

Youth Labor Market Interventions

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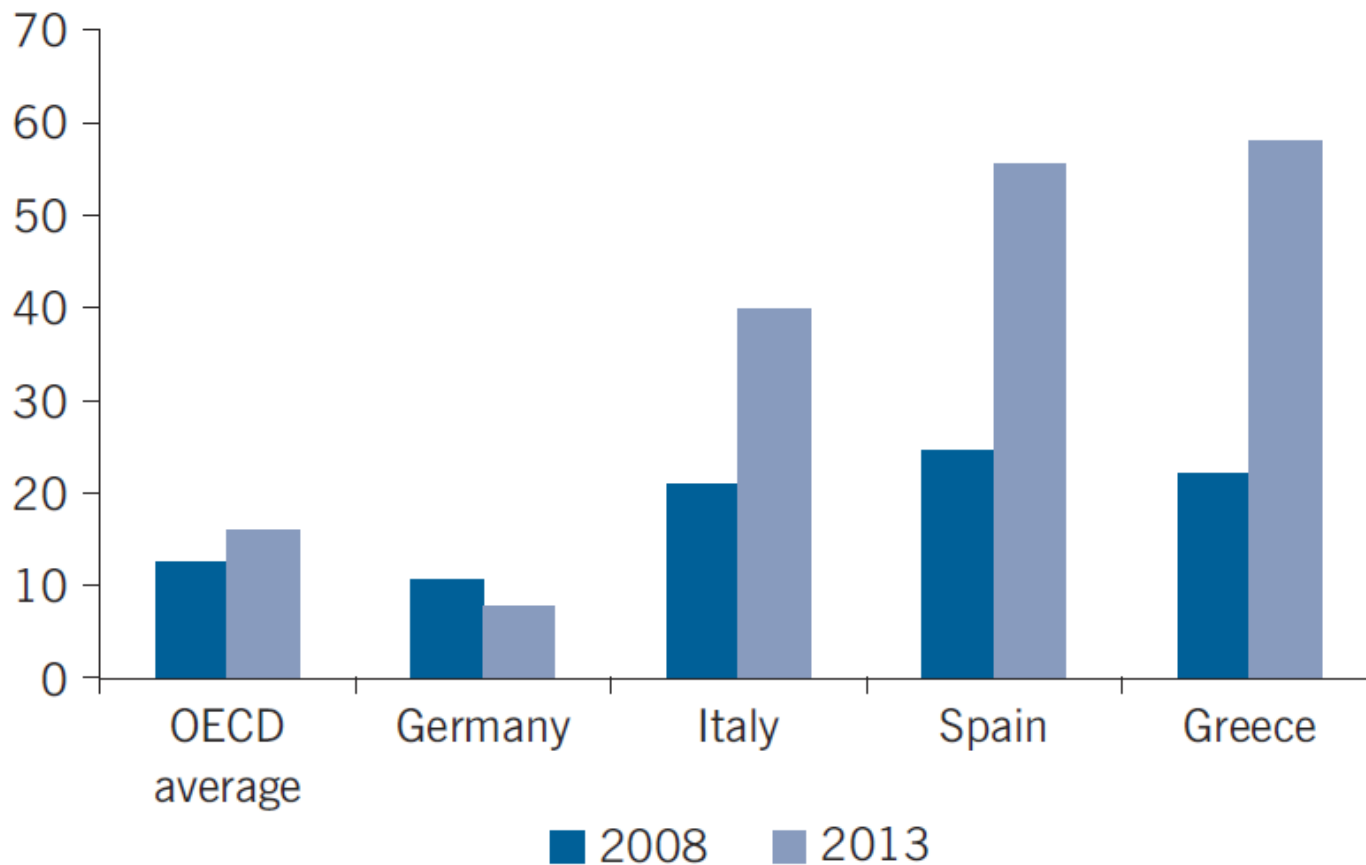
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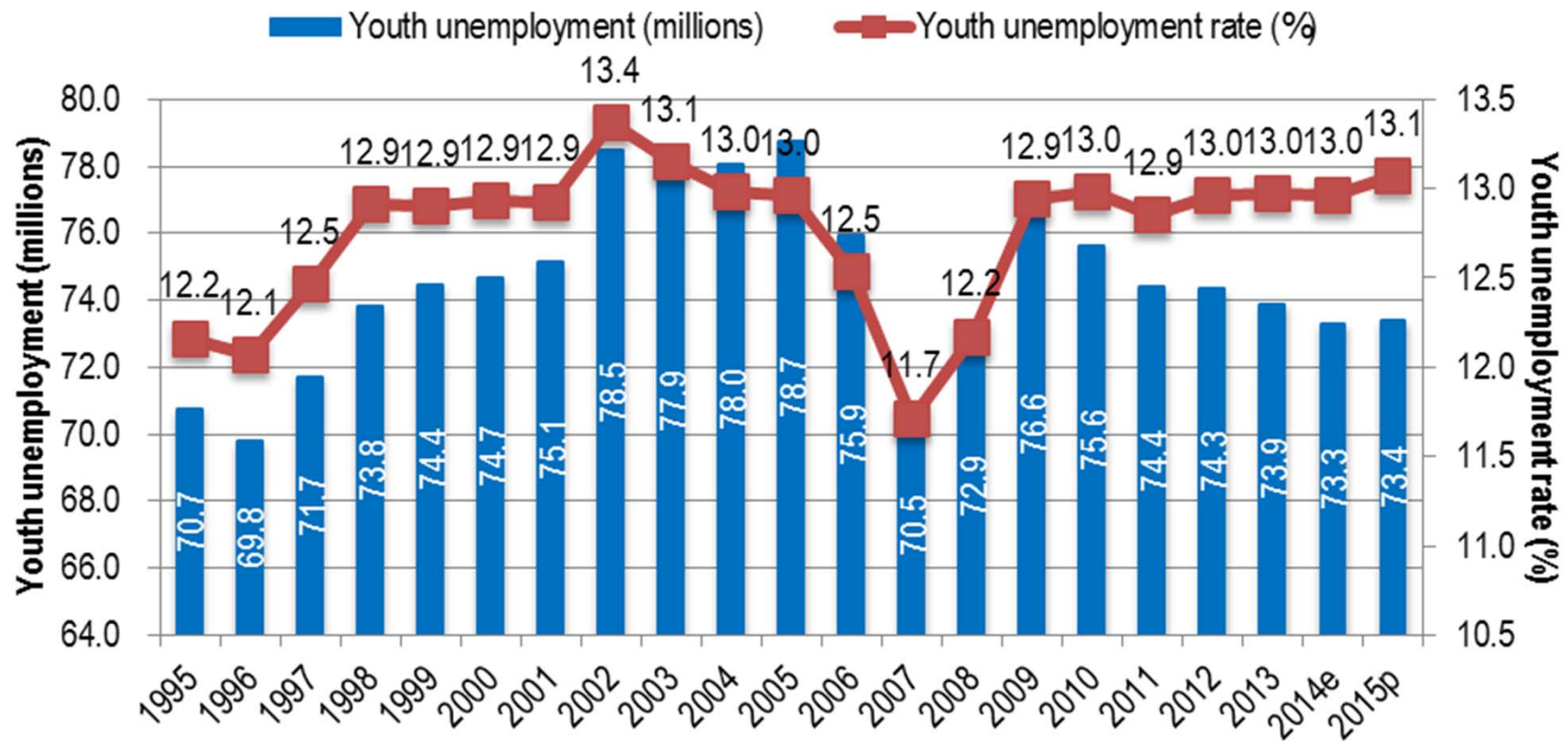
1. Reducing youth unemployment and generating youth employment opportunities are key policy challenges worldwide.
2. ALMP for vulnerable youths may be an effective tool, but show heterogeneous results across the world: in OECD countries they are often not effective; in developing countries they typically work.
3. There seem to be three key design features. A successful youth program should be a) comprehensive, comprising several components, b) focusing on skills investments, and c) demand-driven.

