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Youth Unemployment in India:

From a European and Transitional Labour Market Point of View

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Why should, why can India learn from Europe?

We all face the same moral obligation:

"A merchant may sell many things, but a worker usually has only one job, which supplies not only his livelihood but often much of his sense of identity. An unsold commodity is a nuisance, an unemployed worker a tragedy." (Paul Krugman)

India and Europe face the same problem:

- > High youth unemployment: the danger of a lost generation
- > "Europe has not 28 but 29 countries: number 29 are the youth – our lost country" (Jean-Claude Juncker, EU-President)

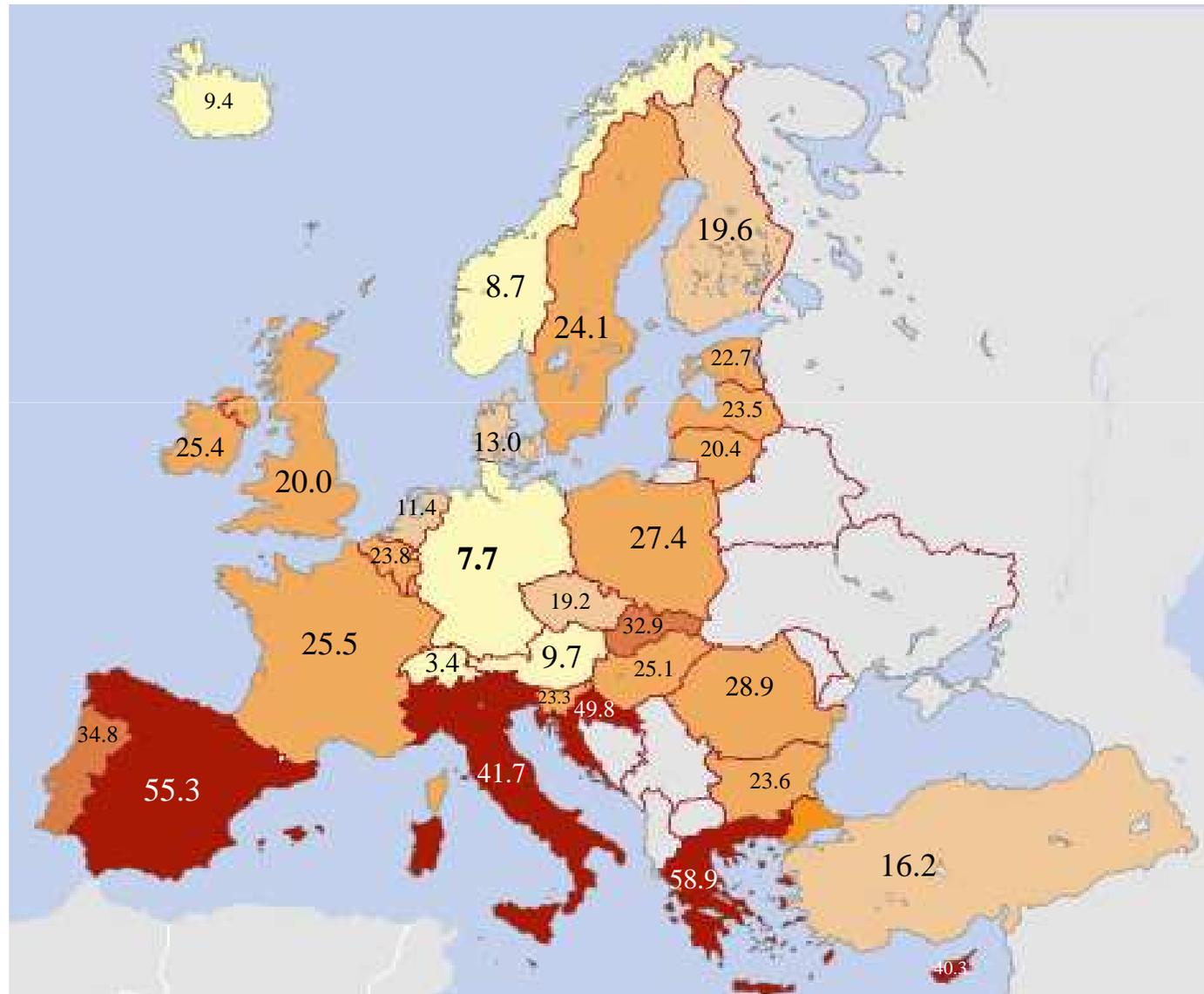
Same problems, but for different reasons: Chance for mutual learning

- 1. What are the differences?**
- 2. What are the causes?**
- 3. What are the main strategies?**
- 4. What are the immediate measures?**
- 5. What are the lessons from Europe?**
- 6. What is the broader picture?**

