

# SOCIAL EUROPE

## Supplement on YOUTH PAY AND EMPLOYERS' RECRUITMENT PRACTICES FOR YOUNG PEOPLE IN THE COMMUNITY

Report of a conference held at Farnham Castle, Surrey, UK, June 1985



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SOCIAL AFFAIRS AND EDUCATION

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FOREWORD

Within the context of action taken following the Council Resolution on the promotion of employment for young people (1), the Commission decided to find out more about the policies and practices of companies vis-à-vis young people in order to identify trends and the reasons behind them on the one hand and to promote and support social innovation on the other. This second aspect is the subject of a large bi-annual programme of regional consultations between innovative companies for which an intermediate report will be published early in 1986. As regards general trends and the influence the relative level of young people's wages can have on them, it was important :

- to gather together all the scientific literature available,
- to carry out some additional research in this field.

This was carried out in 1984 (2). The way was then open for a comparison between points of view based on sound factual data. The seminar held in Farnham Castle (U.K.) from 19 to 21 June 1985 enabled 25 top level experts (employers, trade unionists and university experts) to discuss matters in a relaxed atmosphere.

It is no exaggeration to say that the work of this seminar covered the basic points of what today can be said, scientifically speaking, on this difficult matter which is all too often the subject of cut and dried statements. The quality of the debate and the results owe a lot to the excellence of the preparatory work, entrusted to David Marsden.

While waiting for specific action to be taken as a follow-up to this, it seemed useful to publicise the results of this work. Given the volume of

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(1) O.J. C 29/1 of 4.2.84.

(2) In particular see Studies 83/8 and 83/6 relating to the youth/adult wage differential.

papers presented, it was necessary to separate their publication. Certain articles will appear in the next edition of the British Journal of Industrial Relations, and in this special edition of Social Europe, you will find the summary of the proceedings, all the statements made by the two sides of industry and some contributions which could not be included in the B.J.I.R. because of lack of space.

The Social Europe editorial staff thereby hopes to provide food for thought and will be pleased to receive any reaction from its readers to these documents (3).

M. LAINE

Commission of the European Communities

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(3) Send to Mr. LAINE (ARCH.I - 2/11).

YOUTH PAY AND EMPLOYERS' RECRUITMENT PRACTICES FOR YOUNG WORKERS  
IN WESTERN EUROPE

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The high levels reached by unemployment among young people give cause for concern for many reasons, including the distress caused to young people, the restriction of opportunities open to them, and the impact upon youth training and the future supply of skilled labour. In a number of countries demographic factors have been associated with an increase in the supply of young workers. This paper deals mostly with measures affecting the demand for their labour, looking both at relative pay, and at recruitment policies. Few observers doubt that the depth of the recession after 1979 has been one of the major causes of the increase in youth unemployment in absolute terms, but there remains the important question as to why young people should have been hit especially hard. Certain features of youth employment, such as higher rates of job changing among young workers, "last-in-first-out" rules, and policies to cut recruitment rather than lay-off adult labour could make youth employment more sensitive to recession than that of other age groups. Increased pay relative to adults may also have caused youth to be seen by employers as in a more marginal position in their labour forces than previously. But it is worth remembering that in the last great recession in the 1930s, youth did not bear the brunt of unemployment to the extent that they have done in the 1970s and 1980s. In the 1930s, in Britain, at least, adult manual workers did not benefit from the same employment protection they do today from the law and from collective agreements, and youth relative pay was markedly lower (1). This raises a number of important questions which have been

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(1) In 1935 manual male workers under 21 received weekly earnings of 36% of those of their adult male counterparts. After a long rise between about 1955 and 1975, it reached a peak of 56%. Department of Employment. British Labour Statistics. Historical Abstract, and Earnings of Manual Workers in October.

addressed either explicitly or implicitly in recent policy measures, notably whether the pay and conditions of employment of youth compared to adults have contributed to the problem.

To examine these questions in a European context, a small conference was held in Farnham Castle in June 1985 inviting people from European employers' and trade union organisations and academic and government researchers. This paper provides an analysis of the written contributions and of the discussions. The proceedings can be divided into six broad headings: recent developments in youth pay, and in the cost of apprenticeships; evidence on the relationship between youth relative pay and youth unemployment; employers' training and recruitment policies; collective agreements to promote youth employment; and the impact of public policies.

