labour market, principally in Transition and developing countries.

In this section, after giving an outline of the paper, some basic definitional issues are dealt with. In section two, the paper then looks at long-run trends in some broad aggregates relevant to youth labour markets. The section discusses long-run movements in population and population share, labour force and labour force participation, education and child labour. The third section then considers labour market outcomes. The discussion centres on which

*The author Niall O'Higgins, professor, Department of Economics and Statistics, University of Salerno. E-mail address: nohiggins@unisa.it prepared this paper for the Youth Employment Workshop, World Bank, Washington DC, June 2, 2003. I wish, above all, to acknowledge the enormous amount of labour embodied in the information presented in these pages, in particular, on the part of people working for national and international agencies responsible for the collection and compilation of the data employed here. This I have partaken of freely. For this work, and the opportunity to exploit it, I am most grateful. Much of the analysis included here would not have been, indeed were not, possible even five years ago. I wish also to thank participants at the World Bank seminar for useful comments. Any additional comments would of course be most welcome.

and whose outcomes are appropriate to examine as well as their determinants. The fourth, concluding section draws out some of the implications of the preceding analysis for policy, research and data collection purposes.

Before embarking on the main discussion brief mention should be made of some underlying definitional issues. The paper fairly rigidly employs the standard UN definition of young people as those belonging to the 15-24 age-group, with the lower limit adjusting to accommodate variations in minimum school-leaving age. Undoubtedly socioeconomic, cultural and institutional contexts vary markedly across countries. The appropriate definition of what constitutes a young person (or a child or an adult) will consequently vary with them. There is no reason why countries, in formulating their youth employment policies, should adhere rigidly to such definitions. Indeed, they do not. However, for the purposes of looking at the bigger picture, uniformity is an asset, and the '15-24' definition of the young is both reasonable and useful, above-all, for comparisons across time and countries.

A word also about the countries under scrutiny here. What constitutes a 'developing' or a 'transition' country will vary with time and circumstance. On the other hand, as noted above, uniformity and stability in categories is useful for data analysis particularly of the type undertaken here across countries and time. This can lead to oddities. In the paper, data on OECD countries are employed to examine specific questions for a subset of 'transition' and 'developing' countries. Yet, 'OECD' is often used as a synonym for 'industrialised' in describing countries. Moreover, the category 'transition country' is qualitatively different from 'industrialised' and 'developing' which are, conceptually at least, mutually exclusive. For the purposes of the analysis of labour markets, the 'Transition' countries of Central and Eastern Europe have at least as much in common with their 'Industrialised' neighbours in Western Europe as they do with China.

Having introduced these caveats, in what follows I apply in standard fashion, and without further consideration, the age and country classification commonly employed by data collection agencies and analysts.

2. LONG-RUN TRENDS

2.1. Population and Labour force

Let us take a look at some of the longer-run trends affecting youth labour markets all over the world. An obvious starting point is the growth in youth populations. Not infrequently, rapidly growing youth populations are seen as a cause for concern¹. Figure 1² illustrates the growth in youth populations for the major regions on the world over the period 1950-2010. Evidently the youth population has been and continues to grow rapidly. This is particularly the case in Asia where, by 2000, young people in that region constituted over 61% of the world's young people. Although of less significance numerically, the fastest growing young populations are to be found in Africa³.

However, a number of observations are in order. First, the proportion of young people in the total population has actually been **falling** in Europe, Latin America and the Caribbean, North America and Oceania since 1980, and in Asia since 1990. Only in Africa is the proportion expected to continue to grow into the new century (figure 2).

¹ See, for example, Jones (1997) on Asia..

² Data Sources for the figures and table reported in this paper are given in an appendix.

³ Indeed, The proportion of Asians in the World youth population has actually fallen from a little over 64% in 1990.

Figure 1: World Youth Population, 1950-2010

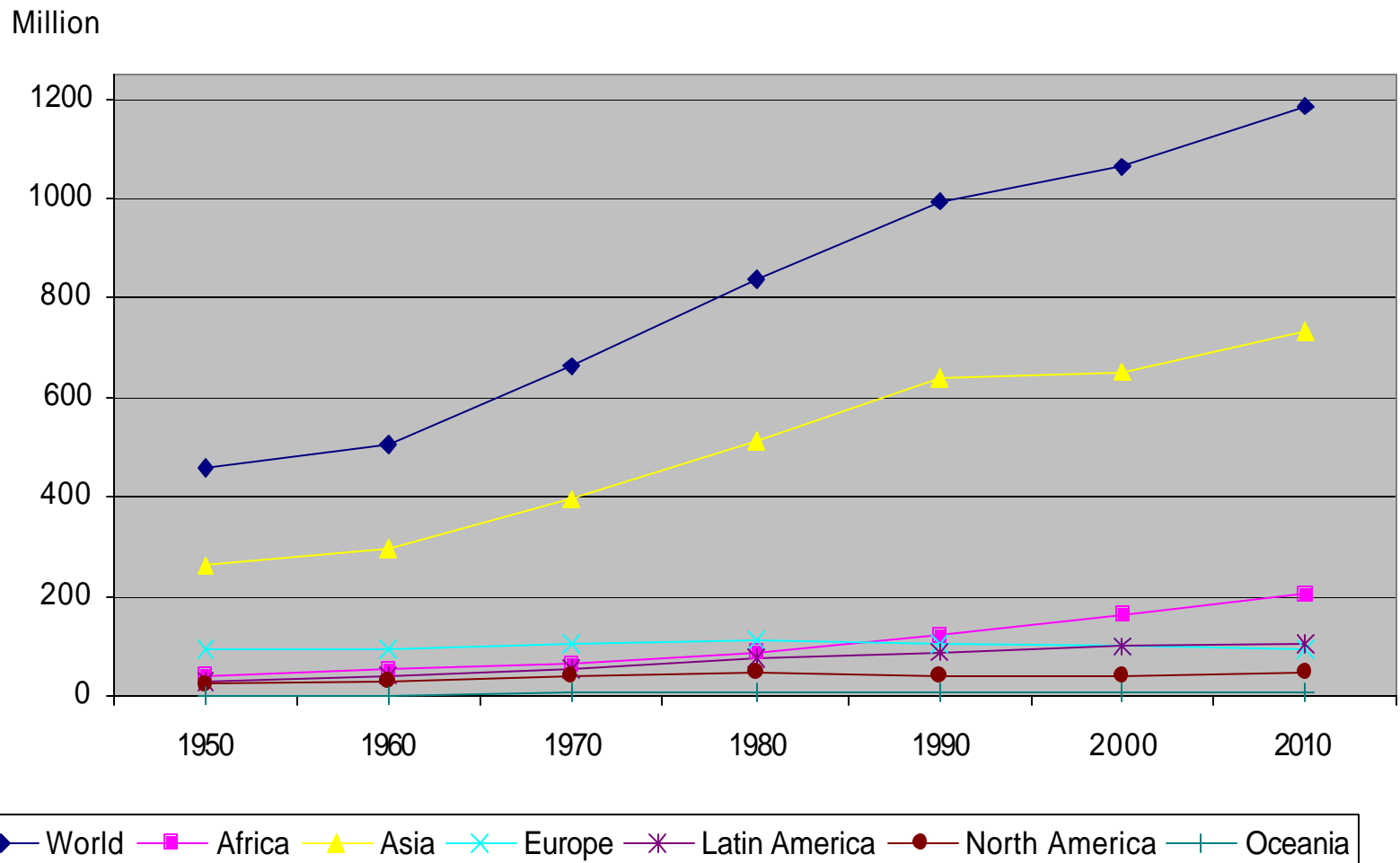


Figure 2: Young People as a percentage of Total Population, 1950-2010

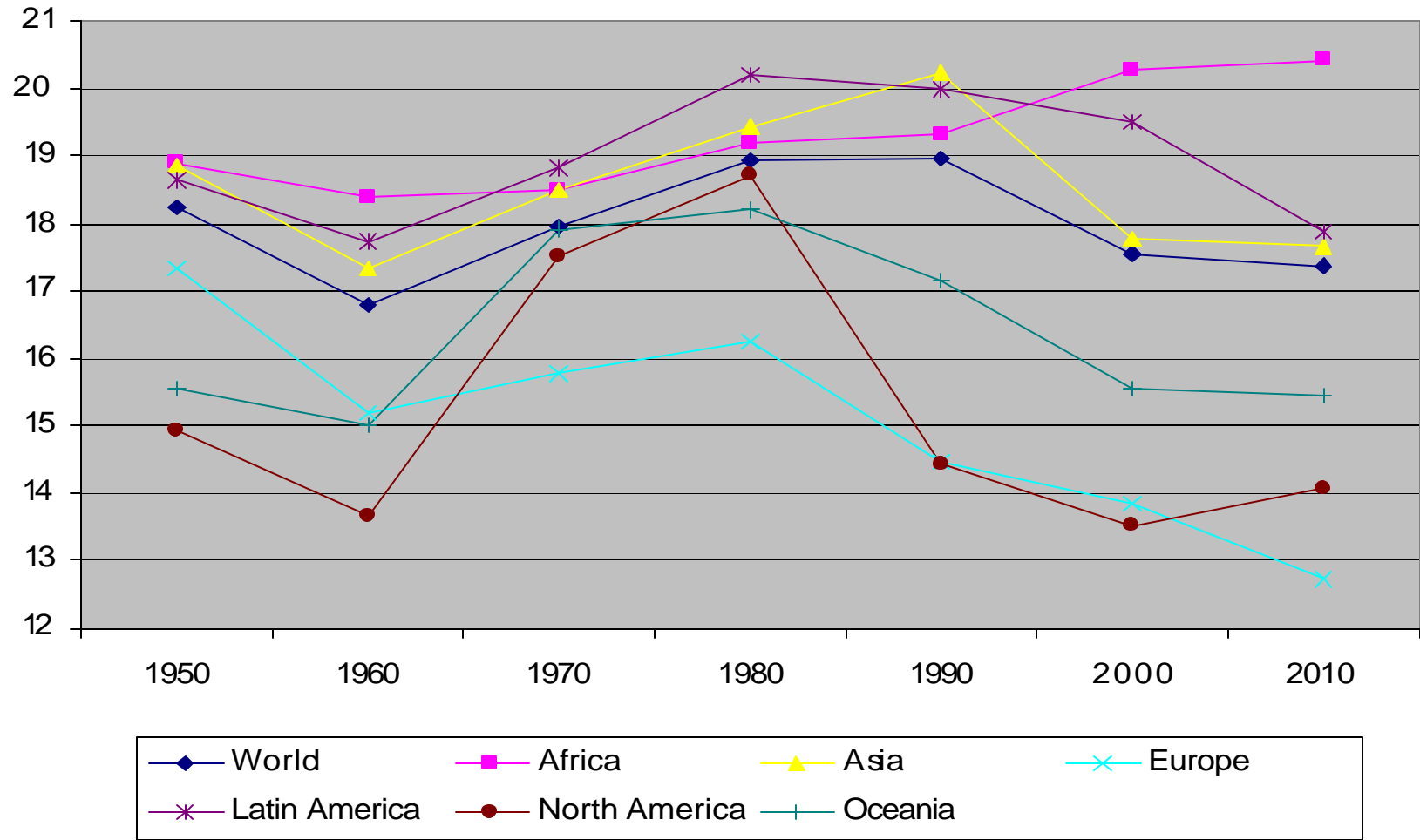
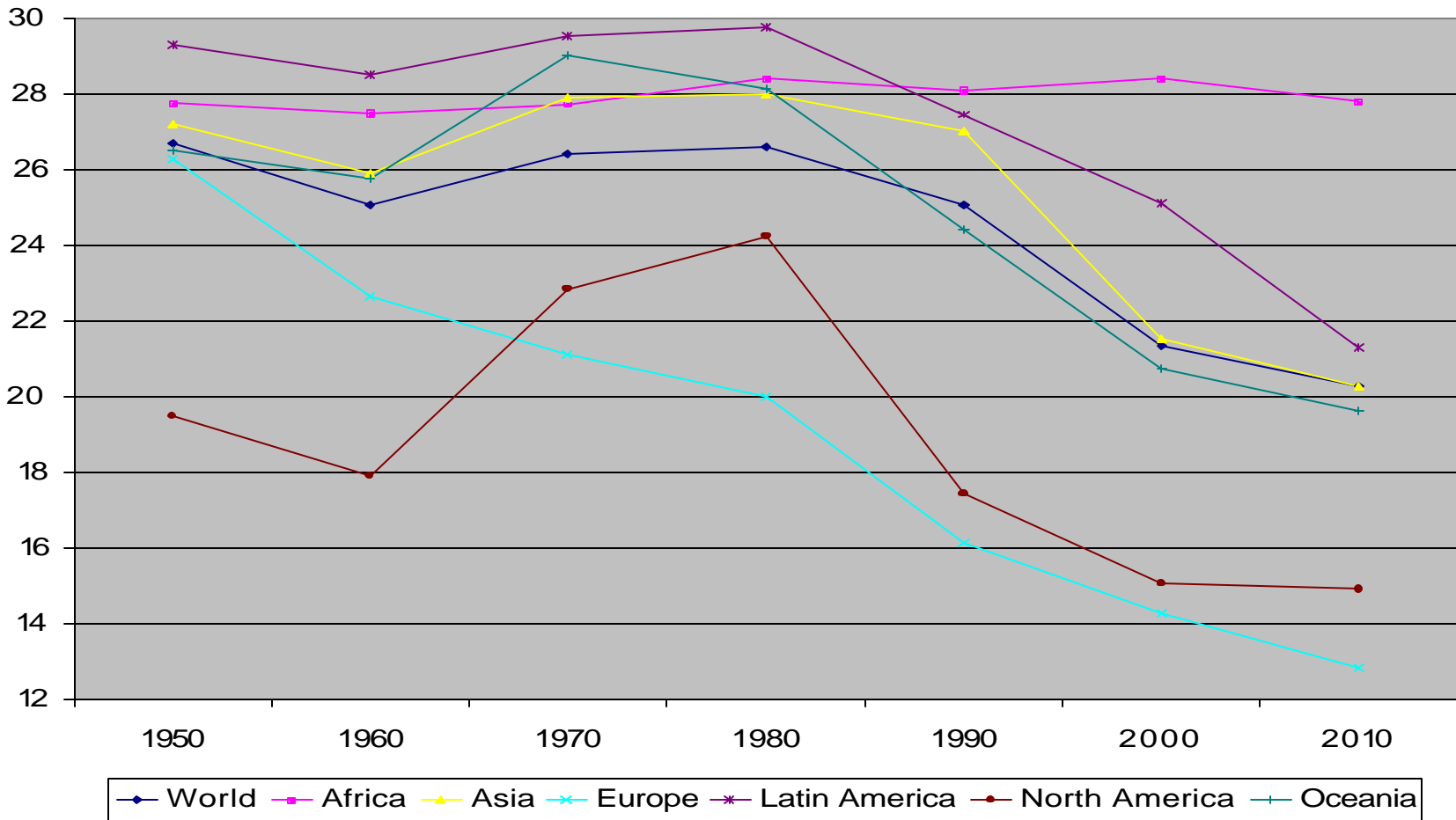