Let us start with the differences

Youth unemployment by conventional statistics

Differences within Europe larger than between Europe and India



U-Rates
Age 15-24
Nov. 2013

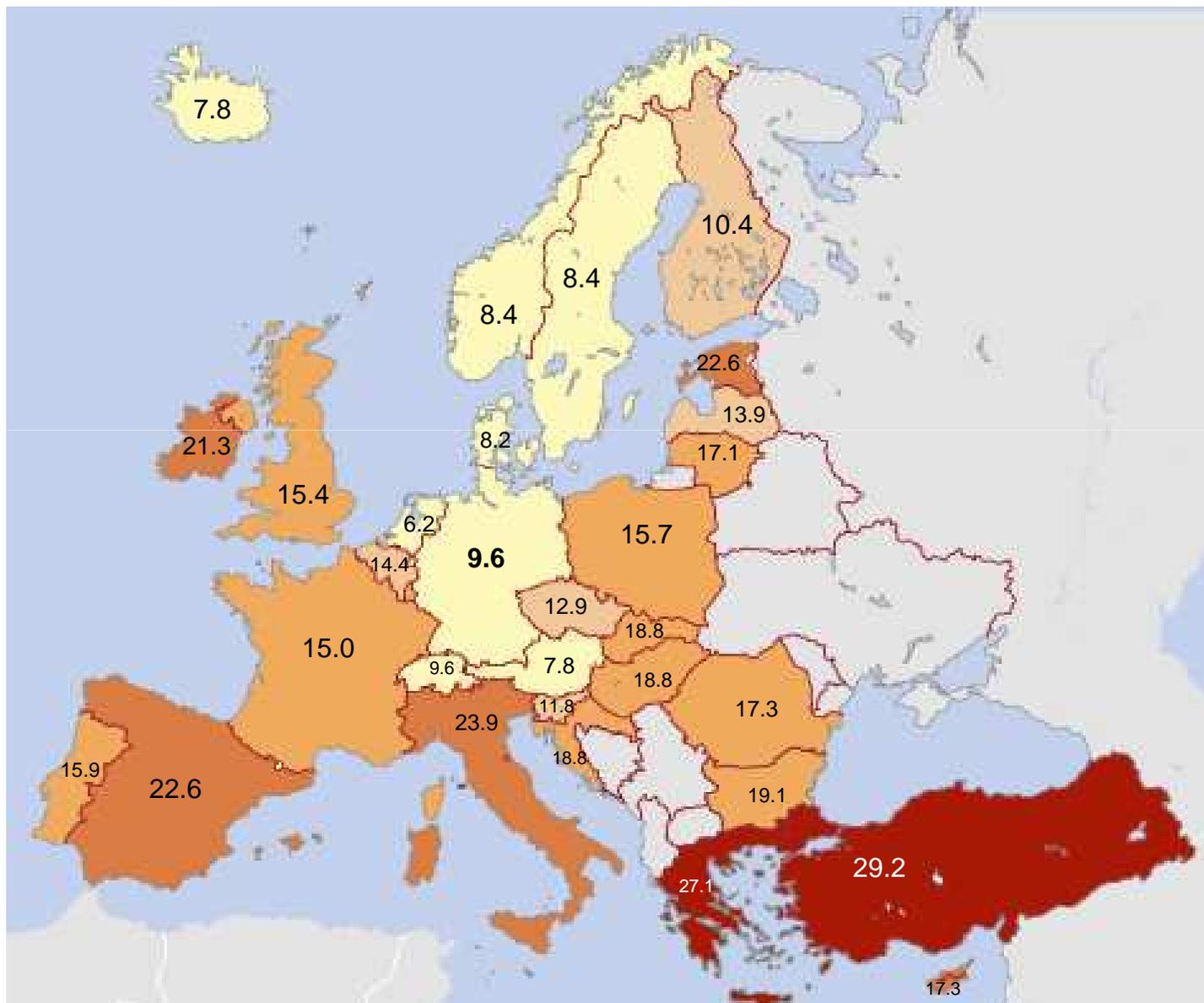
INDIA: $\approx 11\%$

EUROPE: 23.4%



It's statistics, stupid!

Through the 'looking-glass' you can simply turn things around



NEET-Rates
Age 15-29
Nov. 2013

INDIA: $\approx 28\%$
EUROPE: 15.2%

- < 10 %
- < 15 %
- < 20 %
- < 25 %
- $\geq 25\%$

Differences that really matter:

India compared to Europe and Germany

	INDIA	EUROPE	GERMANY
Youth U-Rate women / men (India: urban areas)	1.8	< 1.0	< 0.9
Youth U-Rate / Adult U-Rate (intergenerational risk sharing)	≈ 3.3	2.5	1.6
Youth U-Rate High-Educated (India: Men Urban) (India: Female Urban)	≈ 16 ≈ 23	18.8	3.9
Youth U-Rate Low-Educated (India: Men Urban) (India: Female Urban)	≈ 3 ≈ 2	31.0	11.4
Youth neither in employment nor education and training (NEET) (age group 15-29, % of total population)	≈ 28	15.2	9.6