#### 1. Developments in youth pay relative to adults

A number of the speakers from the employers argued that the increase in youth relative pay during the 1960s and 1970s had contributed to the current high levels of youth unemployment (Lobban and Ingram, Mariani, and Zedler). Table 1 summarises trends in youth relative pay between 1966 and 1978 for six major EEC countries.

Except in FR Germany, and for manual women in Britain, youth to adult hourly paid increased in all countries between 1966 and 1978, although the pace and the size of increase varied considerably, the biggest changes, of about 10 percentage points occurring for male youth in Belgium, the Netherlands and the U.K. the increase in relative pay has mostly been accompanied by a decline in the youth employment share in industry. Paradoxically, the biggest change in youth employment share occurred for manual women whose pay relative to adult women had increased the least. This is partly because of the increase in participation by older women.

For changes since 1978, the papers by Crone, Kane, and Wells showed a decline in youth relative pay in the Netherlands and the U.K., while

Table 1. Relative earnings of manual workers under 21 in industry  
 1966 - 1978 (NACE 1-5)  
 (Hourly earnings, October)

Year	Earnings of workers <21 as % of:				Workers	
	Males		Females		<21 % of all ages	
	=>21		=>21		M	F
<u>BELGIUM</u>						
1966	69.7		83.7		10.2	29.1
1972	70.6		79.2		10.1	27.4
1978	78.6		83.3		7.7	17.0
<u>FRANCE</u>						
1966	71.9		77.9		10.8	30.4
1972	77.7		86.4		9.6	20.8
1978	75.7		86.1		6.2	13.0
<u>FR GERMANY</u> <sup>a)</sup> all ages						
1966	78.3	77.1	84.0	81.8	6.3	14.0
1972	79.1	78.2	85.5	83.9	5.2	12.1
1978	81.1	n.a.	85.1	n.a.	4.4	12.2
	76.6	n.a.	83.7	n.a.		
<u>ITALY</u>						
1966	77.0		84.4		4.9	19.9
1972	77.9		84.3		4.2	16.8
1978	84.8		89.9		3.3	9.4
<u>NETHERLANDS</u>						
1966	50.9		63.6		12.4	51.6
1972	54.0		63.3		9.1	34.8
1978	59.1		68.8		10.0	26.0
<u>UNITED KINGDOM</u> <sup>b)</sup>						
	=>21		=>18		<21	<18
1966	51.2		66.4		10.1	11.5
1972	53.3		63.3		8.2	10.8
1978	61.6		65.8		9.0	8.1

Notes

a) Estimates of hourly earnings derived from monthly averages. Hours estimates were made for those aged 18-20. higher earnings estimate assumes 18-20 group worked same hours as <18, and lower estimate, same hours as =>18.

b) Includes apprentices.

Sources: Belgium, France, Italy, and the Netherlands, Eurostat SEI, FR Germany, Eurostat SEI 1966 and 1972, and GLSE for 1978; UK EMO.

that by Tessaring showed a modest increase in FR Germany, especially for apprentices.

Understanding the causes of these changes is important to understanding the causes of the increase in youth unemployment, and thus the kinds of policy that can help. If the causes were institutional in origin rather than the result of an increase in demand relative to supply, then policies to reduce the employment cost of young workers are more likely to help. Similarly, even if the cause of the increase in the 1960s had its origin in excess demand, institutional pressures might nevertheless stop youth relative pay falling to market clearing levels. In fact, the evidence suggests that institutional causes have predominated, especially since the early 1970s.

A number of causes can be identified for these changes. The argument that the increase in youth relative pay has been due to institutional factors rather than excess demand has been most thoroughly presented for Britain by Wells, who showed that the increase continued, and was indeed at its most pronounced after the youth labour market had moved into conditions of excess supply. The levels of youth unemployment in most countries, except West Germany during the 1970s suggest that similar conditions of excess supply were also present there.

In Britain, the institutional pressures took the form of a reduction in the age at which workers move onto adult rates, and an increase in the remaining youth rates in a large number of collective agreements. A similar movement can be seen in a number of West German wage agreements with the elimination of or the raising of rates for unskilled youths. In France, youth rates in national agreements were raised after the Grenelle agreement in 1968 and government intervention in 1971, which took the rate for those aged 16-17 to 80% and for those aged 17-18 to 90% of the full adult rate.