Figure 3: Youth Labour Force as a percentage of the total, 1950-2010



Second, if one considers the labour force, the trend is even more uniform. Even in Africa, the youth labour force is expected to fall as a percentage of the total labour force between 2000 and 2010. This reflects falling labour force participation rates amongst young people. In as much as this is the result of increased participation in education as opposed to higher levels of discouraged young workers, this in itself is a positive trend to which I will return later.

Third, in recent years some questions have been asked concerning the effects of demographic changes using more rigorous analyses. The latest emergence of the debate can be dated to Korenman and Neumark's 1997 paper on the effects of the youth share of the population on youth unemployment rates⁴. Looking at OECD countries, they found an elasticity of youth unemployment to the youth share in total population of around 0.5. This is significantly lower than the elasticity found with respect to the adult unemployment rate of 0.7. This suggests that aggregate economic conditions determining both youth and adult unemployment are more important than demographic changes. Furthermore, O'Higgins (2001, chapter 3, Table 3.1) has estimated a similar specification to Korenman & Neumark's, the principal difference being that the effects for young adults (20-24) and teenagers (15-19) are estimated separately. The results for teenagers are qualitatively similar to those found by Korenman & Neumark, however, for young adults the effects of adult unemployment completely dominate the effects of the youth population share which is not statistically significant. A slightly different approach is taken by Shimer (1999). In this paper, the author concentrates on the effect of the share of youth population on the unemployment and labour force participation rates of different age groups leaving out of the equation (literally) the effects of the adult unemployment rate on young people. The analysis considers state level data for the USA over nearly thirty years. He finds that a higher youth population share actually **reduces** the unemployment rate and raises the labour force participation rate of young people. This apparently surprising result is supported by the plausible reasoning that

⁴ Korenman & Neumark (1997). Of course the debate is much older, particularly in the United States where papers through from the 1970s to the early 1990s predicted and confirmed a negative effect of the US Baby Boom on unemployment rates. See, for example, Flaim (1979 & 1990) and Gordon (1992).

labour markets with more young people tend to be more flexible and in such a context there are more incentives for employers to create employment. These issues are returned to below, however, it is interesting to note at this stage that the rather automatic assumption that having more young people around creates additional pressures on the labour market forced to accommodate them may be misleading.

2.2 Education

It is widely held that raising the educational level of young people (as indeed for older people) is likely to raise employment at both individual and aggregate levels. Again, this is returned to in a little more detail below. However, looking at the longer-run trends, it is encouraging to note that, almost universally, educational levels are on a very definite upward trend at least as regards broad regional aggregates. Figure 4 illustrates this trend. The figure reports the estimated and projected illiteracy rates of young people (15-24) between 1970 and 2015 which I take here as a proxy for more general trends in educational levels. Encouraging is the fact that illiteracy rates have fallen off sharply since 1970. Also encouraging, albeit not very surprising given the starting point, is that the reduction is slightly more marked in Africa and Asia where, by 2015, illiteracy rates are expected to have fallen to one third of their 1970 levels.

On the other hand, these figures hide a significant distinction between young men and young women. Figure 5 reports the ratio of illiteracy rates of young women to that of young men over the period. Whilst, in America, Oceania and above all Europe, the gap between young women and young men appears to be narrowing, in Asia and Africa the tendency is towards a wider gap with a slight tendency in the projections to fall between 2005 or 2010 and 2015. Moreover, in Europe, where the gap was most marked in 1970, the strong downward tendency observable is only sufficient to bring this region in line with Africa by 2015. Finally, one might observe that only in America are illiteracy rates anywhere near the one-to-one level as regards young men and young women.

Returning to the bright side, in recent years interest has developed in looking at inequality in the education. One recent paper by Thomas, Wang & Fan (2000), suggests that

greater equality in education is associated with greater educational participation. Although the paper makes no claim to establish a causative relationship between the two, the uniformity of the relationship, in the presence of widely increasing educational levels is certainly a positive finding⁵.

⁵ I have some doubts, however, as to the appropriateness of the Gini coefficient in this context and wonder whether an Atkinson type index of inequality, or possibly a generalised Gini might not be more illuminative. Essentially the question concerns the relative weights attributed to different levels of variable of interest, in this case educational participation. For education, since a substantial proportion of the population do not participate, the Gini is essentially determined at the bottom end of the distribution. Certainly there is room for further analysis of this question.

Figure 4: Illiteracy Rates amongst Young people, 1970-20 15

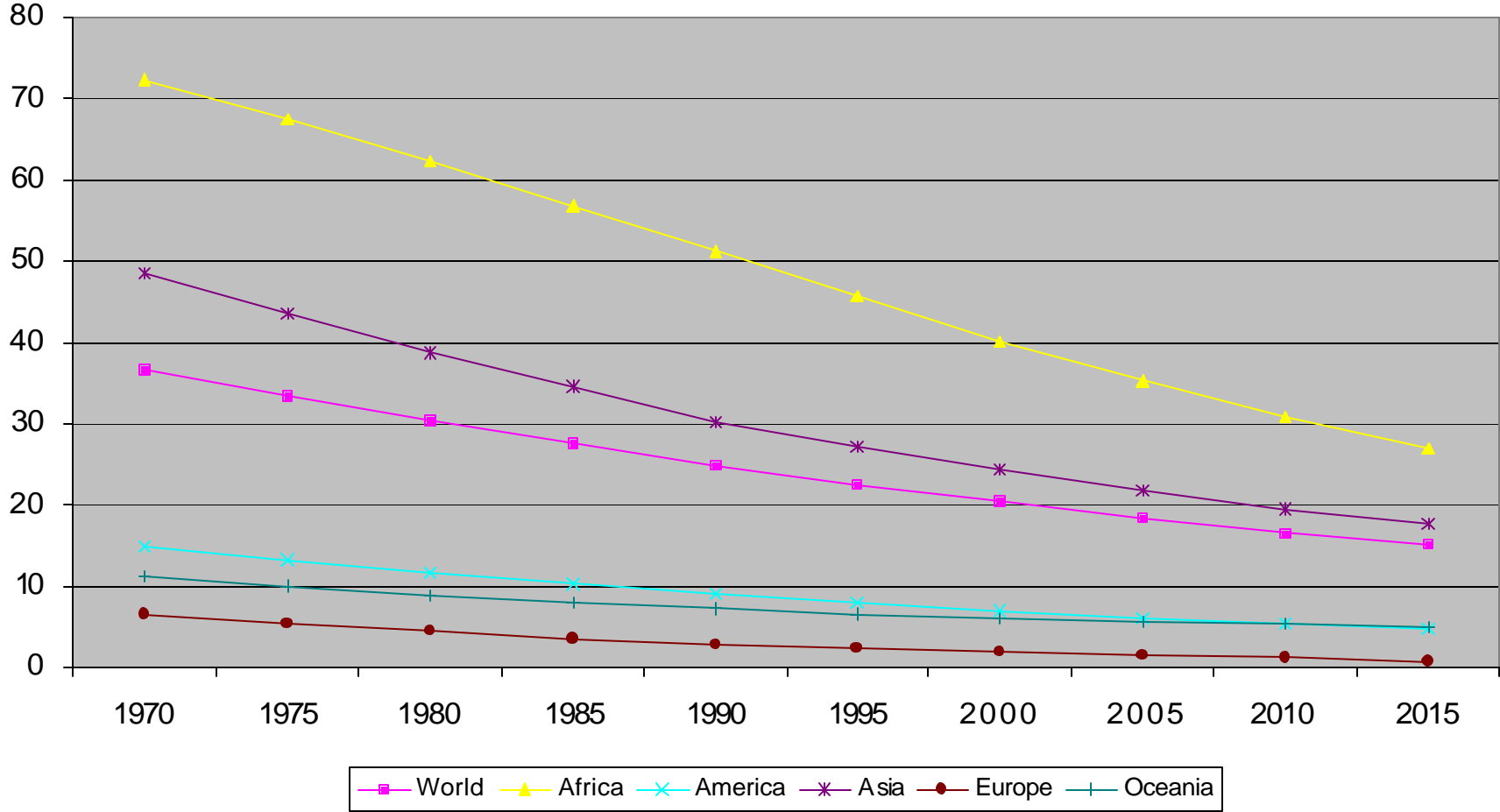
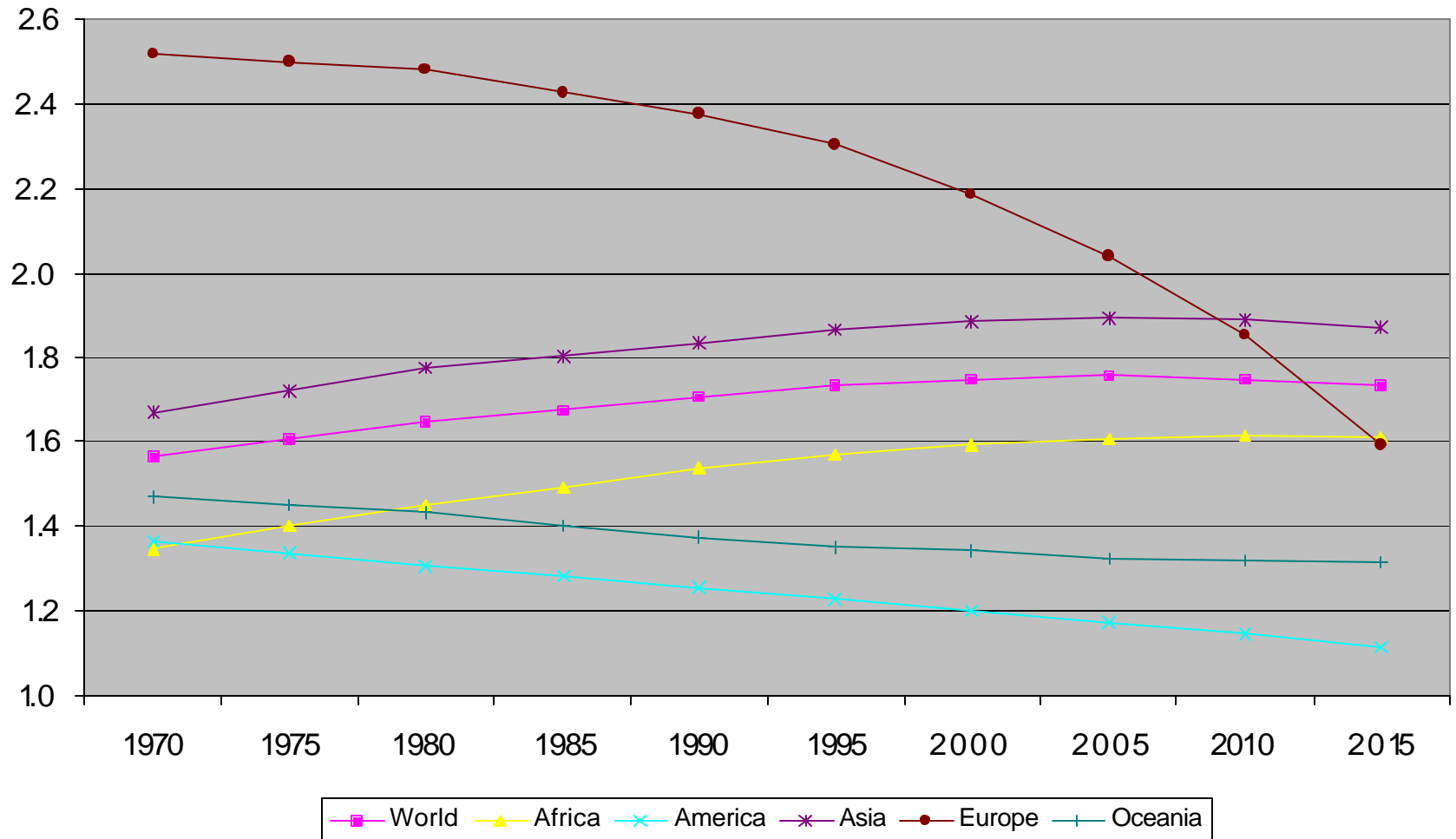


Figure 5: Ratio of Young Female to Young Male Illiteracy rates, 1970 - 2015



2.3 Labour Force Participation

Falls in the youth share in the labour force were above attributed in part to falling rates of labour force participation on the part of young people. Figures 6 and 7 illustrate this phenomenon separately for teenagers and young adults. The distinction between these two groups is particularly relevant here in as much as that whilst the teenage figures are principally determined by levels of educational participation, for young adults two important factors are at work. Participation in education is one, however at this age, this mainly means participation in tertiary education; the preserve of a minority even in industrialised countries. The second factor concerns participation in the labour force as opposed to undertaking other non-educational activities. For adults, or indeed for the labour force as a whole, increasing levels of the employment population ratio (as opposed to the unemployment rate), are increasingly used as an indicator of the health of a country's labour market. That is, the employment-population ratio may be seen as an indicator of a country's ability to create jobs (ILO, 2002/2003)⁶. Thus, whilst falling labour force participation amongst teenagers is likely to mainly reflect increased educational participation and is therefore unequivocally a 'good' sign, for young adults, the 'good' side of lowering labour force participation is tempered by the bad side reflecting, as it may, a failure on the part of countries to create sufficient jobs.