A simple causal framework – Strategies for solution

Youth needs more and better jobs

support job creation, complemented by sensible job maintenance, flexible jobs and work sharing

Youth needs the right skills

raise learning capacities, complemented by dual learning systems that combine learning with working and earning

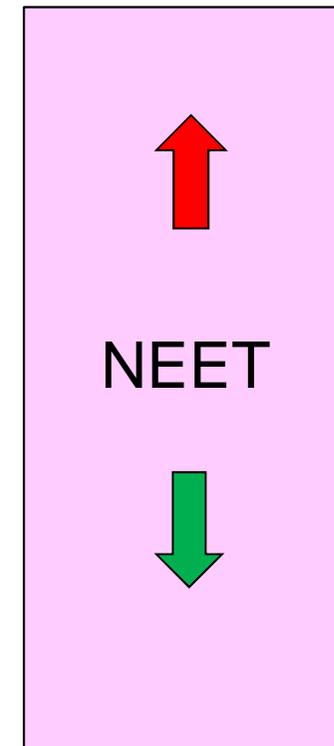
Youth needs good governance

foster cooperative industrial relations, fair risk sharing, ensure quality standards, fight against discrimination

Which factors **increase** or **decrease** NEET?

Some evidence from econometric research in Europe

Lack of GDP growth	→	● ●
Lack of stabilizers	→	● ●
Employment Protection	→	(●)
Flexible Jobs	→	●
Dual learning systems	→	● ● ●
Active labor market policy	→	●
Wage coordination	→	●



Based on: European Foundation (2012), NEETs - Young people not in employment, education or training: Characteristics, costs and policy responses in Europe, Dublin/Luxembourg; and others

I. Youth needs more and better jobs

Main reasons for the lack of jobs:

- Recessions disadvantaging youth (**Okun's law**: 'last in, first out')
- Financial speculation instead of investing into real jobs
- Excessive wage volatilities and wage inequalities
- Investment into most profitable sectors neglecting public goods

What are the promising policy strategies? **Mind complementarities!**

- Smooth recessions through deficit spending, **automatic stabilisers** (various social insurance systems) and **anticyclical ALMP**
- Control of financial markets, enhancing real investments, e.g. through active industrial policy targeted to SME
- Wage moderation through social partnership, decent minimum wages, targeted wage subsidies, and minimum income guarantees
- Public finance of high quality services in education, health, child care and elderly care

2. Youth needs the right skills

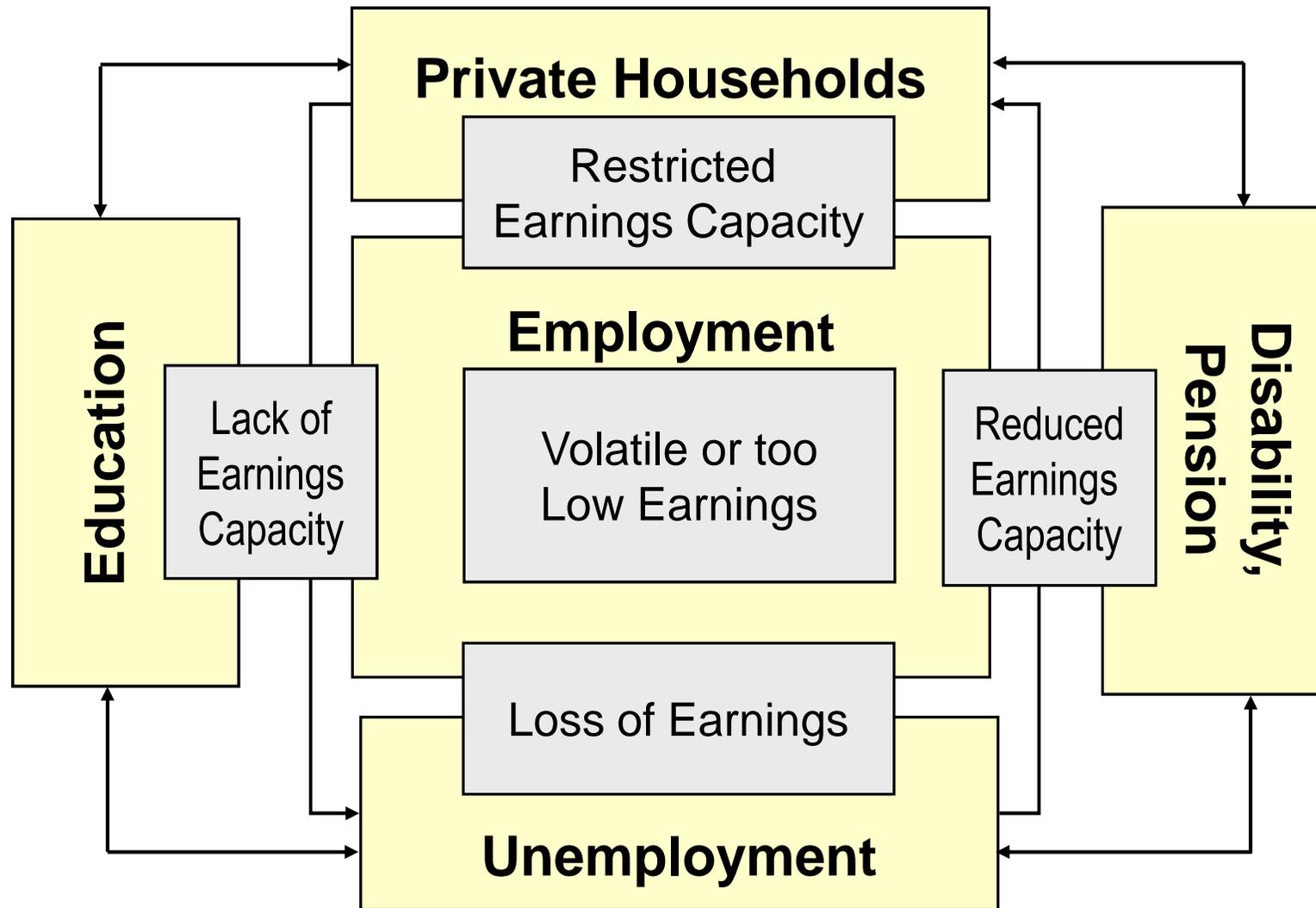
Main reasons for the lack of skills or misguided skills:

- Too low investment into 'human and social capital'
- Asymmetric investment, e.g. 'academic inflation' → credentialism
- Too narrow investment into job specific skills with high U-risk
- Skill mismatch due to information asymmetries and lack of trust

What are the promising policy strategies?

- Sufficient inclusive investments into 'human and social capital', i.e.
 - > i.e. including all young people independent of social background into high quality general education, to develop learning capacities
 - > not only to make young people fit for the market but also to enable young people to rise their voice and to shape the market
- Enhance general education through the establishment of dual learning systems according to TLM-theory: →→

Transitional Labour Markets (TLM) = Managing Social Risks over the life course through a system of employment insurance



Principles of managing the life course risk: Lack of earnings capacity (un-employability)

- Sufficient and inclusive investments into general education, esp.
 - > competences like reading and mathematical skills
 - > communication skills
 - > learning abilities
 - > secondary virtues like endurance, ambiguity tolerance et al.= best insurance against all other risks over the life course
- Establish and enhance dual learning systems through:
 - > combination of learning, working, earning and identity building
 - > combination of job specific and general skills
 - > reduction of information asymmetries by voice and trust
 - > fair risk sharing of costs and benefits related to investments

3. Youth needs good governance

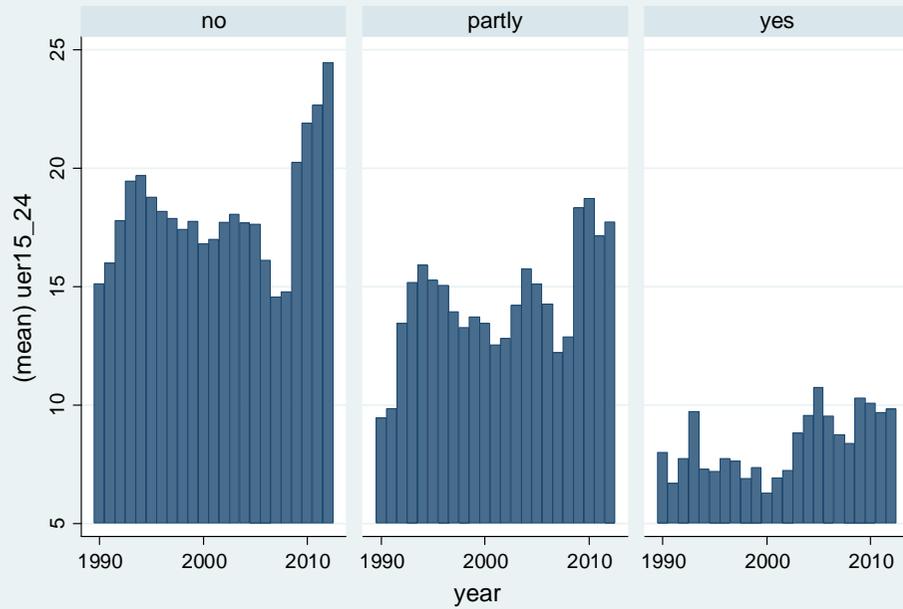
Main reasons for bad governance:

- Hostile industrial relations
- Neglect of cooperation
- No or unfair risk sharing
- Monopolies , e.g. employment protection for job keepers (insiders)