In Italy, Mariani stresses the interaction of two sets of factors : Article 37 of the Italian Constitution which established the principle

of equal pay for work of equal quality and quantity, and which does not recognise age as a factor, and so discourages special youth rates; and union policies which have been designed to reduce wage inequalities generally by reducing differentials between skilled and unskilled, and through the action of the indexation system. The latter became a major equalising influence after 1977 when it switched from percentage to flat rate compensation for point changes in the price index. Again, the influence on youth pay was indirect, but nonetheless significant.

In the Netherlands, it would be tempting to point to the influence of the minimum wage for young workers effective from 1974, and which applied to the rates of a considerable proportion of young workers, but Crone shows that its influence in the 1970s was more questionable, as rises in the minimum wage followed movements in youth pay. Nevertheless, van Rintel suggests that it has been a factor in the decline of youth relative pay since 1983, although its impact may have been permissive rather than a direct cause.

The reasons why the unions pushed for an increase in youth relative pay are not entirely clear and may have been the consequence of a wider attack on wage inequalities. Commonly cited reasons include a desire to attract young persons into joining trade unions, but equally it could be to discourage employers from substituting young for older workers, but this is unlikely to be applicable to all types of employment. Nor are the reasons why employers agreed to it altogether clear. Mariani suggests that during the 1970s the Italian employers were in a relatively weak bargaining position vis-à-vis the unions. In addition, if youth rates are fixed at the industry level, conceding a little extra for young workers has a much smaller effect upon employers' overall wage bills than the overall increases being negotiated for all workers.

The downward pressures on youth relative pay in the 1980s may appear less surprising in view of the increased levels of youth unemployment. Nevertheless, it would seem that if youth pay is responding to market pressures, it is also coming under heavy pressure from public policy measures. The British Youth Training Scheme offers young workers a training allowance

fixed at a level well below youth pay rates (for those who get jobs), and in July, the government announced that it was removing young workers from the coverage of the Wages Councils which provide sectoral minimum wages. In France, the TUC scheme, providing socially useful jobs, pays young workers an allowance of 33% of the minimum wage (Barbier, Magniadas). In the Netherlands, the minimum wage was reduced in 1983. Similarly, in Italy, some of the new measures, such as the initiation wage (salario d'ingresso) offer lower rates for young workers (Garonna, and Mariani), but as Mariani suggests, the conditions firms have to meet in order to take advantage of the measures appear to outweigh any cost saving.

The discussion so far has dealt extensively with manual workers, and includes apprentices, some indication of comparative levels for manual and non-manual workers, with adjustments for apprentices in Britain and Germany, the two countries making most use of them, are given in Table 2.

One of the striking features about youth compared to adult pay in a number of EEC countries is its broad similarity in France, FR Germany and the UK. When apprentices and trainees are excluded, among manual male workers, earnings of workers aged under 21 are about three quarters of adult monthly pay; among manual women the equivalent figure is about 85 per cent; among non-manual men, about 45 per cent, and among non-manual women, between 60 and 70 per cent. Of the four countries in Table 1, only the Netherlands stands apart with significantly lower levels of youth relative pay.

Differences between the countries emerge once apprentices and trainees are brought into the picture, as youth relative pay in West Germany drops considerably, and in Britain a little less so on account of the lower rates of pay for apprentices, on which more later (Jones, Wiederhold-Fritz) (2). The inclusion or otherwise of apprentices highlights an important feature of youth employment, namely that there are several different types of employment relation into which they may enter: the

-----  
(2) The Netherlands data for 1978 include apprentices. This does not fully account for the lower levels of relative pay there as can be seen from Table 2.

Table 2. Relative monthly earnings of young workers in industry in France, FR Germany, the Netherlands and the UK in 1978.

(Earnings of workers under 21 as a percentage of earnings of all ages, full-time. Production industries excluding construction.)

	FRANCE (Oct 78)	FR GERMANY (Oct 78)	NETHER -LANDS (Oct 79) (a)	UNITED KINGDOM <sup>b)</sup> (Apr 79) apprentices included excluded	
<u>Manual workers</u>					
Men	75.8	76.9	59.1	63.7 c)	(i) 74.1 c)
Women	87.3	83.3	67.6	85.8 d)	(ii) 68.0 c)
<u>Non-manual workers</u>					
Men	47.5	47.9	41.9	46.1 d)	
Women	67.8	67.6	59.1	76.3 d)	
<u>All workers</u>					
Men	61.2	68.4 (39.6)c)	50.1	59.0 c)	(i) 65.4 c) (ii) 61.8 c)
Women	77.9	76.6 (63.0)c)	62.6	81.4 d)	

NOTES

- a) - including apprentices and trainees.
- b) - New Earnings Survey 1979 (Great Britain only).
- c) - including apprentices ONLY INCLUDED IN GERMAN DATA FOR COMPARISON WITH THE UK.
- d) - numbers of female and non-manual apprentices in industry are very small.
- e) - upper and lower estimates of effect of excluding apprentices.