In any event, figure 6 shows that the long-run picture for young people is essentially positive with labour force participation rates falling more or less uniformly throughout the world⁷. The picture for young adults reported in figure 7 on young adults reflects the presence of the two opposing forces mentioned above. Overall, in Europe, North America Oceania a moderately downward trend is observable, at least since 1980 (and in Asia since 1990) suggesting the dominance of the 'educational' effect. In Africa, the picture is reversed with sharply rising labour force participation rates since 1970 albeit from a relatively low starting point. In as much as this reflects the dominance of a 'good' jobs effect, again here the trend is positive.

⁶ Indeed, in EU countries, the labour market targets established at the Lisbon Summit concern employment-population ratios as opposed to unemployment rates.

⁷ One curiosity here is the increased labour force participation rate amongst the baby boom generation in North America reflected in the increase in labour force participation of teenagers in that region between 1970 and 1980.

As before, additional insight may be gained by looking at this information distinguishing between the sexes. Figures 8 and 9 reports the ratio of the labour force participation rates of young women to that of young men for teenagers and young adults respectively. In as much as there is a clear tendency towards convergence of the labour force participation rates of young men and young women some encouragement may be drawn.

Figure 6: Labour Force Participation Rates, Teenagers, 1950-2010

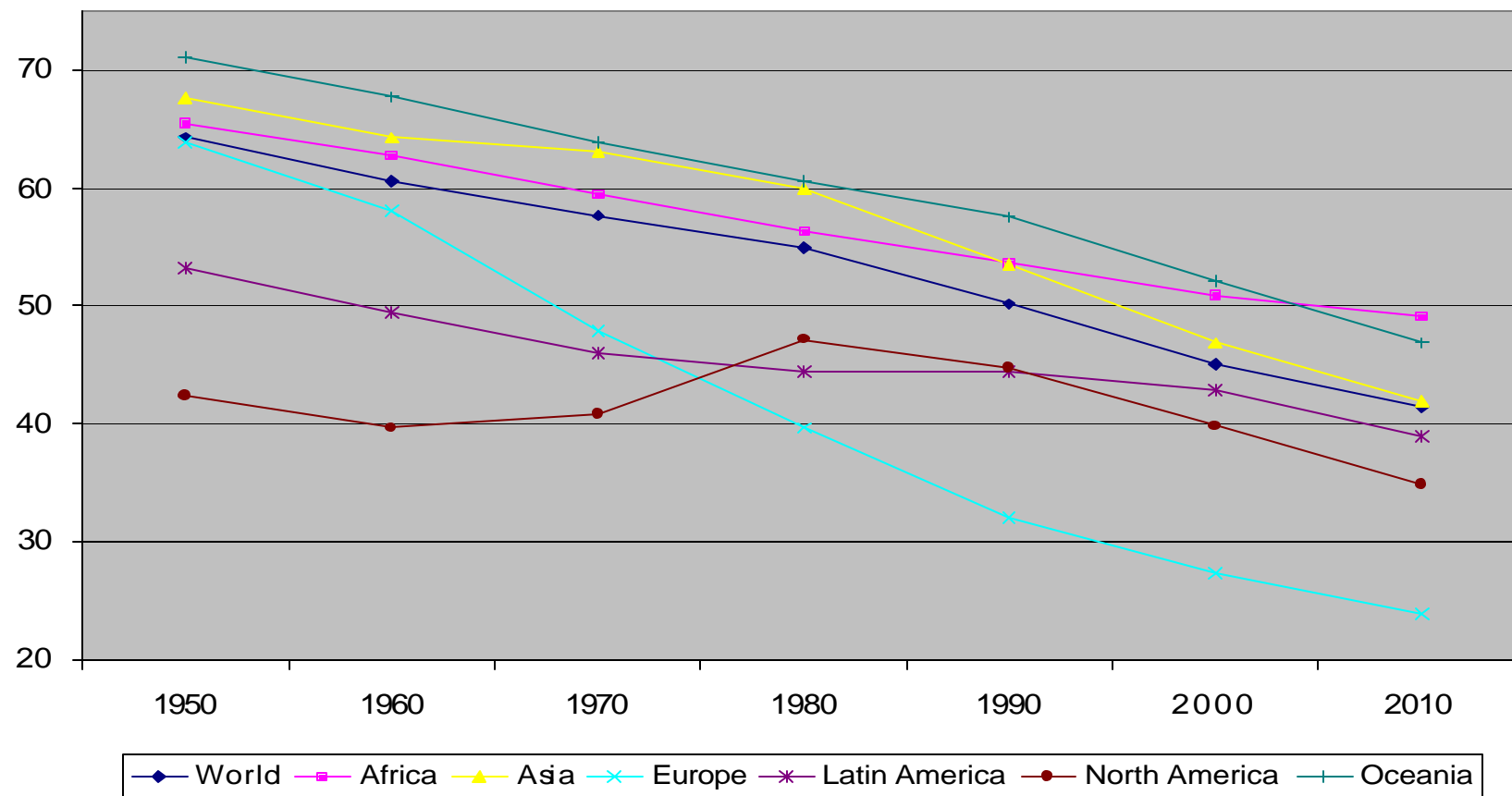


Figure 7: Labour Force Participation Rates, Young Adults, 1950-2010

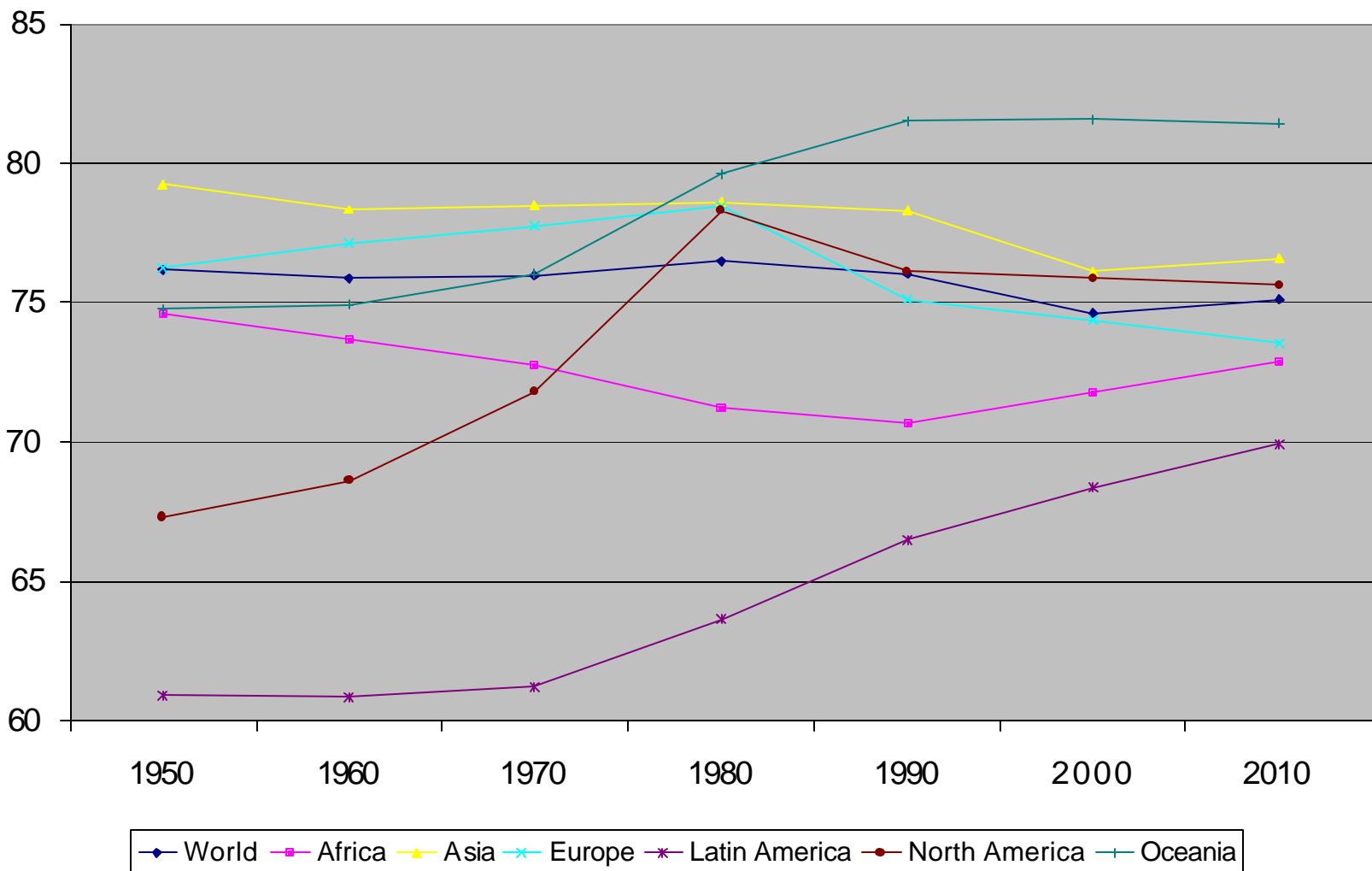


Figure 8: Ratio of Male to Female Labour Force Participation Rates, teenagers, 1950-2010