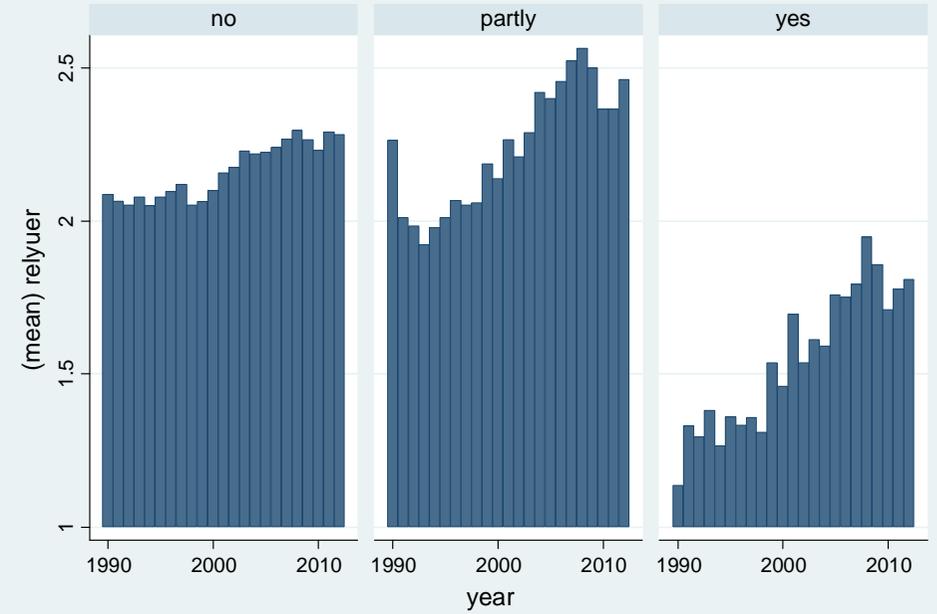
What are the promising policy strategies of good governance?

- Foster social partnership, e.g. by acknowledging or extending collective agreements and wage coordination
- Encourage cooperation between firms and schools, colleges or universities to improve coordination between LM and education
- Enhance dual education systems as devices for fair risk sharing between employers, workers and state in a fair way
- Fight monopolies, e.g. unconditional EP for LM insiders, but be careful: **provide securities for mutual investments** → →

