

SUMMARY

Youth Employment in the Southern Cone*

This paper will analyse the basic facts surrounding the problem of youth unemployment in the Southern Cone countries in the 1990s, as well as its causes, consequences and solutions.

The current situation is characterized by four basic facts. First, youth unemployment is high, universal and asymmetrical. It is high in that it is double-digit in all the countries analysed (nearly 40 per cent in Argentina and 32 per cent in Uruguay). Average youth unemployment rates are 2.3 times higher than average national unemployment rates. This phenomenon is not unique, however, as it occurs even in the developed countries. In the Organisation for Economic Cooperation and Development, the difference is nearly twofold. It is asymmetrical because the rate rapidly increases during an economic recession but is slow to decline during a recovery. Young people are the first to suffer the effects and the last to recover from them.

The second basic fact is that some young people are more affected by unemployment than others. Unemployment has a greater impact on the very young, the least educated and young women. Those under 19 years of age are four times more likely to be unemployed than adults; for women in that age bracket, the probability of unemployment is between 30 and 50 per cent higher than it is for men.

The third basic fact is that when young people do find work, it tends to consist mainly of low-level jobs in the informal or tertiary sectors, or jobs with no security. They generally afford no protection, are unstable and do not offer training or career advancement opportunities. They are entry-level jobs which hold very little promise for the future. Between 60 and 70 per cent of those under 19 years of age enjoy no protection; only in Uruguay, which provides universal social security coverage, is this percentage minimal.

Lastly, given their difficulties in obtaining employment and their low level of employment, the income of young people is also lower than that of adults. Income earned by persons under 19 years of age is 70 per cent lower than that earned by adults, and persons between 20 and 24 years of age earn half as much as adults.

What are the causes of the above-described situation? One is of a general nature; youth unemployment is an integral part of the national unemployment problem. It is related to low and volatile growth rates, as a result of which overall unemployment is high and youth unemployment is higher still. While growth is a prerequisite for generating employment and this also benefits young people, the permanent differential,

* This is an unedited summary of a paper prepared by Victor E. Tokman, Economic Advisor to the President of Chile, for the Friedrich Ebert Foundation in the frame of a series called Prosur. This paper has been translated from Spanish but has not been formally edited.

which is growing even larger, suggests that there are specific factors which affect the youth labour market. The gap between aspirations and reality, insufficient human capital and inadequate legislation are generally identified as the major causes.

The gap between aspirations and reality gives rise to voluntary unemployment, particularly among very young people coming from homes less in need of income. They have expectations not only with regard to desired income but also their duties and function. It has been shown that young people view employment as a means of ensuring their economic independence and professional development. There are few jobs available that meet those criteria, and government responses have focused on manual skills with the sole objective of providing a means of supplementing income.

Scarce human capital is another key factor. Premature entry in the labour market means dropping out of school; thus, lack of experience is compounded by insufficient education. Increasingly, however, new jobs have tended to call for better qualifications. This creates an imbalance which results in unemployment or in poorly paid jobs with few training opportunities. Education and experience yield high returns and account for a significant percentage of the income differential in the countries analysed. An exception to this interpretation is constituted by the situation in some countries, such as Chile, where youth participation in the labour market is lower, while school enrolment is higher and there is growing unemployment in specific areas. Fewer young people are seeking jobs but young people account for a greater proportion of the unemployed. The explanation for this lies in the fact that those actively continuing to seek work are the least employable.

Lastly, labour legislation in general, and that concerning young people in particular, may be another cause of distortion. According to one argument, labour legislation is rigid because it does not allow for short-term recruitment, or partial and flexible working days, which drive up the cost of hiring and firing. This has been the topic of an inconclusive debate, since the Southern Cone countries, with the exception of Uruguay, have reformed their labour laws by introducing greater flexibility, but unemployment has not waned.

In particular, in every country there are promotional contracts for employing young people at reduced cost and flexible apprenticeship contracts, and therefore this does not appear to be a major cause. Another argument is that a high minimum wage could discourage the hiring of young people who can contribute less than adults in terms of productivity. In some cases salary scales actually differ according to age. However, just as for employment regulations, studies on this topic are inconclusive, except in cases where, in the short term, minimum wages were readjusted too much, affecting in particular the incentives to hire young people and unskilled workers. This does not preclude the possibility of expanding or differentiating the age groups covered by special minimum wages or of adjusting some aspects of contracts to meet the particular needs of young people to combine work and school.