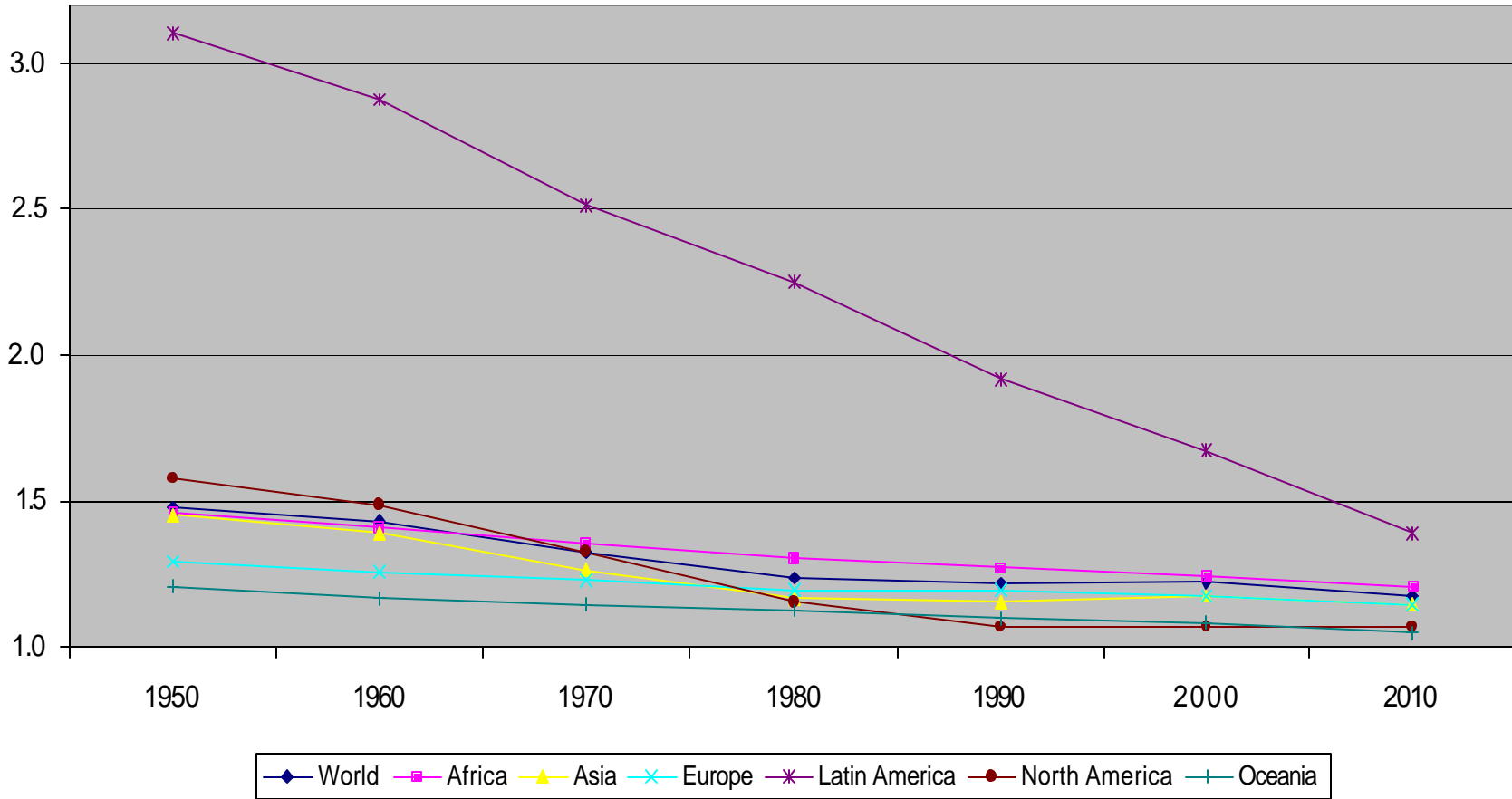
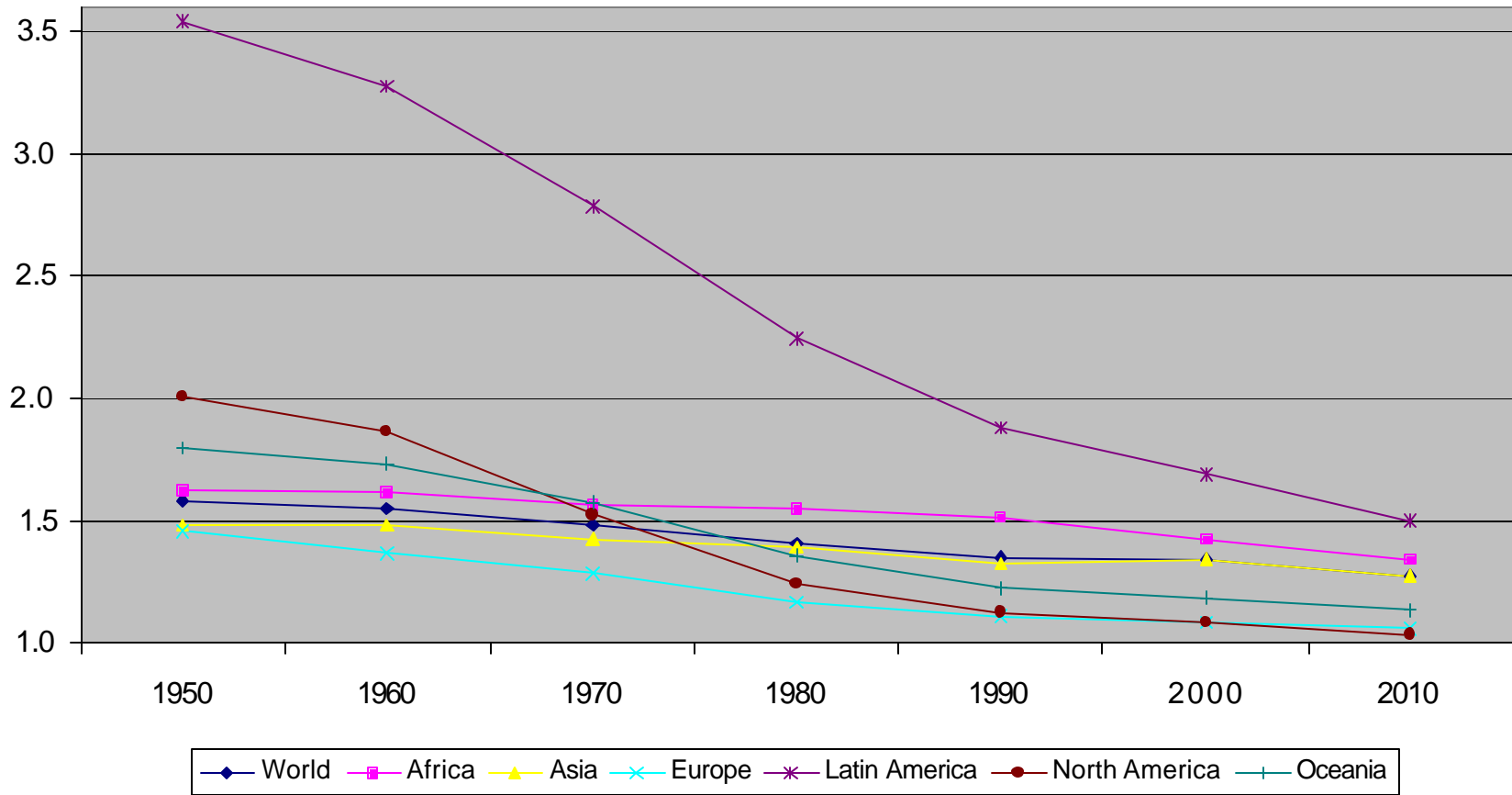


Figure 9: Ratio of Male to Female Labour Force Participation Rates, Young adults, 1950-2010



2.4 Child labour

These days, child labour and its abolition occupy central stage amongst the stated concerns of Governments in developing countries. Children working rather than going to school are quite clearly going to have fewer chances on the labour market. Although formal evidence on this question is a little scarce, partly because of the lack of long-run panel data in developing countries, I believe such a view is neither controversial nor controvertible. Although traditional to separate entirely questions of ‘child labour’ from those concerning ‘youth employment’, accepting the reasoning above, there is little justification for doing so, if one wishes to understand the labour market for young people⁸.

Figure 10 illustrates the positive downward trend in child labour, here approximated by the labour force participation rates of children aged 10-14. In 1950, more than one in three children aged 10-14 were working in Africa and Asia and one in four in the world as a whole. By 2010, child labour is expected to fall to the extent that ‘only’ around one in five children (10-14) will be working in Africa and around one in twenty in Asia and Latin America so that in the in the World as a whole child labour will involve just one in ten children. A major improvement certainly but much remains to be done. The widespread existence of child labour is likely to continue to condition the experience of many young people in developing countries at least for some time to come.

The long-run trends illustrated above however are reliant on rather rough and ready proxy for child labour⁹. Recently, the ILO has made a serious attempt to quantify the extent of different forms of child labour in a more precise manner (ILO, 2002a). Being the second

⁸ Even more so when one starts to look at Decent Work, as opposed to employment per se.

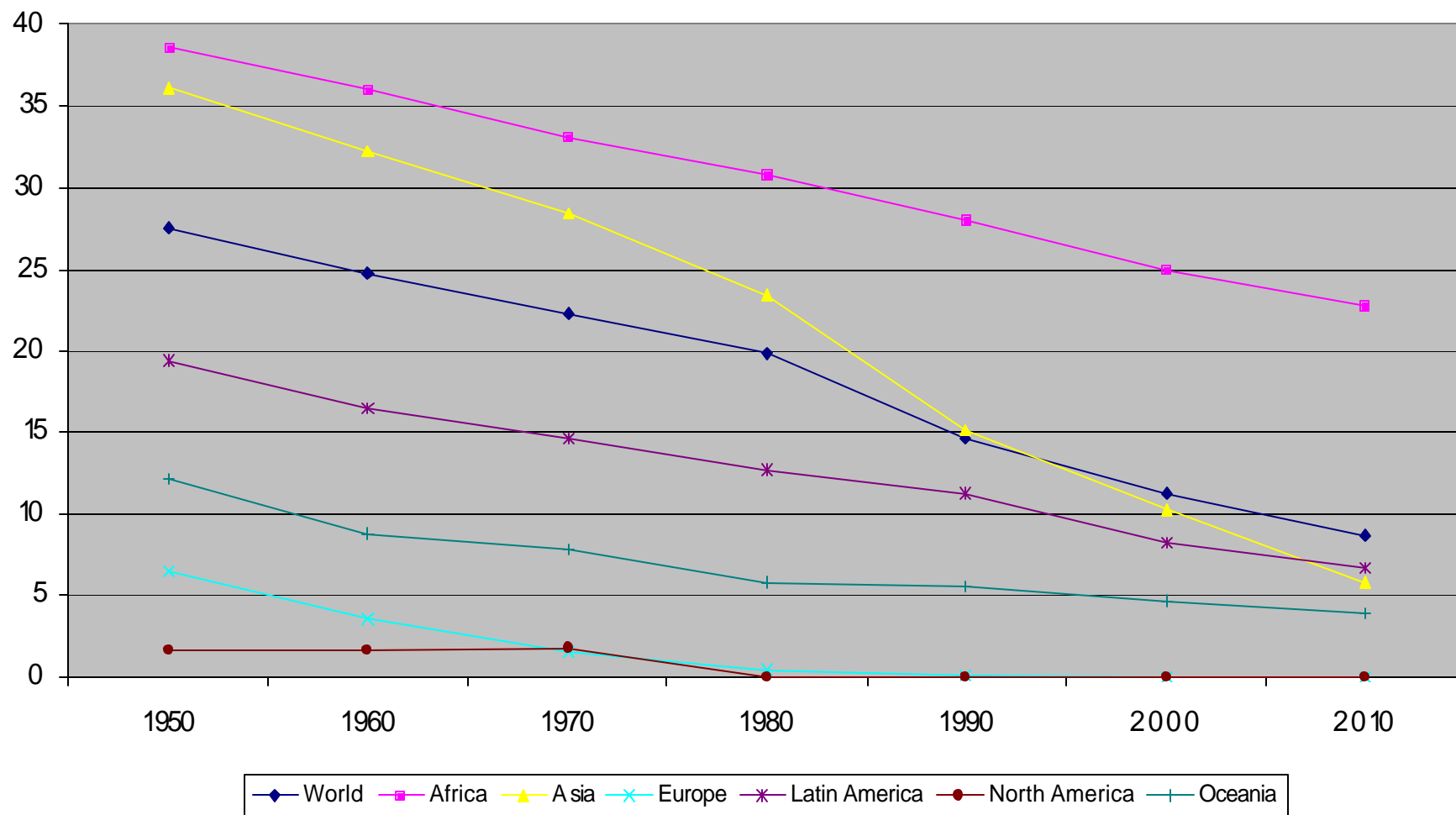
⁹ And the fact that data are collected for a different purpose. Of note is the fact that, according to the Labour force based figures, child labour has not existed in North America since 1980 and in Europe since 1990. This contrasts with the ILO child labour estimates for 2000, which suggest that 2% of (or one in fifty) children are working in developed countries. Kruse & Mahoney (1998) estimate that in the USA, 148,000 (or 0,5% of) minors were employed illegally in an average week and 290,000 at sometime during the year.

exercise of this type, the first having been undertaken in 1995¹⁰, there is evidence to support the view that child labour is on a downward trend, at least between 1995 and 2000¹¹. According to these estimates, the number of economically active children (5-14) fell from around 250 million to a little over 210 million. These figures imply that whilst in 1995, one in four children aged between 5 and 14 was working, by 2000 the corresponding figure was between one in five and one in six, with, it may be added, no significant difference between male and female children.

¹⁰ ILO (1996).

¹¹ As the report points out, however, the estimates are not directly comparable in as much as: a) the 2000 data are based on a much larger sample and therefore different extrapolation methods were used; and, b) the quality of the information collected at country level has improved markedly in both scope and depth in the intervening period.

Figure 10: Child Labour - Labour Force Participation Rates of Children (10-14), 1950-2010



2.5 Conclusions

The above broad brush analysis of long-run trends presents an essentially positive picture of developments youth labour markets.

Amongst the encouraging signs one may note that:

- Whilst youth populations are undoubtedly growing in absolute terms, the proportion of young people as a percentage of the total population is on a decidedly downward trend.
- If one extends the picture to economically active young people as a percentage of the total labour force, the downward trend is reinforced due to increases in the educational participation of young people. Here, even in Africa, the trend is downward.
- There is a universal and fairly uniform tendency towards increasing literacy rates amongst young people throughout the world
- There is a general movement towards the convergence of male/female differences in labour force participation rates
- Child labour appears everywhere to be on the decline.

On the other hand, at least one less positive trend is observable even from this very general overview. Specifically:

- The gap between male and female literacy rates in Asia and Africa and, consequently, the world appear to be widening.

3. WHICH, WHOM AND WHY? LABOUR MARKET OUTCOMES AND THEIR DETERMINANTS

3.1 Which Outcomes?

Although apparently obvious, it is worth considering a moment which are, or indeed should be, the outcomes of interest. Technical analyses of the effect of individual and aggregate factors determining labour market 'outcomes' tend to concentrate on either the determinants of unemployment (a 'bad' outcome) or employment (a 'good' outcome). Rather less attention is paid to young people's wages **as an outcome**. Although higher wages as an indicator of job quality might reasonably be an outcome to aim for, their position is

somewhat complicated by their more usual role as villain in creating high levels of unemployment. Attention in this sphere has tended to concentrate on the role of high minimum wages as a factor in impeding the employment of young people or alternatively the positive role to be played by sub-minimum wages for young people. A further complicating factor is that wage data by age are less widely available, or at least published. In any event, there is a discussion of the findings of studies on wages and minimum wages in particular below.