Average youth unemployment rates by dual system

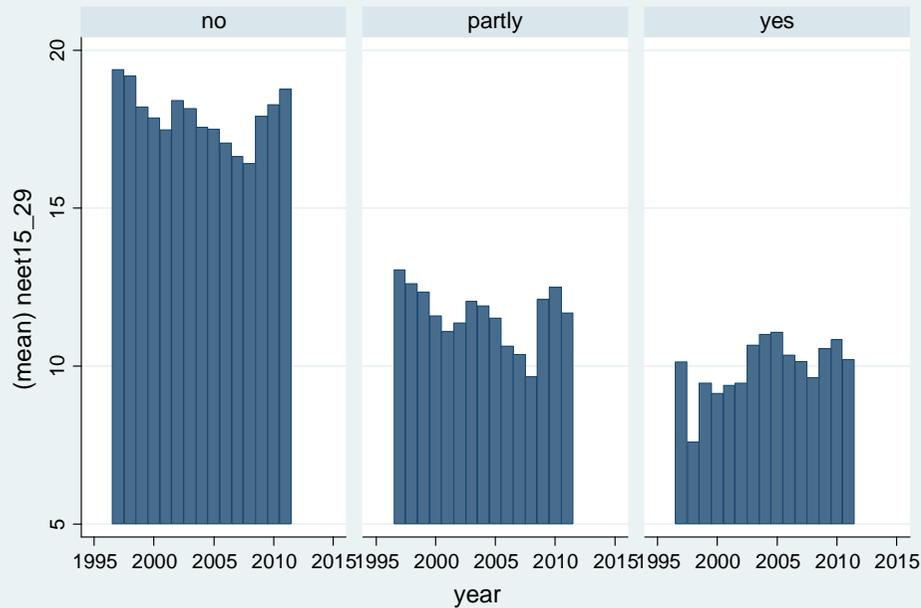


Average relative youth unemployment rates by dual system

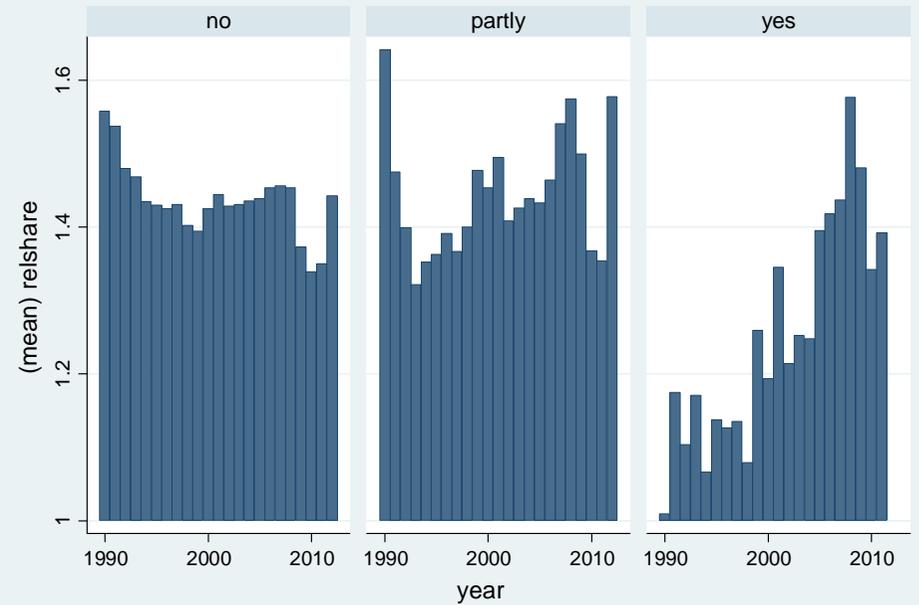


Source: C. Brzinsky and C. Ebner, September 2013

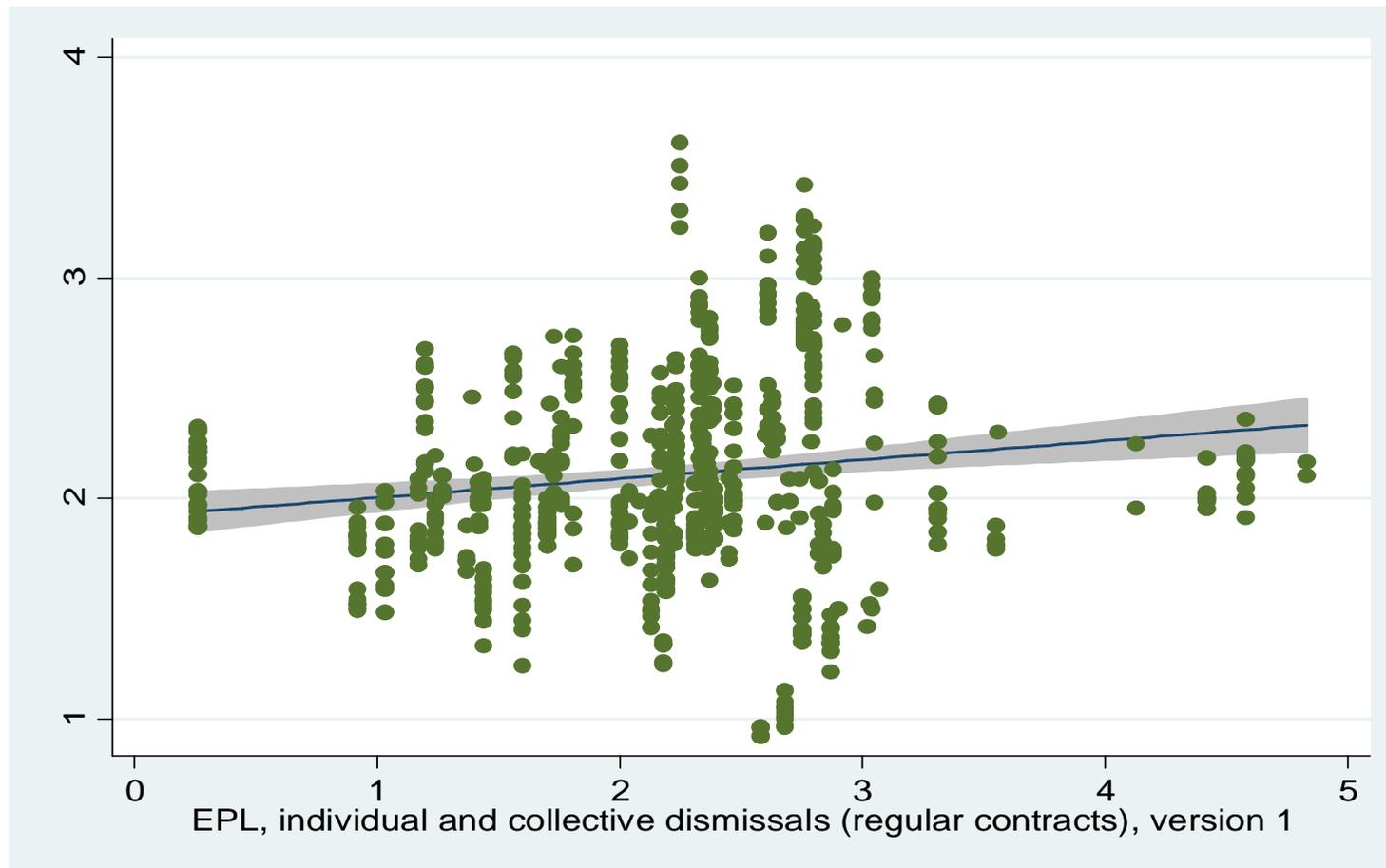
Average yearly NEET rates by dual system