Two important types of consequences can be noted from the preceding analysis. First are the social consequences manifested through the inter-generational transmission

of poverty. There is a close relationship between household income level and youth participation in the labour market. Those who come from the poorest households enter the labour market earliest, and thus have less human capital to offer. This creates a vicious circle where poor households produce young people with little schooling, premature participation and limited access to the job market, resulting in unemployment and underemployment and, in the end, reproducing the poverty of the household of origin. Without discounting the additional contribution in income that can thus be produced, it is not enough to lift the household out of poverty and, even worse, the expected inter-generational upward mobility does not occur.

A second socio-political consequence is the manner in which young people are affected by the process of dropping out of school in a fruitless search for work. It tends to discourage the young people, who blame themselves for the situation. In some cases it leads to aberrant social behaviour; in others to social and political escapism. Evidence on this issue is scarce and inconclusive. Neighbourhood or geographical location and social environment seem to be major determinants of behaviour. Young people, however, tend towards anomie and escapism more than towards becoming agents of change. Thus they marginalize themselves in their participation within the system, and eventually lose the opportunity to influence it.

This paper will now analyse the Southern Cone countries' policies to deal with the problem of youth employment. It needs to be reaffirmed that growth and expansion of jobs in general are a prerequisite. Without an increase in the number of jobs, it is hard to imagine that there will be more jobs for young people. The countries have rightly made education and training a priority. The primary goal is to increase school retention and improve the quality of education, which is an investment with a high rate of return that will help to break the vicious circle. Educational coverage has increased, in particular at the primary and university levels, but is still lagging behind at the pre-school and middle-school levels. There are also qualitative differences at schools chiefly serving children from poor households. Progress is being made in linking education and work. The reforms introduced are aimed at opening up access to apprenticeships, by breaking away from the usual path of finishing school and shortly thereafter beginning work, which penalizes young people who do not manage to finish school and thus lack the necessary qualifications to join the workforce.

There is an abundance of information on the role of training, pointing in particular to the need to shift away from the traditional focus on institution-based training and specialization for certification towards generating skills that allow education to be combined with the active participation of companies in the apprenticeship process.

Argentina, Chile and Uruguay introduced specific youth employment programmes. They were similar in that they were intended to benefit young people from poor households who were unemployed and not attending school. They were aimed at addressing obstacles to training and labour-market access by providing training (250 hours) and three months of practical experience in a company, which was a requirement for the allocation of the training funds. Even though the company was not required to

make a commitment to hire the trainee after the practical experience, that was an expected outcome.

Three operational features of such programmes should be pointed out. First, the training offered can be linked to demand, by requiring a company to undertake, before resources are allocated, to provide practical experience. Second, training can be decentralized to public and private agencies through open bidding. Third, the State takes on a different role; it does not become involved in direct execution, but places greater emphasis on the market to determine content and concentrates on design, financing, monitoring and evaluation.

Results have been varied but promising in general; in any event, more evaluation is required. Chile had the most extensive programme, which was introduced in 1990. It attempted to eliminate the pool of poor, unemployed young people in four years, and was followed by a second stage with innovations in the execution modalities. Around half of those who completed the programmes found jobs (56 per cent in Chile, 51 per cent in Argentina and 46 per cent in Uruguay). In comparison with a control group, it was determined that, in the case of Chile, the second phase of the programme increased its beneficiaries' likelihood of finding jobs by 25 per cent.

There are at least four lessons to be learned from these programmes. Only cursory training can be fitted into the available time. There was an expansion in private training courses, half of which were set up specifically for the programmes, but many of them disappeared once the programmes had ended. The individuals who were able to enter the workforce upon completion of the programmes were chiefly those who were the most employable at the outset, and therefore the programmes helped the cream of the crop. Lastly, decentralization and the redefinition of the role of the State in execution were positive factors but there were deficiencies in the way in which the State fulfilled its quality-assurance, monitoring and evaluation functions.