SOURCES: SEI 1978: France - INSEE/SSIS; FR Germany - Statistisches Bundesamt GLS; Netherlands, Eurostat SEI; IK Dept. of Employment NES.

traditional employment relation in which they benefit from the standard conditions and protection for normal adult workers; the apprentice and trainee relation which is often for a fixed period, and in which remuneration may take the form of an allowance, as it does in West Germany, and the special employment relations envisaged under employment schemes for young workers, examples of which are discussed later. Often, the remuneration received under the latter two types of relation is markedly below the wages paid to people of an equivalent age. The principal reason for the lower pay of apprentices is that they are receiving training from the employer, but because of the transferable nature of the skills they acquire, employers who provide training cannot be sure of getting a return on their investment, so the lower age is intended to offset part of the cost of the training.

## 2. The costs of apprenticeship training

Apprenticeships are important because they have been one of the major channels through which young workers enter the labour market, and through which they gain their vocational training. They also highlight one of the biggest problems of assessing the net cost of employing young people, namely the balance between the costs borne by employers in the form of trainee pay and direct training costs, and the value of the trainee's output. Apprenticeships play an important role in the youth labour markets in FR Germany, Italy and the UK although they are believed to vary greatly in the quality of the training received, and in the net cost borne by employers.

Estimates of the net cost of apprentice training in FR Germany and in Britain were presented by Casey, Jones and Wiederhold-Fritz. Assessing of the value of trainees' output is the most difficult part of the analysis, and requires certain assumptions notably about the price to be attributed to their work. Hence the controversy surrounding this question.

Jones showed that although the net cost of apprentice training was similar in Britain and FR Germany, its composition, and hence its quality was different. In FR Germany, a greater proportion of the total outlay went on training than in Britain where it went on trainee wages.

Casey dwelt more on the differences between training in the handicraft and the industrial sectors of the West German economy, arguing from the higher net cost of training in the industrial sector as compared with the handicraft sector, that many employers in the latter sector used apprentices as a form of cheap labour. Wiederhold-Fritz made a similar observation, arguing that it was otherwise hard to understand why this sector should so persistently train apprentices beyond its own requirements.

Garonna argued that apprentices played a similar role in the small firm sector in Italy. In Italy a much higher proportion (about 76 per cent) of apprentices are engaged in the artisan and services sectors than in either West Germany or Britain. Their pay rates are however a considerably higher proportion of adult pay rates (about 95%) than in either Britain (about 60-70%) or FR Germany (about 30-40%) (Jones).

One of the problems encountered especially in recent years has been the undermining of the link between apprentice training and skilled jobs by the high levels of youth unemployment. In some countries this has been a long term problem, as Germe showed for France where a high proportion of school trained apprentices remain in unskilled jobs several years after the completion of their training. To some extent this might be understood in France by the absence of a discount on the employment of newly qualified apprentices in France (as adult rates become effective at 18), and the fact that apprenticeship training is based less in the workplace than in Britain or Germany so that newly qualified apprentices need to gain work experience. Because of this, Germe argues that on completion of their apprenticeships, many young French skilled workers start work in unskilled jobs in small firms where they gain experience before progressing into larger firms, often in other sectors. High unemployment has also produced problems of transition from apprenticeship into full skilled jobs in West Germany as Casey shows.

Marsden and Ryan took up the problems of both cost and of access to jobs in different sectors for young workers. Their statistical analysis of the distribution of youth employment between industrial sectors in six EEC countries echoed Germe's and Casey's observations that many young workers

are likely to gain their training and initial work experience in certain sectors, and then work as adults in others. Certain sectors had persistently higher youth employment shares than others, and generally they also had lower levels of adult pay.

### 3. The relationship between youth-adult relative pay and youth employment

The primary aim of the conference was not to discuss detailed econometric work on youth pay and employment. Nevertheless three papers bore directly on the question, those of Crone, Junankar, Marsden and Ryan, and of Wells.