Youth unemployment rate



Source: OECD.StatExtracts. Online at: <http://stats.oecd.org>.

Global youth unemployment 1995-2015



Source: ILO

Key stylized facts

- Worldwide: Average youth unemployment rate more than twice as high as the adult rate; displays excess cyclical volatility
- OECD since the crisis:
 - unprecedented surge in youth unemployment in several countries
 - increasing number of young people neither in employment nor in education or training (NEET)
- Low-middle income countries:
 - limited access to education and formal jobs for many youths
 - challenge of high unemployment combined with high population growth in several countries / regions

The challenge and possible solutions

- Hence: Reducing youth unemployment and generating youth employment opportunities are key policy challenges worldwide.
- Part of the solution clearly lies in:
 - Education systems
 - Labor market regulations
 - **Job training** and other **active labor market programs (ALMPs)** have been promoted as a remedy for cyclical and structural unemployment

ALMP background

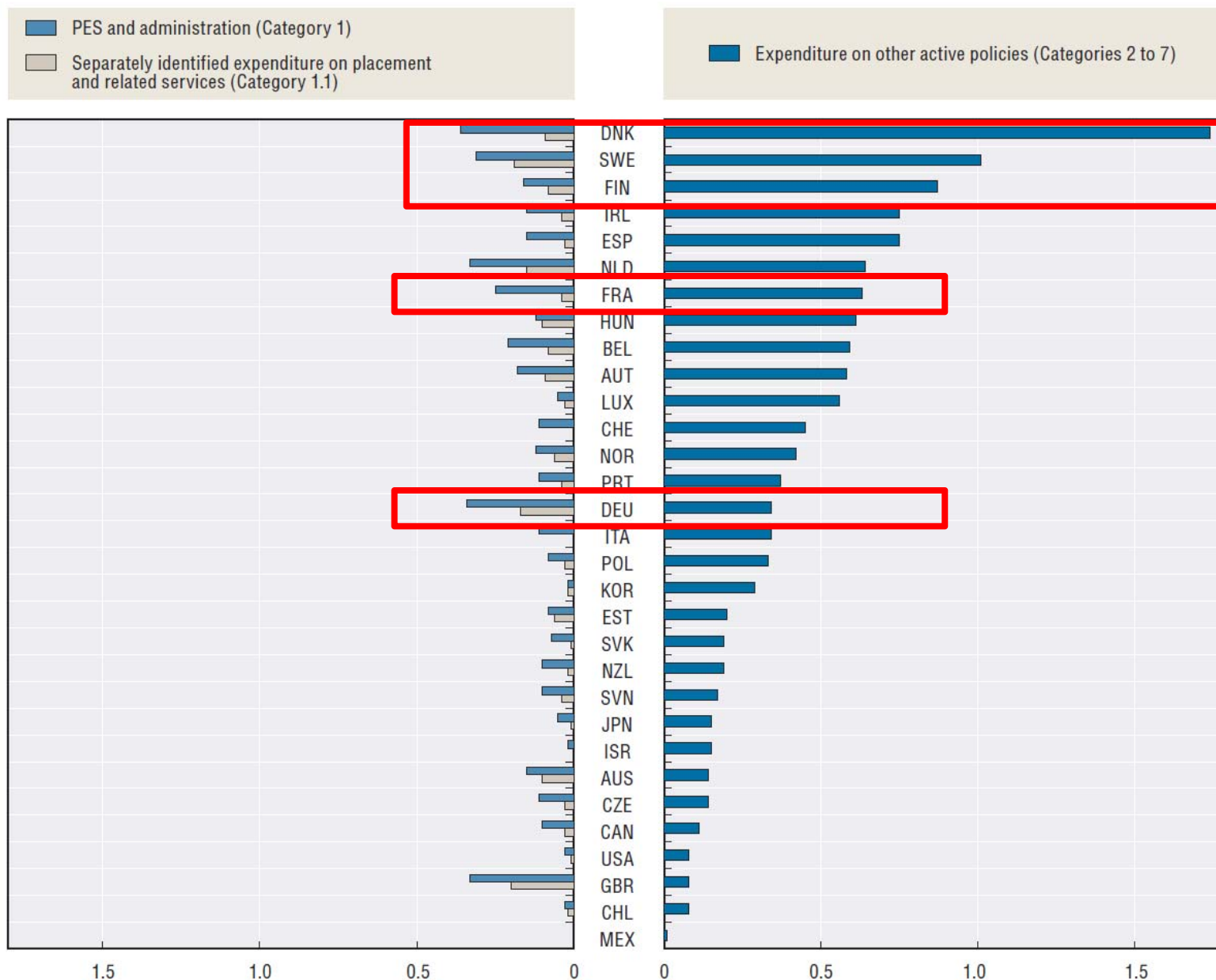
Early **U.S.** experience: MDTA (1960s), CETA (1970s), JTPA (1980s-1990s)

European experience:

- Scandinavia 1970s forward, in particular Sweden
- Germany 1990s forward
- Denmark "flexicurity", UK "New Deal", etc
- 1994 OECD Jobs Study -> ALMP
- EU: "European Employment Strategy"
- 2006 OECD Restated Jobs Strategy -> Activation

Latin America: Job training, increasing since the mid-1980s

ALMP expenditure in OECD countries 2012



Source: OECD Employment Outlook 2015

Some key policy questions

- What do we know about which type of “active” program works for youth?
- Short run vs. long run effects?
- Do ALMPs work better for some groups? In some places or times?
- What are factors determining success / failure of programs?