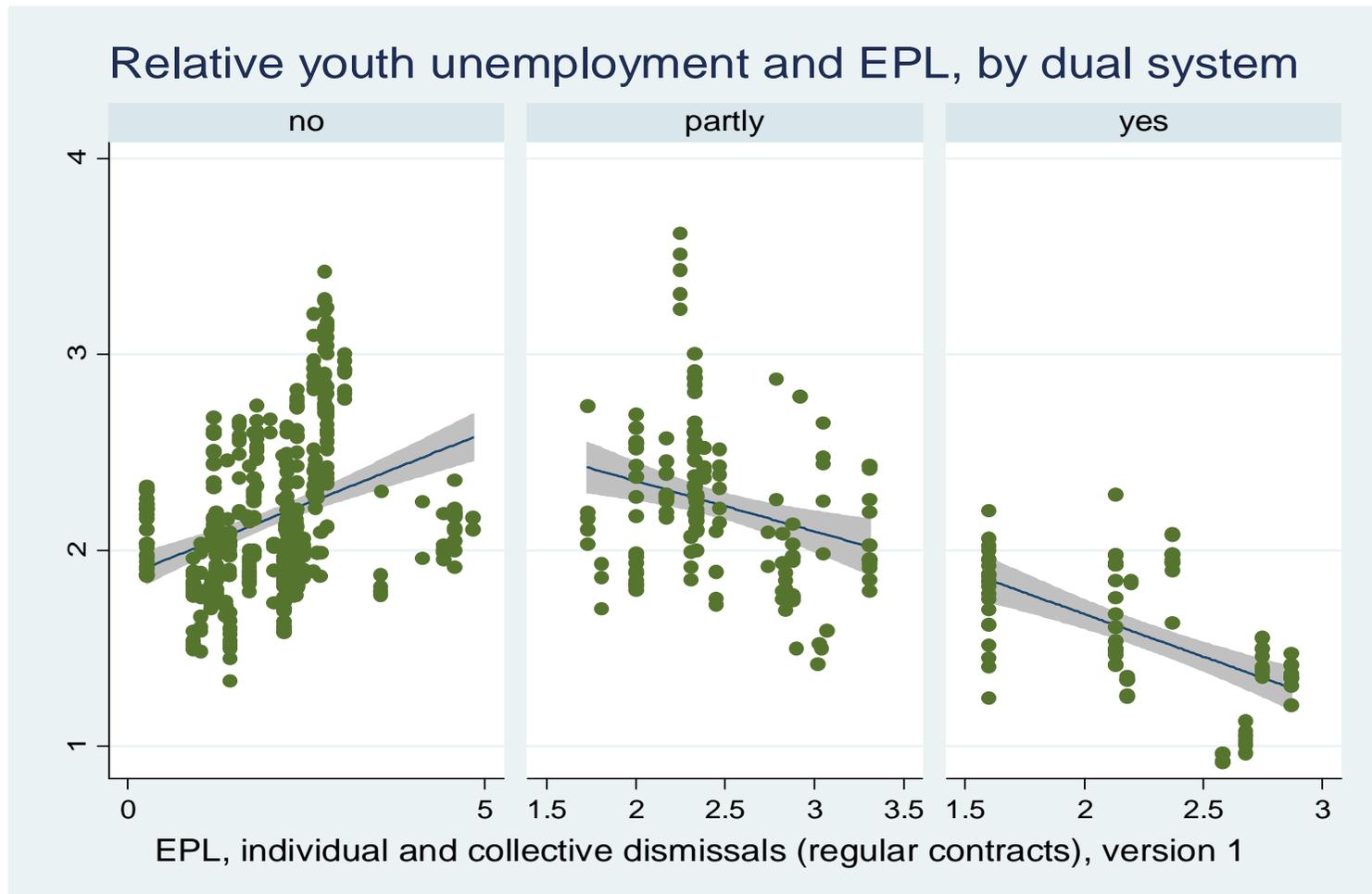
Average relative share of unemployment by dual system



Employment protection and relative youth unemployment rates – a first glance



Employment protection and relative youth unemployment rates – a second glance



The lesson from this exercise:

Employment protection is not detrimental to youth employment if it is connected with mutual human and social capital investments of employers and employees in form of dual learning systems

For more lessons and details see my paper

The Need for Immediate Measures against Youth Unemployment

- All studies prove severe long-term scar effects of youth unemployment
- Europe reacted with a “Youth Guarantee” in April 2013
 - > Within four months, EU member states should ensure good quality job or education or training for youth under 25; €6 billion allocated
 - > Yet still slow implementation in most MS

Promising channels for immediate policies - 1

➤ **Ensure inclusive education, prevent early school leaving**

EU: EU2020 goal of reducing school-dropouts from 14.1% to 10%
e.g., “mosaic classes” for scholars in danger dropping out