Wells presented the results of his earlier study (Welles 1983) showing that the increase in youth pay during the 1970s in Britain had adversely effected youth employment, but not during the 1950s and 1960s. A critical factor, he argued had been the shift in labour market conditions for young workers from a position of excess demand up to about 1969-70 to one of excess supply thereafter. It was in these conditions, that the continued rise in youth relative pay had had an adverse effect - the causes of the increased realtive pay lying in institutional pressures.

Crone reported results of a small study by Crone and Westra (1984) on the Netherlands which purported to show the definite effect of an increase in youth relative pay on youth unemployment. This contrasted with Marsden and Ryan's results for the Netherlands. Magniadas also reported a study of France by Martin (1983) which, using a more sophisticated model than Crone and Westra, showed the increases in the French minimum wage had not adversely affected youth employment, although, as Martin pointed out, it could be misleading to extrapolate outside the range of variation in the SMIC to make broader judgements about the effects of minimum wages on youth employment. From a study of a small sample of firms' recruitment policies for young workers in France, Constantin reported that relative pay had not been a factor which the companies had felt to inhibit recruitment of young workers. However, he did quote one case in which the agreement had fixed a fairly high starting wage, which attracted a wide range of applicants from whom the company usually selected those with more experience.

Marsden and Ryan found a price effect on youth employment shares between industrial sectors in FR Germany, and Netherlands and Britain, but not in Belgium, France or Italy. The reasons for this they suggested should be sought in the institutional methods of fixing youth pay: did they allow a discount on youth employment, as for example with the wage for age systems used for apprentices, and were there established channels to good jobs that could be used by young workers? To some extent the two problems are interrelated as the institutional channels could wither if they proved too expensive to employers. Industrial apprenticeships in Britain and FR Germany provide such channels, and these also ensure a more even distribution of young workers between sectors than in France, Italy or Belgium.

The cost of employing young workers is not simply a function of their pay rate, nor even of expenditure on training, but also of the conditions under which they are employed. There has been a good deal of debate as to whether employment legislation and rules designed to protect adult workers in fact work to the exclusion of young workers. This raised two sets of questions: what are the problems posed by these rules; and what is being done within collective bargaining to relax conditions on young people's employment.

#### 4. Conditions of employment and youth jobs

The problems posed to the employment of young workers by employment conditions designed initially to protect adult workers was raised in a number of papers. Of particular importance were the indirect costs of offering the normal unlimited duration contracts of most adult workers to young workers. If employers took on extra young workers to help combat youth unemployment, would they then find themselves committed to employing more people than their production levels warranted? Would they find that they could not dismiss trainees who subsequently failed to attain the level of competence required, and by taking on extra young workers now would they be building future increases into their labour costs as these people attained adult rates of pay? These questions were raised especially by the employers from several countries.

It was raised mostly strongly for Italy. This partly reflects specifically Italian conditions, notably the system of job placement under which

employers have to take people from the placements lists in a particular order, and so have relatively little choice in whom they recruit, coupled with tight regulation of individual dismissals (as opposed to redundancies). Mariani argued that the implicit costs of such employment rules with respect to the recruitment of young workers outweighed the subsidy element in many of the Italian authorities' schemes to promote youth employment. Nevertheless, the issue of restrictive conditions was implicit in a number of the employment measures in which the limitation of the time commitment by an employer to a young worker recruit was more important than the relative wage cost. One example of this can be found in the 1982 Netherlands National Accord.

Under this National Accord, among the measures proposed for young people were special familiarisation contracts, and expansion of apprenticeships, and accelerated entry schemes. The first two of these, the familiarisation and the apprenticeship contracts, proposed fixed term employment relations. Even on the accelerated entry schemes, which envisage part-time working for young workers, the commitment to subsequent full time work was conditional.

In West Germany, under the Employment Support Act, from May 1 1985, employment contracts can be limited to 18 months duration. Zedler suggests that this may facilitate employment of apprentices after termination of their initial training contract, but also facilitate the development of temporary work. Nevertheless, it is still too early to assess any benefit to young workers.

Such measures, however, put unions in a very difficult position. First, they can be seen as the "thin end of the wedge" in a more general attack on the advantages gained from their members by collective bargaining and by legislative action during the 1960s and 1970s. Such suspicions are intensified by more general pressures from free market economists, and politicians influenced by them for a more general "deregulation" of the labour market, as expressed by Kane. Secondly, unions fear that concession in this area for the benefit of young workers could, in the absence of a more general reflation of the economy, easily lead to substitution of

young for older workers, producing an overall reduction in standard employment conditions, while the potential second round benefits from greater competitiveness are uncertain, and may be slow to materialise.