Goals for this talk

- 1) A (very) basic framework for thinking about how programs actually work, how this relates to program effectiveness, heterogeneity, and displacement
- 2) Summary of key findings
- 3) The evidence in (some) detail
- 4) Knowledge gaps
- 5) Some conclusions

1) A (very) basic framework

Types of active programs

- i. **Job Search Assistance** -> job search efficiency
- ii. **(Labor market) Training** -> human capital accumulation, “classic”
- iii. **Private sector employment incentives** -> employer/worker behavior
 - a) Wage subsidies, b) Self-employment assistance / start-up grants
- iv. **Public sector employment** -> direct job creation

Specific target groups: Youths, disabled

Hybrid: Short-term working arrangements (STWA)

Main objective: Raise participants' employment / earnings

How do ALMPs work?

-> Job search assistance (JSA)

- Purpose: Raise search effort + improve job match
- Components: Job search training, Counseling, Monitoring, + Sanctions
- Nudge procrastinators

Implications:

- Only a short run effect **unless** getting a job changes preferences or future employability (job ladder effect)
- Risk of displacement effect (esp. in low-demand market)
- May have important role in addressing information failures in rapidly changing environment

How do ALMPs work?

-> Training and Re-training

- Purpose: Raise human capital, attenuate skills mismatch
- Components: 1) Classroom vocational / technical training, 2) work practice (on-the-job training), 3) Basic skills training (math, language), 4) life skills training (socio-affective, non-cognitive skills)

Implications:

- Training takes time -> negative effects in short-run
- But positive (and large?) long-run effect
- Negative effect if training obsolete / useless
- Limited displacement effect

How do ALMPs work?

-> Private sector employment incentives

- Purpose: improve job matching; increase labor demand
- Limited human capital accumulation through work practice
- Culturization

Implications:

- Only a short run effect unless work changes preferences or future employability
- High risk of displacement effect
- May play an important role as a version of STWA in recession?

How do ALMPs work?

-> Public sector employment

- Purpose: Prevent human capital deterioration; increase labor demand (?)
- Safety net (of last resort)

Implications:

- Only a short run effect (on public employment) unless work changes preferences or future employability
- High risk of displacement effect
- Or: Type of jobs often not close to the labor market

Alternative programs – summary

	JSA	Training	Private sector incentives	Public employment
Government cost	Low	Medium / high	high	high
Short-run effect	Positive	Negative	Positive	(Positive)
Long-run effect (best case)	Small positive	(Large) Positive	Small positive	Zero
Long-run effect (worst case)	Small negative	Small negative	Negative	Large negative
Displacement	Medium	Low	High	High
Business cycle	Any time; expand in recession	Any time; expand in recession	Any time	Recession

2) Summary of key findings

Five main aspects

- I. The evidence on youth ALMP from OECD countries is disillusioning, with a glimmer of hope
- II. The evidence on youth ALMP (training) from developing countries is encouraging, with a (small) caveat
- III. Comprehensive programs seem to be effective
- IV. ... as are demand-driven programs
- V. Skills investments may play a crucial role -> Long-run impacts

3) The evidence in (some) detail

OECD results

- Youth programs significantly less likely to be effective than adult ALMP in OECD countries -> Only 20% of studies in the meta-analysis by Card et al. (2010) find positive effects
- Explanation? -> Pool of very low-skilled and most disadvantaged. -> and/or: two-tier labor markets with entry barriers (EPL, fixed-term contracts)
- Early intervention is better than late intervention
- Strong systematic patterns by program type -> Long-run implications of human capital formation
- Successful programs likely need to be comprehensive -> NDYP UK (Blundell et al. 2004) , Job Corps US (Schochet et al. 2008)