3.1.1 Labour Force Participation

As suggested above, although for the population as a whole, the labour force participation rate, or certainly the employment-population ratio, is a sensible target variable to seek to raise, for young people the question is complicated by the role of education. Since education can generally be seen as playing a useful function in improving the level and quality of employment at both individual and macro- levels, participation in education by young people necessarily lowers their labour force participation rates. In O'Higgins (2001), I argued that a more useful indicator than the youth unemployment rate is the youth non-employment rate defined on the basis of a widened definition of the labour force adding to both nominator and denominator young people who are neither in education or employment¹². In the 1990s, such an indicator began to be introduced in analyses of the youth labour market by the OECD¹³. Analyses of the question need at least to take into account this aspect.

¹² See also Ryan (2003) for an illuminating discussion of the usefulness of youth unemployment as an indicator of labour market problems for young people based on a comparison between France and the USA.

¹³ See, for example, OECD (1999, chapter one). An alternative way of thinking of the index is by looking at its counterpart which is essentially the employment population ratio for young people adjusted for educational participation. Specifically the non-employment rate may be defined as:

$$U = \frac{\textit{young people not in employment} - \textit{young people in education}}{\textit{youth population} - \textit{young people in education}}$$

or its counterpart:

$$E = \frac{\textit{employed young people}}{\textit{youth population} - \textit{young people in education}}$$

Very obviously, $U = 1 - E$.

3.1.2 Long-Term Unemployment

There is an argument to be made that long-term unemployment is a more important negative indicator than unemployment per se. Certainly there is evidence to suggest that the negative consequences of unemployment are largely associated with lengthy spells of unemployment rather than unemployment per se (O'Higgins, 2001). This is indeed recognised on the policy choices of governments which increasingly concentrate on the problem of the long-term unemployed.

3.1.3 Informal Sector Employment

Another issue regards the quality of employment; specifically, the informal sector. Simply stated, informal sector employment refers to unregistered employment. However, there are many problems in actually defining and even more, identifying, participants in the informal sector¹⁴. Awareness has been growing in recent years of the importance of the sector and both the ILO and the OECD now produce aggregate estimates of participation in the informal economy. Although estimates, based on a variety of methodologies, now exist for a wide number of countries¹⁵, information on the involvement of young people in the sector has not yet been compiled for a wide range of countries. Both theoretical reasoning and such empirical evidence as does exist¹⁶, would suggest that young people are disproportionately represented in the informal sector. The question is important and, despite the lack of adequate data, some discussion is included below.

3.1.4 Underemployment

Another important, albeit rather neglected area concerns underemployment. Difficulties of concept and measurement are even more pronounced for underemployment than they are for involvement in the informal sector¹⁷. Although information is collected on a

I take the opportunity of mentioning here that the untimely demise of Norman Bowers who was largely responsible for this and other innovations in the OECD's analyses of labour market questions is a great loss to all of us interested in such questions.

¹⁴ For rather more satisfactory albeit not universally applied conceptual and operational definitions the interested reader is referred to ILO (1993).

¹⁵ See, for, example, ILO (2002b) and Schneider (2002).

¹⁶ See, for one example, O'Higgins et al. (2001) for brief consideration of the question in Bulgaria.

¹⁷ For a formal definition of underemployment see ILO (1998)

rather ad hoc basis, such evidence as exists suggests that here again, young people are likely to be disproportionately represented also in this type of employment.

3.1.5 Unemployment Rates

In the end, however, and at least for the present, one is brought back to the youth unemployment rate as the principal indicator of the labour market problems of young people. It is widely available, its definition is clear and is becoming more and more uniformly applied in reported statistics by national agencies also in developing and transition countries. In what follows then, I concentrate on trends in and, above-all, the determinants of, unemployment, with some consideration also for labour force participation, recognising however that these are by no means the only or indeed the best possible indicators of labour market performance.

3.2 Whose Outcome?

A very important question in all this regards whose outcome is (or should be) of interest? Whilst it is fairly natural to concentrate first on aggregate indicators, the youth unemployment rate and so on, there is much to be said for a finer concentration on specific individual characteristics which influence labour market outcomes. Perhaps foremost amongst these are gender, ethnicity and disability. The relative lack of data on some indicators of labour market disadvantage have meant that it is often harder to quantify and moreover compare disadvantage across countries, particularly in the less developed regions. For example, unemployment rates by ethnic minority are often not reported. Indeed, in the transition countries of Central and Eastern Europe, the reporting of labour market status by ethnicity is often explicitly forbidden by law¹⁸. Notwithstanding this, it is increasingly argued that attention should be concentrated on ‘disadvantaged’ groups of young people rather than young people per se¹⁹.

¹⁸ The formal justification for this regards fears that such information might be used to further promote discrimination against, in particular, the most disadvantaged group in this region, the Roma. The question, however, is a little complicated. The interested reader is referred to the recent report produced by UNDP in collaboration with the ILO on the Roma in five countries of Central and Eastern Europe (UNDP, 2002). The report is the first attempt to systematically collect and analyse comparable and comprehensive information on the socioeconomic situation of the Roma in CEE.

¹⁹ See, inter alia, O’Higgins (2001) and Godfrey (2003).

Undoubtedly some young people are more likely than others to become and to remain unemployed. More generally, some types of young person tend to face greater difficulties than others in obtaining Decent Work²⁰. Although not so apparent from an examination of unemployment rates per se, I think it uncontroversial to suggest that young women continue to face greater difficulties than young men in their search for good quality employment. In order to consider this question adequately however, one must go beyond unemployment rates and look more explicitly at the educational participation of young women as well as their participation in informal employment and underemployment.

Ethnicity is also a common source of disadvantage on the labour market for the young as for older people. As noted above however, the relative lack of data make a comprehensive picture difficult to establish. A similar position may be taken with regard to disability. In both cases however, data are improving, as indeed they are in regard to the documentation of the informal sector and underemployment.

3.3 Recent Trends in Outcomes

3.3.1 Youth unemployment

Figure 11 provides information on youth and prime age adult (25-54) unemployment rates for the most recent year available taken from the ILO's KILM database (ILO, 2002/2003). Without looking at countries in detail the figure demonstrates the well-known relation between youth and adult unemployment rates. That is, with the notable but unique exception of South Africa, youth rates are much higher than for their older colleagues. Specifically, for the countries reported here (and with the exception of South Africa), the youth unemployment rate is between two and eight times the adult rate. This is not a new observation²¹. It is worth noting however that, although qualitatively similar, the ratio tends to be higher in developing countries than for industrialised ones. One possible explanation for this is the absence of an adequate social security safety net in the former. In such a

²⁰ I use the term here in the sense that it has recently been introduced into the literature originating from the ILO. That is, Decent Work involves essentially productive, secure and rewarding work and a s such is proposed as a 'better' target than employment per se. It is characterized by the presence of better working conditions and excludes most irregular and unregulated forms of employment such as to be found, for example, in the informal sector.

²¹ See, for example, O'Higgins (1997), and practically all subsequent ILO publications on youth (un)employment.

situation, families are more likely to enter as providers of last resort for young people than for adults. The fact that families may be too poor to do so obviously contributes to the oft-noted phenomenon of educated unemployment in developing countries²² whereby the (relatively well-educated) offspring of higher income parents are the ones who can actually afford to remain unemployed.

Figure 12 plots the ratio of youth to adult unemployment rates for a range of transition and developing countries. With the exceptions of Egypt, Indonesia and Korea (and in the mid-1990s, Romania), the youth unemployment rate in the countries reported here has remained (more or less) in the range of two to four times the adult rate.

²² It is interesting to note, as well as being supportive of the family support hypothesis, that in Italy, which although an industrialized country, has no adequate social safety net for the unemployed, displays similar characteristics, namely a high ratio of youth to adult unemployment rates as well as a relatively high unemployment rate amongst graduates.

Figure 11: Youth and Adult Unemployment Rates (most recent year)

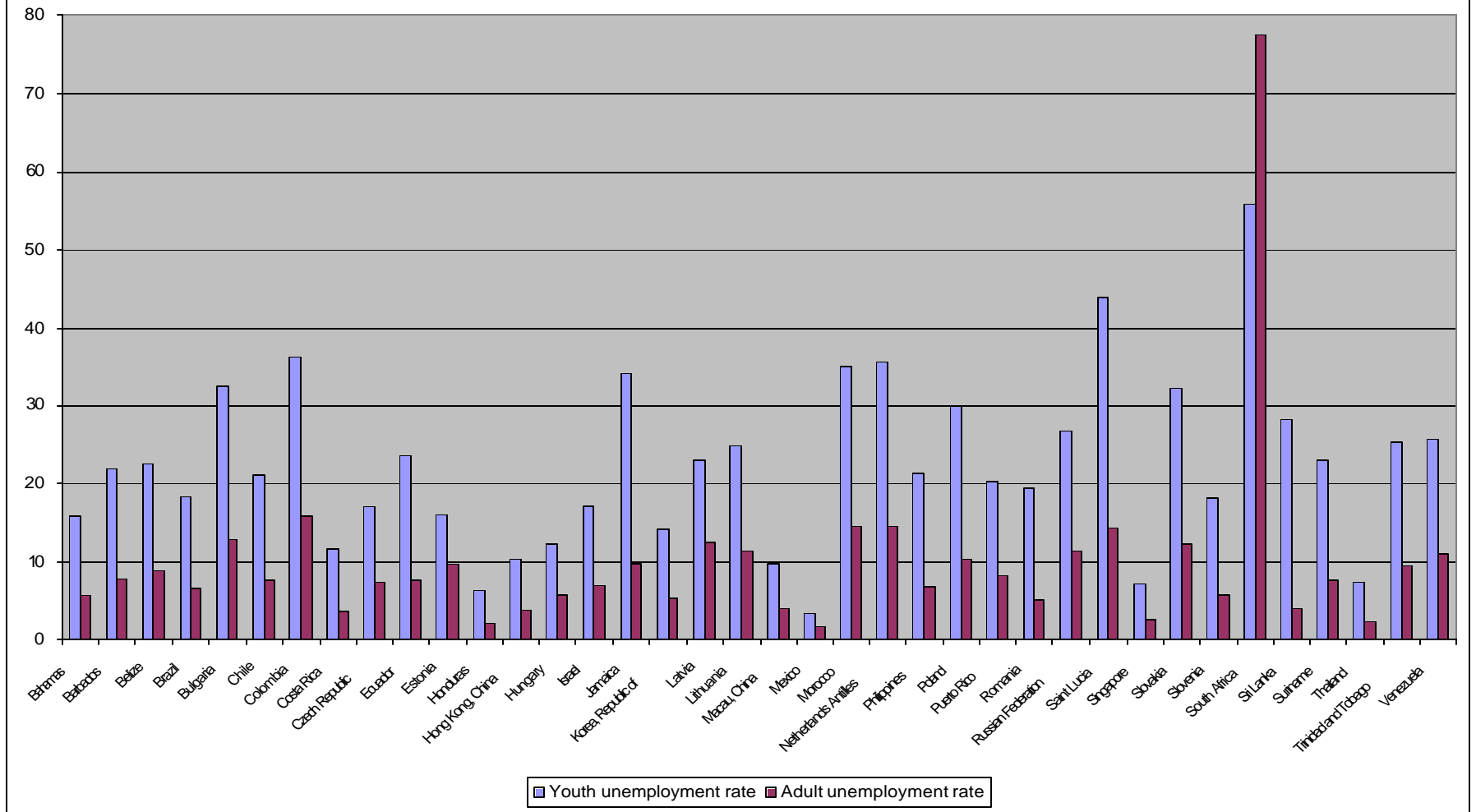
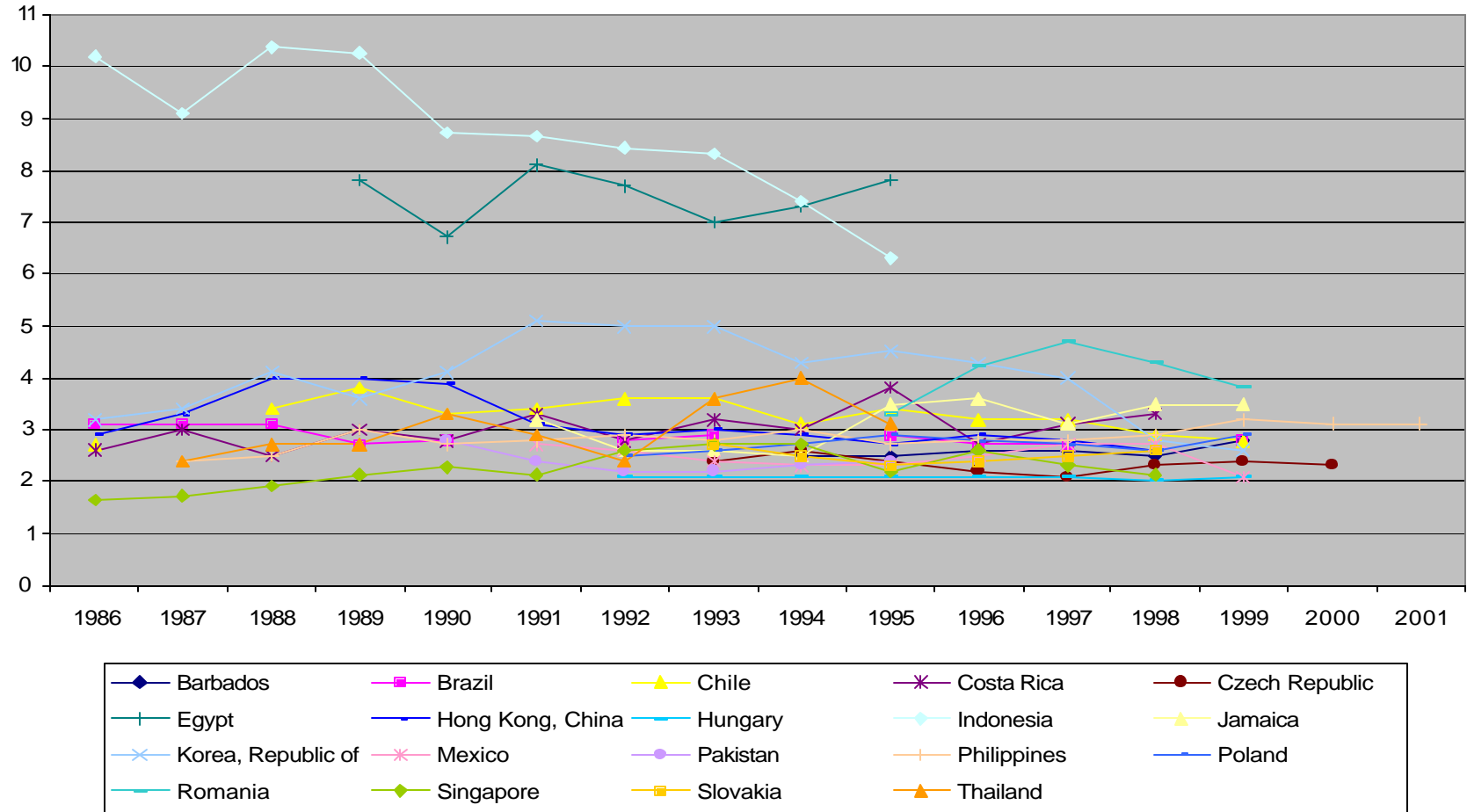