#### 5. Union employer initiatives

Governments can only work effectively in employment policy if they have the support of employers and unions, so it is natural to ask what has been the role of private initiatives to help young workers. The most prominent example discussed was that of the 1982 National Accord in the Netherlands described by Casey and by van Rintel. Casey and Zedler were also able to point to examples in West Germany, and to a much smaller extent in Britain. Moreover, one should not overlook the extent to which employment and training contracts, and the solidarity contracts in France and Italy rest also on a form of agreement albeit between individual employers and the public authorities. What have been some of these initiatives, and what have they achieved?

The Netherlands National Accord, reached between the employers' and trade union federations represented in the Foundation of Labour in 1982 envisaged three main elements in its policy towards youth. First, there were to be special familiarisation contracts of short duration designed to provide work experience to young persons. Secondly there should be an expansion of apprenticeships limiting the duration of the contract to that of the apprenticeship, and the establishment of special branch-wide funds designed to spread the cost of training, and into which both employers and trainees would contribute. Thirdly, there would be special provisions for accelerated entry of workers by means of special part-time contracts with hours of between 50% and 89% of normal working.

The 1982 accord was a frame agreement setting guidelines for negotiations at branch level. During 1983, 41 agreements covering some 1.1m workers were made putting these into practice, but according to van Rintel, employers have found them hard to put into practice because of commercial pressures. In July 1984, the Foundation of Labour called upon the parties to make additional efforts to fulfill the original accord, and negotiations have been continuing to this end during the summer of 1985.

Both Casey (1984) and Zedler (1985) reviewed similar schemes in West Germany, although these were mostly confined to initiatives within individual branches or individual firms, so that their coverage was more limited than in the Netherlands. The idea of worksharing as a way of increasing the number of jobs available to young workers has many attractions, but also encounters a number of difficulties. One such difficulty is how to fit part-time work into already established patterns of working. A second is that unions fear that as many of these workers will not be taken on permanently, competition between workers will be enhanced with the young part-time workers being tempted to give a full day's work for part-time pay. This of course raises fears that young workers will then be used instead of adults where work schedules and skill requirements permit. Hence, one of the key negotiating problems to arise in a number of Casey's case studies bore on the proportion of part-time young workers who were to be kept afterwards by the company. In other words, it can be difficult in practice to ensure that work-sharing among young workers does not extend to work-sharing between young and adult workers. Indeed, the proportion of young workers being kept on afterwards, appears to have the main bone of contention in the Federal German Railways.

#### 6. Employers' training and recruitment practices

Studies of employers' recruitment practices shed further light on the question of youth employment, pay and training. These were hinted at in a number of interventions, especially by those from employers' organisations, but two studies of youth intensive industries in France and Italy presented by Constantin and by Thibault raised a number of issues. Both showed that young workers' relative pay was not foremost in individual employers' minds in deciding whether or not to recruit young workers. But two points should be borne in mind: first the recession has generally been the dominant factor in recruitment decisions and this may have weighed more heavily in the minds of those interviewed; and secondly, in view of the steep increase in youth unemployment, employers would find that the quality of their young recruits had increased, so that the price for a given quality of recruit would in fact have fallen. The apparent insensitivity to relative pay at the plant level may not be at odds with the aggregative econometric evidence quoted earlier, as neither Martin nor

Marsden and Ryan found a strong relative wage effect on youth employment in France.

Thibault highlighted two types of recruitment pattern: one in which employers seek experienced and trained workers, for which the discount on youth employment did not compensate for the additional costs of training; and one in which employers sought adaptable workers, for example for new industrial processes, in which case they sought young workers even if there were no discount.

Constantin also noted a preference among employers for younger workers on account of their ability to learn faster where greater adaptability is needed, as with new technology. His study also brought out the preference among a number of French employers for fixed term contracts for their young recruits as a means of limiting their risks. This may be an important element in employment costs not reflected in relative hourly or monthly wages.