Evidence from low-middle income countries

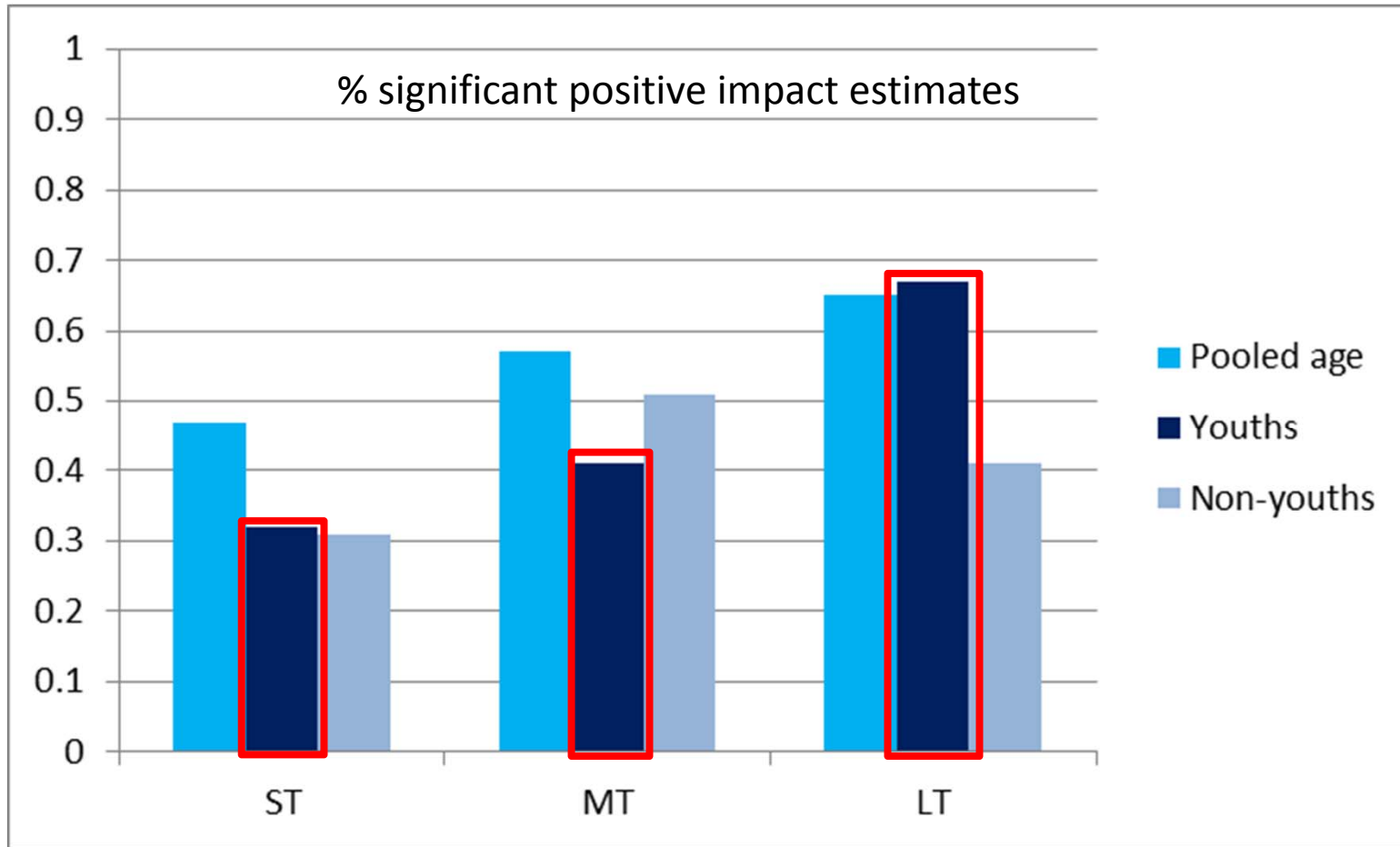
- Systematic knowledge across regions is limited (-> Betcherman et al. 2004)
- Quite a few programs and evaluations in Latin America and the Caribbean
-> e.g. Ibarrarán and Rosas (2009) -> youth training -> “Jóvenes”
- These programs are effective on average -> employment, job quality

- Many studies currently underway
- More general in LMIC: Programs / evaluations are often pilots