Figure 12: Ratio of Youth to Adult Unemployment Rates 1986-2001



3.3.2 Long-term Unemployment

There is a growing literature concerning the damage caused by long-run unemployment to individuals' human capital and, consequently, to societies' economic potential. The underlying belief is that the negative consequences of unemployment are largely related to protracted (and/or repeated) periods of unemployment rather than the incidence of unemployment per se. This type of argument has been used in the past to suggest that the unemployment of young people is relatively innocuous. Young people tend to have a high incidence of unemployment – a more or less natural consequence of shopping around on the labour market to find appropriate work – but a lower average duration of unemployment than older people; a young person is fairly likely to experience unemployment but it probably won't last very long.

A number of issues and clarifications are required here. First, I have argued elsewhere²³ as indeed have others²⁴ that the duration of unemployment for young people is by no means uniformly shorter than for older people at least as far as industrialised countries are concerned. Figure 13 reports evidence on the question for six countries which have the distinction of being OECD members (and are therefore in the OECD database) but are also still classified as being either developing (Korea and Mexico) or transition (Czech Republic, Hungary, Poland and Slovakia) countries in other contexts²⁵.

For the countries shown here, young people invariably have a lower incidence of long-term unemployment (here defined as an uncompleted unemployment duration of at least six months) than adults. However, the difference is small. Much more substantial are differences in the incidence of long-term unemployment between countries with and without an effective social safety net. O'Higgins (2002) reports evidence also for Sri Lanka which shows that in that country, young adults (20-24) actually had a higher incidence of long-term unemployment than prime age adults (over 25).

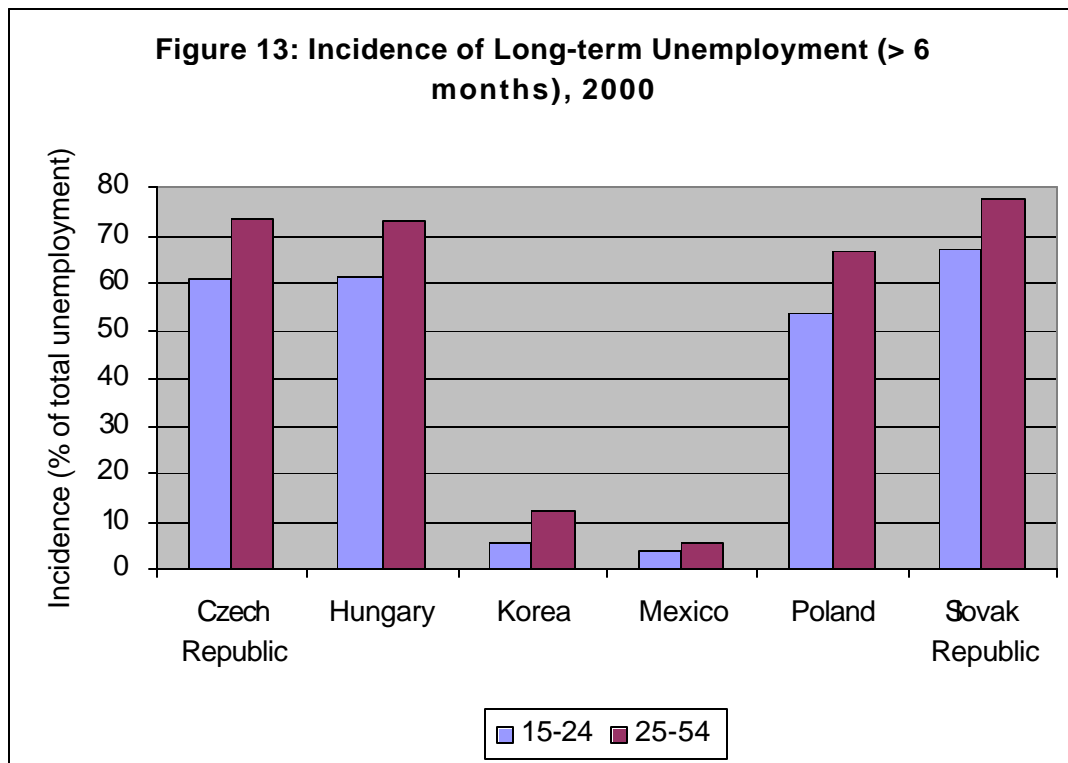
A related point concerns the characteristics of young people which are likely to lead them to be unemployed for a long-time. Just as the incidence of unemployment is not random across young people nor is its duration. Some 'types' of young person are more likely than

²³ O'Higgins (1997, 2001).

²⁴ See, for example, Ryan (2001).

²⁵ For example, in the KILM database used extensively in this paper.

others to be observed as being unemployed. Typical examples concern young people belonging to ethnic minorities or those with disabilities and so on. That a person is more or less likely to be observed as being unemployed will depend on the probability of that person becoming unemployed **as well as** the likelihood of remaining in that state once there. More evidence is required on the relative importance of these two factors in determining higher unemployment rates amongst specific ‘disadvantaged’ groups in transition and developing countries.



3.3.3. Informal Sector Employment

Figure 14 reports survey based estimates of informal sector employment as a percentage of total employment for a selection of countries. There does not seem to be strong regularity to the pattern as regards women’s vs. men’s involvement in the informal sector. In ten of the nineteen countries the incidence of female involvement in the informal sector is greater than for males. Males predominate in Central and Eastern Europe and the reverse is true in Asia. Perhaps of more obvious importance is the huge size of the sector in many

countries. In Nepal and Tanzania, almost nine out of every ten employed women works in the informal sector. In addition to being somewhat worrying of itself, rather obviously, it has important implications for the types of employment policies which are appropriate in such contexts.

Figure 14: Informal Sector Employment

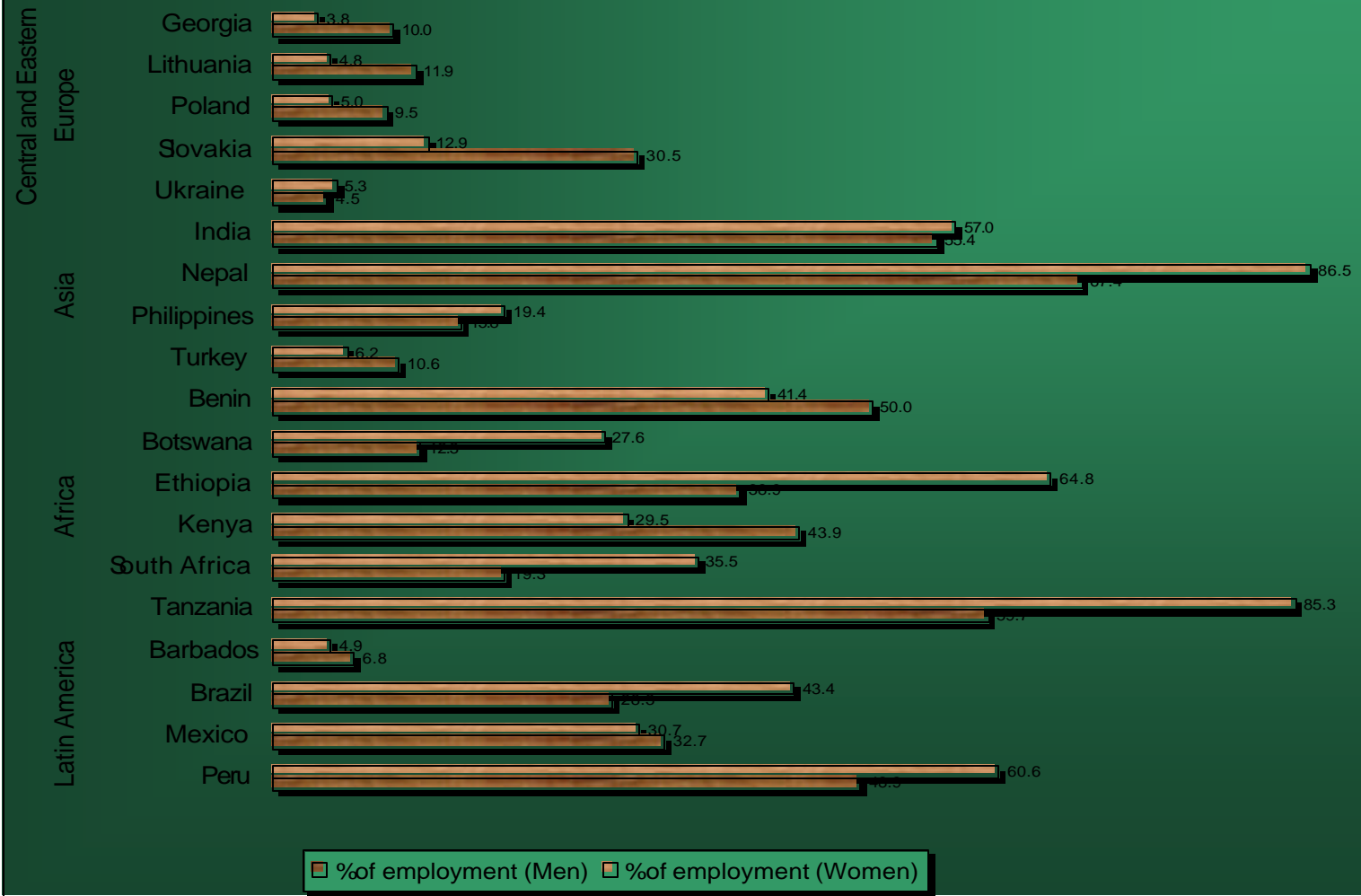
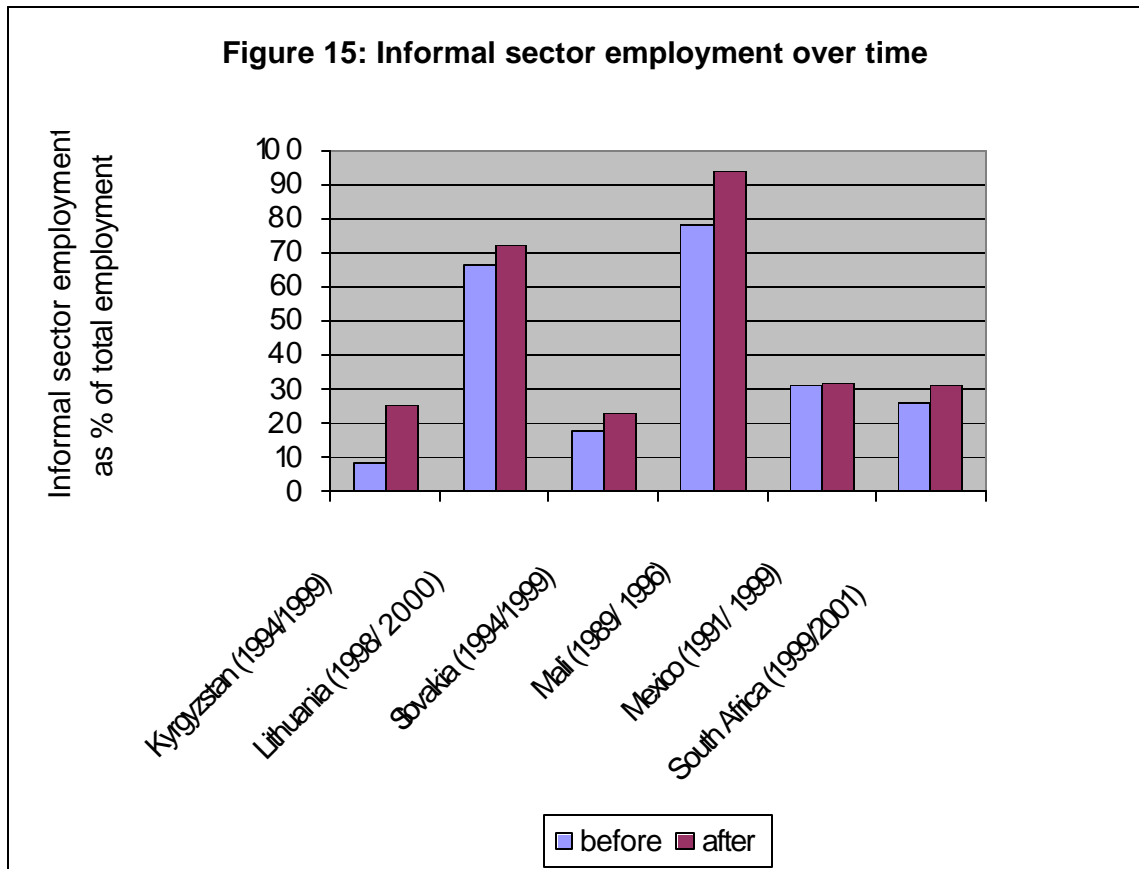


Figure 15 provides an overview of movements over time in informal sector employment. Worthy of note, in all the countries reported here the size of the informal sector appears to be on the increase²⁶.