The practical importance of restrictive conditions on youth employment and their effect upon recruitment practices is hard to assess because differences between sectors, and the possibility that collective agreements and legal provisions may be uneven in their enforcement. One implication of the concentration of young workers in lower paid sectors of industry, as observed by Marsden and Ryan, is that in these sectors, in the early 1970s at least, they provide a cheap and fairly flexible labour force. A similar conclusion flows from the arguments of Casey and of Wiederhold-Fritz that apprentices can be used, especially in the handicraft sector, as a source of cheap labour which can be easily expanded or run down. Similarly, in France, Germe's observation that young workers typically enter certain sectors and enter unskilled jobs even when they have completed their vocational training suggests their use as a low cost flexible workforce in the youth intensive sectors (an advantage which has to be set against their lesser experience).

Garonna argues a similar case for Italy: that the public policy measures designed to "deregulate" the youth labour market have in fact had less effect than might be thought because attempts to regulate the labour

market by the public authorities were widely evaded. He goes on to argue that the critical factor was the growth of union power in the early 1970s, and that where the unions were strong they were able to make a number of these measures effective, such as the legal protection of young workers, and their inclusion in the public job placement system and to limit their use as a source of cheap and flexible labour. Hence it was not the measures of "deregulation" brought in by the tripartite "Scotti agreement" in 1983 which were responsible so much as the weakening of the unions. He further argued that the fall in the number of unemployed first job seekers has, in fact, been offset by a corresponding increase in unemployment among young workers who have already had jobs.

#### 7. Public policy measures and the youth labour market

Public policy has come to plan an ever larger part in the transition between school-based vocational training and work, to the extent that, according to Barbier, it has now established a distinct transitional phase in France. There is no longer a direct link between vocational training and the labour market. But in taking on such a responsibility, the state has only resolved part of the problem.

Public policy to help young people has still to contend with established patterns of labour mobility which have not usually developed as the result of a conscious plan, but instead from the interaction of a number of policies, and a number of levels of decision making. The evidence quoted by Germe for France suggests that it has been unable to alter the established pattern of youth entry into the labour market, and the transition from the schemes into full adult work remains difficult. Magniadas made a similar observation, expressing fears about the transition from the schemes into proper jobs. The French problem merits closer examination, as there are a number of elements which are relevant to other countries.

The education system has long sought to link educational streams to types of employment. But it is better at providing general theoretical training than practical experience, and it adapts rather slowly to changing employment demands. Consequently, employers seek experienced workers, although

they are unwilling to pay for its acquisition. Large firms, and firms in better paid sectors can afford to cream off the experienced skilled labour, while small firms have difficulty retaining their highly skilled workers. As a result, they have to take on the young inexperienced workers, but they also place them in less skilled jobs. For some young workers, this progression occurs, but others remain in dead-end jobs.

Recent policies to help young workers have sought to do so in a general way, but in practice, their effect has been greatest in the sectors and occupations traditionally employing large numbers of young workers. Of the many current measures in France Germe picks two important ones as examples: the "stages 14/18" (work experience for 16-18 year olds) and the "contrats emploi-formation" (employment and training contracts for those aged 18-26). The first takes unemployed school leavers, and seeks to bridge the gap between school and work experience, taking mostly unqualified young workers. The contrat emploi-formation takes people with a limited amount of vocational training, and aims to give them training, mostly of a firm specific nature, for which the firm receives a subsidy. In theory the position should lead to a permanent job, but the scheme does not commit the employer in the same way as an ordinary employment contract. Both types of scheme have had most success in those sectors and types of job into which young workers have traditionally gone, and have not opened up new areas for young workers.

The rise in unemployment has brought about an increased polarisation between those sectors receiving young workers and those not. This has slowed the progression of even qualified young workers from the sectors which receive them initially towards the better ones. 30% of qualified young workers entering an unskilled job in 1976 are still in unskilled jobs.

One important new initiative is intended to reduce this polarisation is the "contrats en alternance" (providing alternate spells of work training and replacing the older contrats emploi-formation), which greatly reduces the remuneration of young workers, and their employment cost.

The aim is to lower the cost of the adaptation of young workers' school qualifications (where they have them) to the skills needed in industry, but not to create a new sector of low paid jobs for young workers.

Such problems are not confined to France, and in FR Germany, not only has the transition from apprenticeship to full adult work become more difficult, but as Casey observes, young workers enter different sectors, and get a poorer quality of training during recession, and experience greater difficulty in the transition to better jobs. He argues that the steady supply of apprenticeship places over the last decade in fact conceals two quite distinct processes of recruitment which have fluctuated inversely with one another. In large firms apprenticeship places are mostly linked to the firms' investment plans and their expected future skill needs, and hence fluctuates pro-cyclically; but in small firms apprenticeship places are to a greater extent a source of cheap labour, young workers would prefer places with the better training schemes, but in recession their choice is limited, and they have to make the best of places in the small firms, hence the countercyclical fluctuations in the number of apprentices in this sector. The combination of these two movements helps to explain the steadiness of the supply of apprentice places, and the relatively small divergence between supply and demand for places over the years.