Features of the “Jóvenes” programs

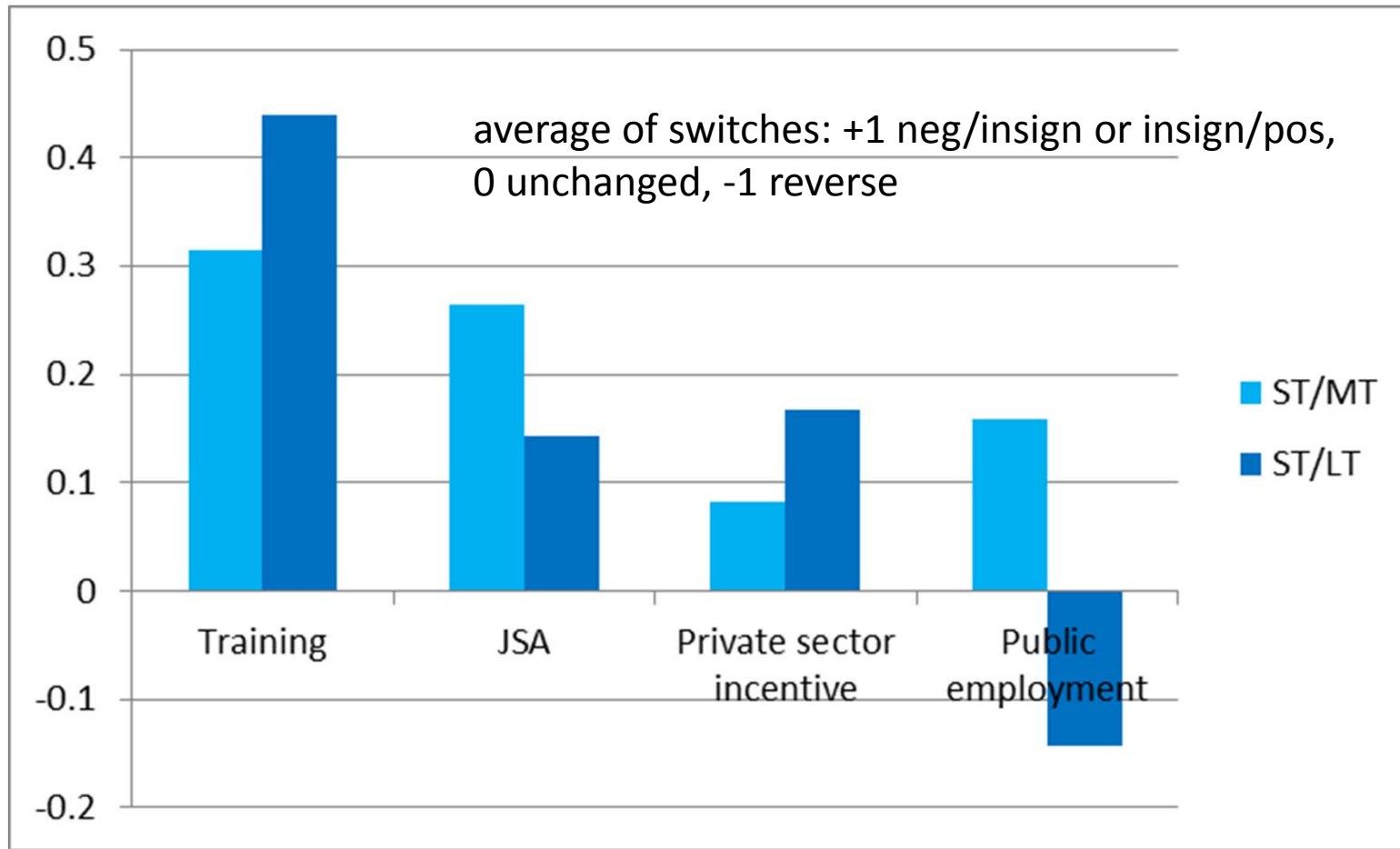
- Financing of training separated from the provision: training courses are selected through a public bidding system
- Type of training is demand driven
- The intervention follows a “multi-service” approach: classroom training + internship / work experience + job search assistance + life skills