On the basis of the information presented here one can, however, say nothing about the involvement of young people in the informal sector. A little basic reasoning may throw some light on the question. First, Child Labour takes place, by definition, exclusively in the informal sector. In as much as there is state dependence in child/youth labour market experiences (see below), one would expect a substantial proportion of young people also to be involved in the informal sector. Also, the nature of employment relations in the informal sector, flexible and exploitative, implies a relatively high turnover of the workforce. In as

²⁶ I hasten to add that this is, as far as one can judge, a general pattern. There are many data problems with comparisons both across time and space, however, I can assure the reader that increased employment in the informal sector was not one of the criteria for inclusion in the figure.

much as young people are disproportionately represented amongst job seekers (O'Higgins, 2001), one would expect a correspondingly high proportion of young people amongst informal sector workers. More systematic examination of this question is clearly in order, however, one might add finally that casual observation of this author (as I would imagine for the readers) in transition and above-all developing countries, certainly does not contradict the idea of heavy involvement of young people in the sector.

3.4 Determinants of Outcomes

3.4.1 Youth unemployment and Labour Force participation – The Role of Demographics and Aggregate Demand

In recent years, the role of the size of the youth cohort in determining youth unemployment has been the subject of some concern and, in industrialised countries at least, analysis. Some work has also considered the importance of aggregate demand factors relative to demography. Table 1 presents results of a set of panel regressions (with fixed country effects and AR(1) correction) intended to look at this question for a selection of developing and transition countries²⁷. The dependent variables looked at are (the natural logs of) youth unemployment rates, labour force participation rates and the ratio of youth to adult unemployment rates.

The table allows some comparison with previous results reported for OECD countries. The first set of results concerning the determination of the youth unemployment rate shows that both adult unemployment (representing aggregate demand factors) and the share of young people in the working age population both have positive and significant influences on youth unemployment rates. The results are qualitatively similar to those reported by Korenman & Neumark (1997) and O'Higgins (2001) on OECD countries and diverge from those reported by Shimer (1999) who, as noted above, finds a negative effect of youth population share on youth unemployment for the USA. The estimated elasticity of youth unemployment with respect to the population share is of the order of 0.6 (slightly

²⁷ The selection of countries depended essentially on the presence of time-series data in the ILO's KILM database. Although comparability across time and countries is still a major issue in this dataset, much efforts have been expended by the KILM staff in making the information presented compatible and comparable in terms of definitions used and so on. In order to be included in the dataset for estimation purposes, in addition to being present in the KILM dataset, the criterion of having information on all relevant variables for at least three consecutive periods was applied. The data are of course of annual.

larger for young women than for young men) without the inclusion of adult unemployment. The addition of the latter reduces the estimated elasticity with respect to the population share by around 0.2 but does not undermine its statistical significance. In this, the results differ from those reported by Korenman & Neumark who find no significant impact of the population share in the presence of the adult unemployment rate²⁸. Taken at face value²⁹, the results imply that the falling youth population shares to be found in most developing and transition countries are likely to ease the transition to employment of the upcoming generations of young people.

Let us turn to the labour force participation rates of young people. The estimated elasticities of labour force participation with respect to the youth share of the population are substantially higher than (roughly twice) those reported by Shimer (1999). One plausible explanation for this is that in less developed countries one would tend to find a higher youth population share due to higher birth and death rates as well as a higher labour force participation rate due to lower educational participation. That is to say, the relation estimated here is, in part, not a causal one, but rather dependent on the joint determination of youth population share and labour force participation. More analysis is clearly in order. Interesting to note here also is the lack of statistical significance of the adult unemployment rate in determining labour force participation adding further support to the idea of other factors being at work³⁰.

The final set of results reported concern the determination of the youth/adult differential. Analyses of this form have been undertaken by, inter alia, Bertola et al. (2002) and Jimeno & Rodriguez-Palenzuela (2002). The results essentially confirm (and indeed reflect) the first set concerning the determination of youth unemployment. An elasticity of youth unemployment with respect to adult unemployment of less than one implies that as adult unemployment rates increase, youth unemployment rates also increase but less than

²⁸ Korenman & Neumark (1997) report a series of results. I use as the main base of comparison here, the closest estimation reported in the paper, namely table 2, model D. Their preferred IV estimates of the elasticity with respect to the youth population are of the order of 0.5, very similar to those presented here

²⁹ This, I hesitate to do at this stage. More examination and analysis of the data is required before I would be prepared to bet money on the **specific** point estimates, although I would defend the overall direction of the results reported here.

³⁰ The lack of statistical significance also adds informal weight to the non-use of an instrument for the youth population share in the estimation of the determinants of youth unemployment. If adult unemployment is uncorrelated with youth labour force participation, the need for an instrument disappears.

proportionately leading to a lower youth adult ratio at higher levels of overall unemployment. One may also note the strong pressures on the youth labour market arising from greater youth shares in the population.

Table 1: Panel Estimates of the Impact of Demographics and Aggregate Demand on Youth Labour Indicators (unsigned t-ratios in brackets)

		Youth Population as a % of Total Working Age Population	Adult Unemployment Rate
Youth Unemployment Rate	Males & Females	.58 (7.1)	-
		.39 (6.5)	.59 (13.3)
	Males	.57 (6.8)	-
		.38 (6.1)	.57 (12.1)
	Females	.61 (6.3)	-
		.44 (5.7)	.63 (10.8)
Youth Labour force Participation Rate	Males & Females	.93 (21.2)	-
		.92 (20.8)	.02 (1.0)
	Males	.94 (21.2)	-
		.94 (20.9)	.02 (0.8)
	Females	.91 (18.1)	-
		.89 (17.4)	.06 (1.6)
Ratio of Youth to Adult Unemployment Rates	Males & Females	.25 (3.1)	-
		.39 (6.5)	-.41 (9.3)
	Males	.30 (4.0)	-
		.43 (7.1)	-.41 (8.8)
	Females	.18 (1.6)	-
		.36 (3.9)	-.48 (7.9)

Notes: Fixed country effects AR(1) model, 199 Observation (32 developing and transition countries), 1980-2000, unbalanced panel, all variables are in natural logarithms, whereas the dependent variables are defined specific to the relevant gender, the independent variables remain constant across regressions.

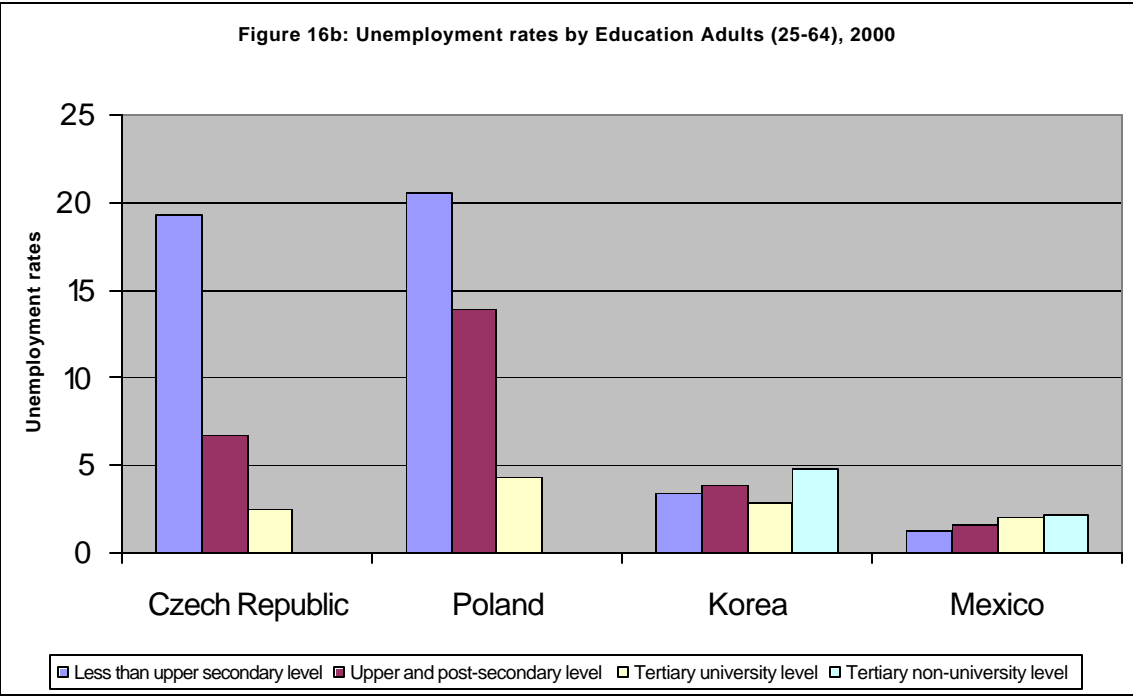
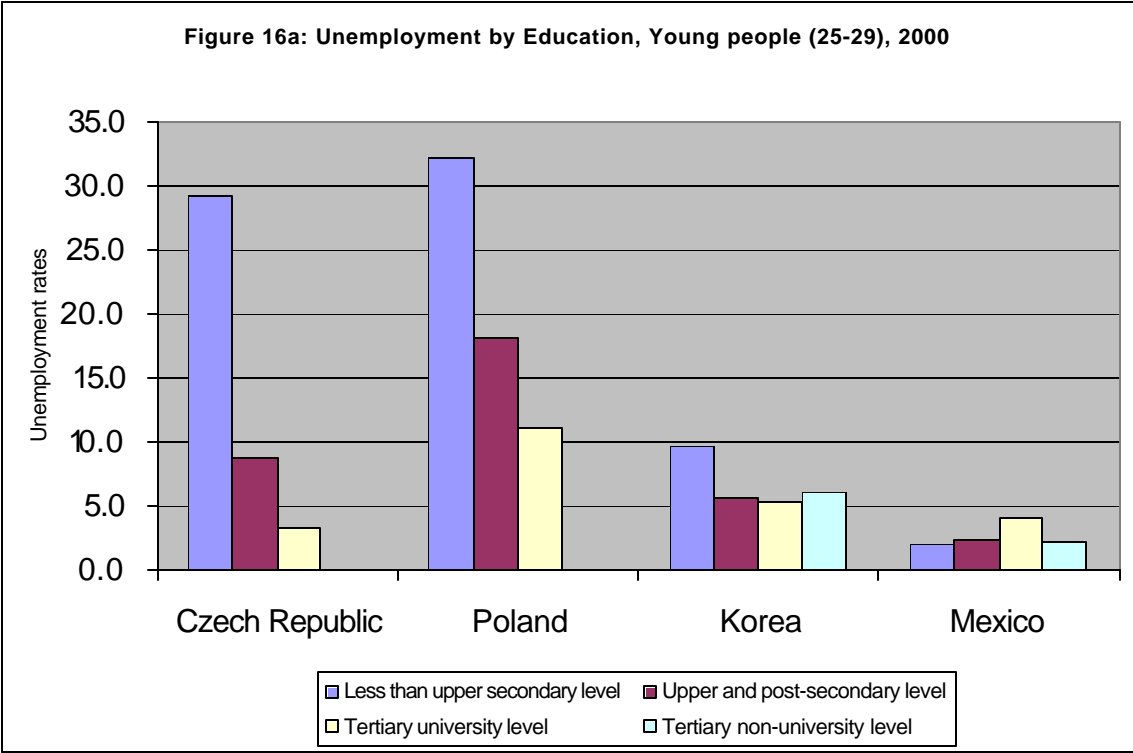
3.4.2 Education and Unemployment

Figures 16a and 16b report unemployment rates by education for two developing and two transition countries. Whilst the transition countries of Central and Eastern Europe display broadly similar patterns to industrialised countries, with unemployment rates falling with education, developing countries often display characteristics of the educated unemployment problem. This is reflected to some extent in the figure. I have argued elsewhere (O'Higgins, 2001) along with several others such as Manning & Junankar (1998) that identifying the problems of youth in developing countries with those of the educated

unemployed youth is misleading. As noted above, countries lacking a system of unemployment and social security benefits will tend to alter the composition of the unemployed, biasing it towards those from relatively well-off families which can afford to support their children's unemployment.

This implies that the unemployment rate is perhaps less useful as an indicator of problems in the labour market rather than that the most vulnerable groups in developing countries are the more educated. There is certainly scope for more careful studies of this issue on a country by country basis looking at the determinants of employment using individual level data. It seems reasonable to suggest that such educated unemployment is largely confined to wait unemployment amongst better-off young people. A thesis finding support from Rama (1999) for Sri Lanka, but which is also supported by the evidence on returns to education reported below.