INDIA: Minimum income guarantee for poor families with children
e.g., National Rural Employment Guarantee Program (NREGP)

➤ **Reintegrate early school leavers**

EU: Special preparatory schools

INDIA: Targeted educational assistance, especially in early phases

➤ **Facilitate transition from school to work**

EU: Bringing youth skills and elderly skills together
e.g. NL XXL Jobs Initiative

INDIA: Pilot projects in dual learning systems (e.g. tailoring in India)

Promising channels for immediate policies - 2

➤ **Foster employability**

EU: Training companies

e.g., Austria 'supra-company apprenticeship training'

INDIA: ditto (?), in particular in conglomerated areas (e.g., slums)

➤ **Remove barriers and provide incentives to employers**

EU: Wage subsidies (bridging gap of wages and productivity)

e.g., Germany: low entry wages; temporary tax exemptions for business start-ups; capitalize UB-entitlements for start-ups

INDIA: ditto

e.g., targeted marginal wage subsidies; public job creation

Lessons to be learned from Europe

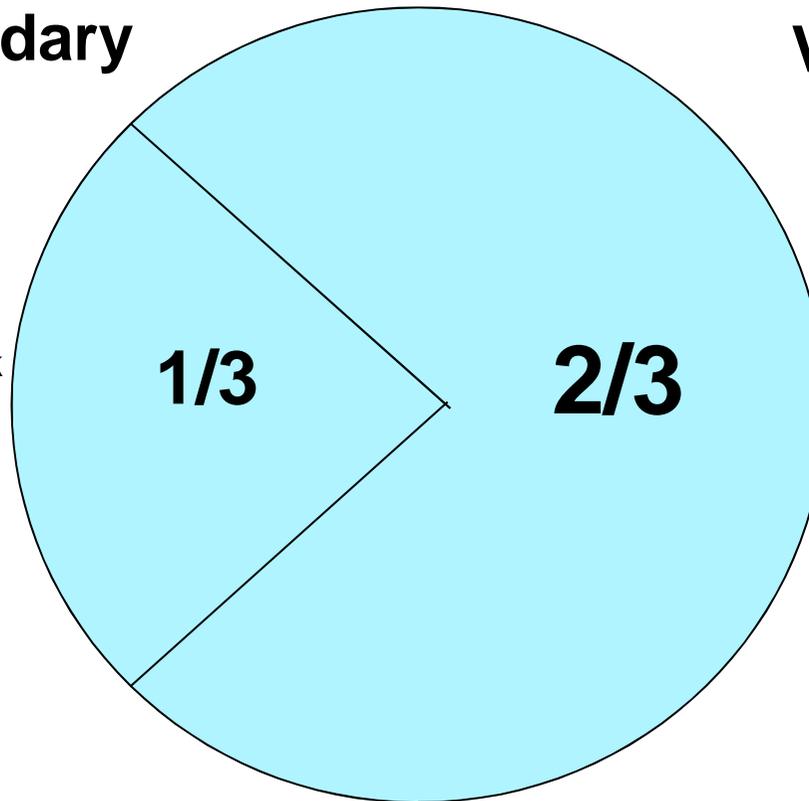
- **Mind the high economic and social costs of YU**
Ø 1.3 % (<0.6-4.3) of GDP in EU; erosion of trust: **invest more!**
- **Mind over-education = waste of investment and injustice**
Unemployment and skill shortages at the same time: **invest right!**
- **Mind the potential of dual learning systems (TLM) →→**
TLM support five crucial transitions: **combine education with work and earning!**
- **Mind the potential of SME and middle level skills**
Middle level industrial policy: **reward entrepreneurship and vocational training!**
- **Mind dual learning principles also in higher education**
For instance vocational academies: **bring business and academy together!**

The German Vocational Training System

at about age 16, young people enter:

Upper Secondary Track:

- > ca. 20% following later vocational track
- > ca. 80% entering university studies



Vocational Track:

- > 50% Apprentices
- > 20% Full-time Vocational Schools
- > 30% Transitional System (various tracks, 3/4th with low or no formal education)

The Future of Youth Unemployment

“It is hard to predict, especially the future”*

The demographic challenge:

EU: probably easing, but increasing challenge of skill deficits

INDIA: probably worsening, but chance of demographic dividend

Job creation the primary task for both: **EU** and **India**

Higher education the solution? To some extent yes, **BUT:**

EU: Over-qualification a serious problem: costly and unjust

INDIA: Paradox of Indian education system
Over-qualification as an insurance motive?!

Solution: “As for the future, your task is not to foresee it, but to enable it.”**

Mind: Open doors for decent general education to all children

Mind: Extend dual learning systems at middle and higher level

Mind: Tighten social security net for risks beyond unemployment

*) Nils Bohr; **) Antoine de Saint-Exupéry

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