Long-run impacts: youths



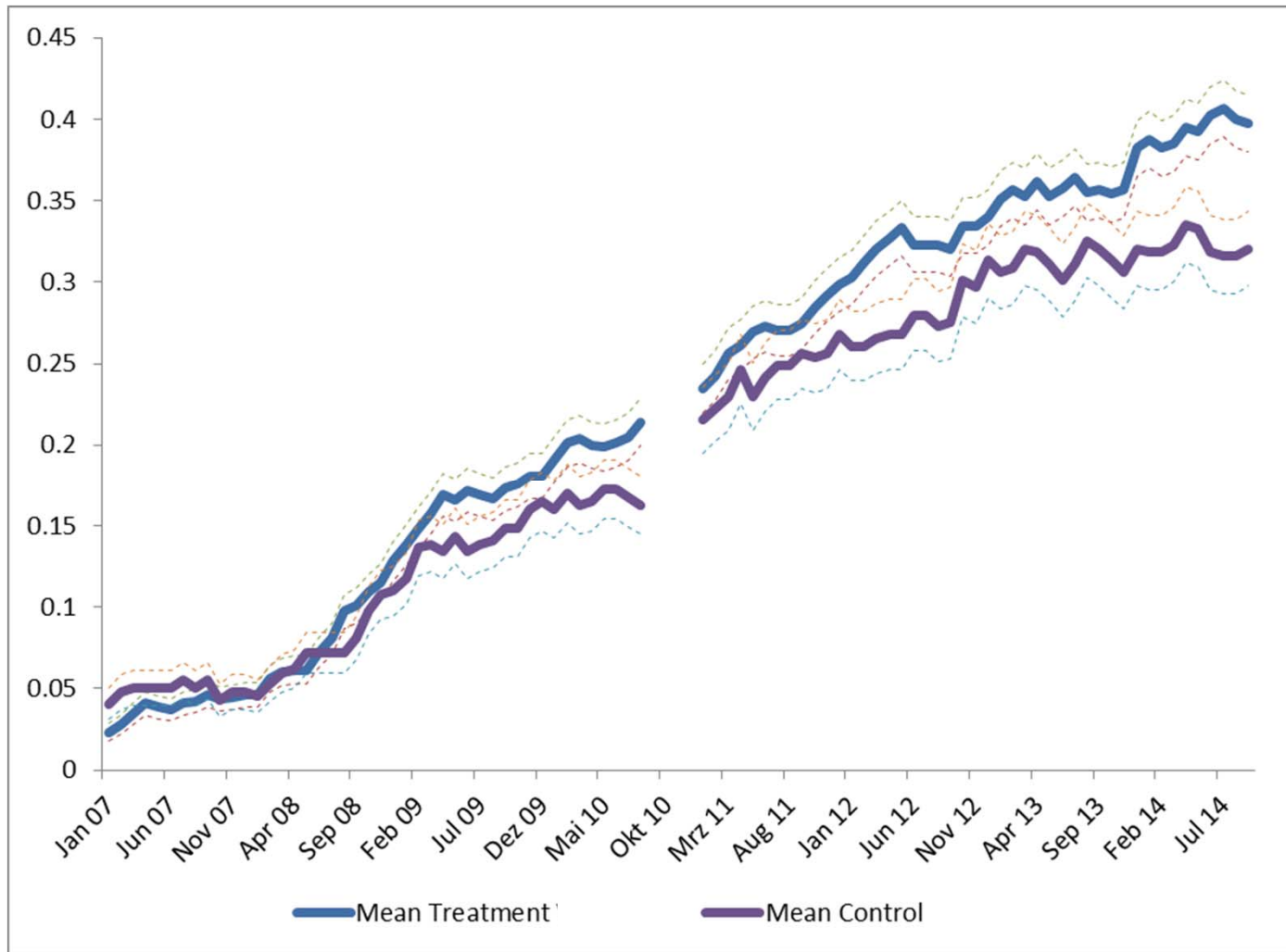
Source: Card, Kluge, Weber (2015), N=857 impact estimates

Long-run impacts: skills investments!



Source: Card, Kluve, Weber (2015)

Long-run impacts: “Juventud y Empleo”



Source: Ibararán, Kluve, Ripani, Rosas (2015); Formal employment rate, male youths