A further issue upon which the figures throw some light is a purely statistical one. Educational levels in developing countries have been rapidly increasing over the last half century or so. As a result, the average level of education is increasing with each cohort. This means that younger people on average have higher levels of education. They also, as a general rule, have higher unemployment rates. This implies that there will be a positive statistical correlation between unemployment rates of the population and educational level without implying any causative mechanism working between them. To look at youth unemployment rates by education is inappropriate in order to discern their effects since many young people undertaking higher levels of education will still be participating or will have recently completed their education so that one is not comparing like with like. Those with low levels have had much more time with which to integrate themselves into the labour market (O'Higgins, 2001). The use of OECD data, which reports unemployment rates by **age and education**, allows us to distinguish between the effects of age and education. Figure 16a reports the unemployment rates by education of 15-29 year olds. Comparing the unemployment rates for Korea in this figure with those from 16b (unemployment rates by education for all adults) one may observe that the essentially inverse relation between education



and unemployment in figure 16b is reversed in figure 16a. Above-all, one clearly observes that the most disadvantaged young people, in terms of unemployment rates, are those with

less than secondary education. Not, as would appear from figure 16b, those with tertiary (non-university) level education.

In Central and Eastern Europe, it is worth noting that during the years of transition (or at least for the last decade or so during which time reliable data has been available) that the gap between unemployment rates of those with different levels of education has widened. In as much as such a widening of the gap reflects the introduction of market signals many would find this an encouraging sign. At the same time, however, there is also evidence that there has been growing inequality in access to basic education³¹; a somewhat less encouraging sign.

3.4.3 Education and Wages

Evidence on the returns to education to individuals is far more widespread than on the relationship between education and unemployment. Based on the seminal work of Mincer and subsequently Becker, since the 1970s, returns to education estimates have been available for a range of countries. George Psacharopoulos really got the ball rolling with his cross country comparison in 1973 (Psacharopoulos, 1973) and has been providing updates every ten years or so since culminating in his most recent contribution last year (Psacharopoulos & Patrinos, 2002). The latest results essentially confirm the findings of previous work. That is, (above-all private) rates of return to education are substantially higher in developing countries than in the OECD. The highest returns to all levels of education (including tertiary level) are to be found in Sub-Saharan Africa. However, also in Asia and Latin America, the rates of return to education are well above those found in the OECD.

In any event, all the evidence strongly stands against the notion of an impoverished and disadvantaged group of educated young people in developing countries.

Estimates of rates of return to education are, for obvious reasons, of more recent vintage in countries of Central and Eastern Europe and here the pattern is a little different. For the most part, these studies have found that rates of return to education have been increasing during the first half of the 1990s although they remain well below the levels of return to be found in comparable middle-income countries (Newell & Reilly, 1999). Again,

³¹ See, for example, UNICEF (2000).

this growing inequality in the wages of those with different levels of education indicating as it does, growing benefits to educational participation is to some extent a reflection of the introduction of market signals³² and therefore would be considered by many as a positive development.

One or two recent studies have however started to modify and refine this overall view. Campos & Joliffe (2002) looking at the returns to education in Hungary from 1986 to 1998, find that although returns have been growing over the period, the main period of change was in very early transition, between 1986 and 1992³³ and that since 1992, returns to an additional year of education have been above 10% which is in line with other middle income countries and well above those found in Western Europe. Somewhat similar results have been found also in Belarus (Pastore & Vershchagina, 2002) On the other hand, recent evidence for Russia (Cheidvasser & Benitez-Silva, 2000) suggests that rates of return in that substantial country remain lower than the average for transition economies and, moreover, have not increased to any significant extent since 1992. In the largest transition country of them all, China, recent estimates (Li, 2003) suggest that there too economic reforms increased the returns to education, with the main increase occurring in transition (1980-87) with relatively little variation in rates of return in the subsequent period examined (1988-95).

At the Macro level, evidence also supports substantial benefits to rising levels of education as a whole. Here the main debate concerns whether the stock of human capital (or education) affects the level of income in an economy or its growth rate. Taken as a whole, however, studies provide strong support for the view that raising the level of human capital in an economy raises its productivity and therefore the earnings potential of an economy (Sianesi & Reenen, 2002).

³² Indeed, Newell (2001) finds that growing wage inequality in Poland at least is attributable to rising participation in post-compulsory education and earlier retirement as opposed to changes in hourly wage inequality.

³³ These results confirm and extend those reported by the Kertesi & Kollo (1999) looking at period upto 1996 in Hungary, Czech Republic and Poland.

3.4.4 Wages and Employment

Here the debate in recent times has centred on the effects of minimum wages on employment in general and youth employment in particular. O'Higgins (2001) reports small or zero employment effects of minimum wages. However, this was largely based on evidence from OECD countries. There is some relatively recent evidence to support a negative impact on employment on minimum wages in some developing countries at least. Worthy of note in this regard are the papers by Maloney & Nunez (2000?) and Arya (2002). Both of these find small but significant negative effects of minimum wages on employment. Maloney & Nunez find an aggregate elasticity of employment with respect to the minimum wage of .15, whilst Arya finds an even smaller albeit statistically significant negative effect of minimum wages on teenage employment (but not on the employment of young adults) in Thailand. On the whole there appears to be no reason to significantly revise the earlier view expressed in O'Higgins (2001).

In general, because of the existence of large informal sectors as well as more general difficulties in enforcing compliance with minimum wage regulations, the issue of the impact of minimum wages has been seen as less relevant in developing countries. However, one very interesting finding of the Maloney & Nunez paper is that, for a range of Latin American countries at least, the minimum wage seems to affect wage determination not just in the formal sector but also in the informal sector. This is indeed an important finding which needs further investigation.

3.4.5 State Dependence

“What we do here today, echoes in all eternity.”³⁴ Perhaps, perhaps not. Certainly, however, what we do today has an important impact on what we will be able to do tomorrow. Put in another way the labour market outcome(s) experienced by an individual today is (are) likely to have an important influence on the labour market outcome(s) of that same individual tomorrow. The consequence or outcome becomes, at least partially, the cause. In the context of young people, perhaps two types of ‘state dependence’ are of particular importance. First,

³⁴ Russell Crowe as Maximus in the film, *Gladiator*, 2000, Columbia-Tristar.

Child labour. More or less everybody agrees it is a bad thing³⁵. It seems generally agreed that it is likely to damage young people, impeding the acquisition of human capital and causing physiological and psychological damage. However, actual evidence supporting these assumptions is, to say the least, rather patchy. As the ILO's report (ILO, 2002d) notes, more needs to be known about the medical consequences of children working. In the context of the labour market problems of young people, more also needs to be known also on the long-term consequences on the labour market experiences of young people arising from their involvement in child labour. As yet, whilst much is believed, little evidence has been analysed. Now that evidence is being more systematically collected on child labour, it would perhaps be an appropriate moment to start looking more seriously at the question of the links between child and (young) adult labour market experiences.

The second kind of 'state dependence' question concerns the persistence of unemployment. More precisely, the question arises as to whether the fact of being unemployed today makes one more likely to be unemployed tomorrow. Moreover, for policy purposes, it is also desirable to understand whether state dependence is greater for young people than for adults. In industrialised countries this question has started to receive some attention. In several European countries state dependence effects have been found for young people³⁶. Moreover, such scarring effects have been found to last for at least seven years in France and upto seventeen in the UK.³⁷ In contrast, little evidence of state dependence has been found in the USA (Ryan, 2001).

³⁵ I refer here, of course, to Child labour as defined by the ILO, rather than working children per se. The ILO definition explicitly concerns forms of work undertaken by young people upto the age of eighteen which should be eliminated. Acceptable forms of infantile employment essentially concern 'light work' from the age of twelve and 'non-hazardous work' from the age of fifteen or thereabouts. For further details see ILO (2002d).

³⁶ See the excellent discussion of this and other issues in Ryan (2001) and the papers cited therein. I do however find myself splitting hairs with one aspect of his analysis. Ryan states that current policies targeted at long-term young unemployed are predicated on three assumptions, one of which is that that state dependence is stronger for youths than for adults. I beg to differ. Even if state dependence were of the same order for youths and adults there is clear economic argument in favour of concentrating on the former. Specifically, young people are younger than adults and consequently state dependence effects will, on average, last longer. That is, the same negative state dependence effects leading to an equal permanent lowering of income and productivity will be quantitatively larger for young people since, on average, they will last longer.

³⁷ See Allaire et al. (1995) on France and Gregg (2001) on the UK.

3.5 Conclusions

Much of this section has been concerned with what we believe but as yet have little hard evidence to support. Further research is clearly needed in a range of areas, of which more below. Amongst the evidence based findings reported here the following are perhaps worth highlighting:

- Youth unemployment in developing and transition countries appears to be strongly influenced by both demographic factors and aggregate labour market conditions. In as much as young people's share in the working age population is on a downward trend in most countries, this is an encouraging finding suggesting that falling youth population shares may lead to an easing of difficulties in the transition to good quality employment.
- The relatively small differences between the duration of unemployment for youths and adults found here, suggest that attention needs to be paid to the long-run unemployment of young people. More generally more attention to disadvantaged groups amongst the young is in order
- Results on returns to education, the effects of education on unemployment and the discussion of 'which outcomes' taken together cast further doubts, if such were necessary, on the 'educated unemployment' hypothesis. There is no objective basis for an exclusive concentration on the problems of educated unemployed.
- Evidence from industrialised countries suggests that state dependence in unemployment is an important problem. More information and analysis is needed for transition and developing countries on this question as well as on the links between child labour and the labour market experiences of young people.

4. CONCLUDING REMARKS

4.1 Policy Implications

- Long-run evidence suggests that, whilst many improvements have been registered, greater efforts are required in combating the educational disadvantage of young women. Since education is a strong determinant of ‘success’ on the labour market, wide, often widening gaps in the levels of education of young women and young men remain a major cause for concern
- Youth Employment Policy needs to focus greater attention on disadvantaged groups in the labour market. A first step in this requires objective identification of which groups have greatest problems in obtaining and maintaining good quality employment. In developing countries, it is time to discard the ‘educated unemployed’ hypothesis, popular for so long for fairly obvious but not objective reasons, and concentrate on groups really requiring attention.
- Evidence accumulated on wages and employment does not provide strong support for the hypothesis that minimum wages are damaging to the employment prospects of young people. However, recent work has suggested that they may be more relevant in developing countries than previously believed. Specifically, such evidence as exists suggests that the detrimental employment effects of minimum wages may be greater in at least some developing countries than in the industrialised world. Further, evidence from Latin America suggests that minimum wages may affect wage setting in both formal **and informal** sectors. If true at a general level, this has important implications for wage policy in developing countries.

4.2 Research implications

It is evident from the analysis presented here that many gaps remain in our knowledge. Amongst possible topics for further research, I would emphasise the following:

- Links between child labour and later youth labour market experiences
- The extent and nature of the involvement of young people in the informal sector and in underemployment
- State dependence in youth labour market experiences

- The extent and nature of youth labour market problems amongst different types of young person
- To what extent are youth and adult labour markets separate entities? This is an important, and rather neglected, issue. Understanding (potential or actual) substitution and complementarity between workers of different ages can be a useful support to designing policies which do not involve (unintentional) large-scale substitution between workers of different ages
- The role of minimum wages on wage setting in both formal and informal sectors in developing and transition countries.

4.3 Data Implications

Data collection, compilation and dissemination has improved enormously in recent years. This is due largely to the efforts of national and international agencies, or rather, to the efforts of the people who work for them. They are to be congratulated. It is to be hoped, however, that further improvements may follow. In terms of the analyses presented here two very obvious ways in which the available information might be improved are:

- The dissemination of data on labour market status (including unemployment duration) disaggregated by age and a variety of other relevant characteristics. In general such data is collected, however, it is often not (easily) available
- Collection of longitudinal information on the labour market experiences of children and young people. Amongst other things, this would help throw light on ‘state dependence’ crucial for the design of appropriate preventative as well as remedial youth employment policies

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Appendix: Data Sources for Figures and Tables

- Figures 1-3: ILO – 2003 – Labour Force estimates and Projections 1950-2010, laborsta.ilo.org.
- Figures 4-5: UNESCO – 2002 - Estimates and projections of adult illiteracy for population aged 15 to 24 years old, by country and by gender, 1970-2015, UNESCO Institute for Statistics, Paris, www.unesco.org
- Figures 6-10: ILO – 2003 – Labour Force estimates and Projections 1950-2010, laborsta.ilo.org
- Figure 11-12: ILO – 2002/2003 *Key Indicators of the Labour Market, 2001-2002*, including 1st update, ILO, Geneva.
www.ilo.org/public/english/employment/strat/kilm/index.htm
- Figure 13: OECD – 2003 - Labour market Statistics Database, www.oecd.org/topicstatsportal/0,2647,en_2825_495670_2759248_1_1_1_1,00.html
- Figure 14: ILO – 2002 – *Decent Work and the Informal Economy*, Report VI, ILC 90th session, ILO, Geneva, table 2.1, p. 14.
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- Figure 15: ILO – 2002 – STAT database on the informal sector.
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- Figures 16a & 16b: : OECD – 2003 - Labour market Statistics Database, www.oecd.org
- Table 1 – : ILO – 2002/2003 *Key Indicators of the Labour Market, 2001-2002*, including 1st update, ILO, Geneva,
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