4) Knowledge gaps

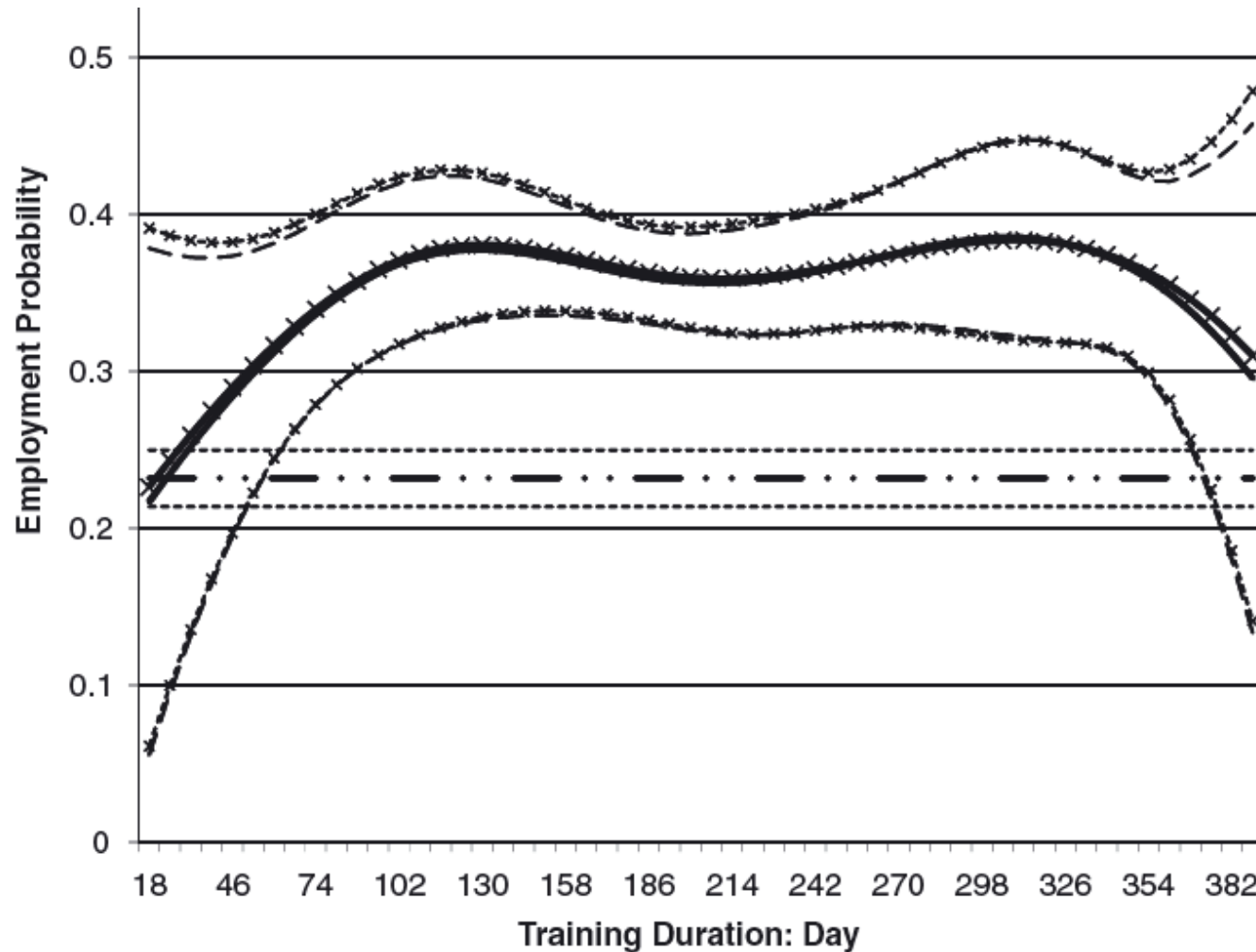
What is “comprehensive”?

- Which combination of components works best? Which components are crucial?
- -> Systematic Review on Youth Labor Market Interventions worldwide (joint project with ILO, World Bank, financed by 3ie), forthcoming

“Life skills”:

- Increasingly receiving attention
- Example: Juventud y Empleo -> Ibararán et al. (2012)
- How relevant? How to measure? How to teach? -> Sports? Theatre?

Program design: Optimal length of training?



Source: Kluge, Schneider, Uhlendorff, Zhao (2012)

The role of youth entrepreneurship training?

- Frequently suggested as a promising policy, in particular in contexts with insufficient labor demand, high population growth, high youth unemployment (also among high-skilled)
- Limited empirical knowledge
- One example: RCT from Tunisia -> „Turning theses into enterprises“
 - Significant and large impact on self-employment
 - Likely not a mass effective channel given low base
 - Can skills create jobs? -> Credit constraints

5) Some conclusions

Recommendations

- ALMP for vulnerable youths can be an effective policy.
- Program design should focus on comprehensiveness ...
- ... and demand-driven features...
- ... and skills investments!
- Impacts may materialize (only) in the longer run
- At the same time: knowledge gaps on design details and effect heterogeneity remain substantial
- Thus: Experiment! And include evaluation in any ALMP implementation!

Thank you.

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