## 8. Conclusions

The purpose of the conference was to promote an exchange of ideas rather than to reach particular policy conclusions. Nevertheless, certain conclusions would seem to follow from the logic of the arguments, at least as they have been presented in this paper.

The principle conclusion would seem to be that employment costs of young people, be they in the form of pay relative to adults or the implicit costs involved in providing certain employment guarantees to young workers are an important element in determining their overall share of employment. How far these factors also affected their access to good jobs with prospects was less certain. What policies could work towards this end?

Reductions in relative pay have been widely discussed in Britain, and are an element implicit in a number of policies providing low levels of allowances for young workers on special schemes. Almost all of the econometric work on relative pay has been done on Britain, and this suggests the increase in youth relative pay has been an important influence (although smaller in overall terms than the recession). The work of the Netherlands has been more limited, and although Crone found no relative pay effect, we must await confirmation from studies based on a larger number of observations. Perhaps important, were Marsden and Ryan's findings of a significant relation for three countries, Britain, Germany, and the Netherlands, but no relation for Belgium, France and Italy. These results also await confirmation on other years than 1972, but they suggest that differences in labour market organisation between the countries may affect the influence of relative pay, and they affect the distribution of young workers between sectors of industry.

Of course, finding that relative pay is influential does not of itself imply that policies to reduce relative pay should be allowed: it equally suggests that a policy of selective employment subsidies could be effective.

Perhaps one of the most important points to emerge was the other element of employment cost, namely the cost of providing certain employment guarantees to young workers, notably offering the indeterminate duration usually offered to adults. Mariani's paper indicated the problems of trying to tackle such costs by means of subsidies. In essence, a fixed amount of subsidy is offered to an employer who is asked to take a risk in employing someone whom it may prove difficult to fire. Constantin picked up the same sentiments in company level interviews in France.

This problem might be tackled in three ways. The first is by simply offering contracts of new recruits which are of fixed duration, and which exclude benefits going to other workers already employed. In a time of high unemployment, some employers may be able to force this on their workforces, but it is likely to breed a tough attitude from the workforce and their representatives should the fear of unemployment weaken, reinforcing a cycle of adversarial industrial relations.

A second alternative is to pursue such special contracts through public intervention, and there have been several examples mentioned in this paper. Again, however, the danger is that this can be seen as an intervention by a hostile government intent upon "rolling back" the gains of collective bargaining, and on weakening the rules by which employees gain some control over their working lives.

A third alternative is to pursue such policies through collective bargaining itself, or through other established forms of employee representation. Here the Netherlands national agreement is particularly interesting. In a sense it can be seen as an example of "concession bargaining" under which certain rights of employees are given up in order to help solve a particular problem, but by pursuing through collective bargaining employees and their unions maintain a greater degree of influence over the process, and may be better placed to ensure that such measures do not become part of a wider attack on collective bargaining. The Dutch National Accord has not been a unqualified success, and negotiating the industry and firm level agreements has proved very tough, as van Rintel's evidence showed. But it offers a challenging third alternative to reasserting unilateral managerial authority, and to greater state intervention in the labour market.

List of papers

Barbier J.-M. Formes nouvelles d'intervention de l'Etat sur les conditions d'accès aux emplois des jeunes en France (1975-1985).

Constantin P. Difficulties in youth employment: recruitment practices in French and Italian firms.

Crone F. Does cutting the youth wage help young workers employment?

Casey B. Never the rose without the thorn: the dual system and the recruitment and retention of young workers in the Federal Republic of Germany.

Garonna P. Youth unemployment, labour market flexibility and union strategy in Italy.

Germe J.F. Politiques de l'emploi et l'insertion professionnelle des jeunes.

Hart P. and Trinder c: Youth employment and unemployment: a preliminary empirical analysis of structures and causes in three EEC countries.

Jones I.S. Trainee pay and the costs of vocational training in Britain and West Germany.

Junankar P.N. Young and out of work: the labour market for young people.

Kane P. Young people's pay and employment.

Lobban P. and Ingram P. Youth pay and employment: the employers' perspective.

Magniadas J. Pour faire face au chômage des jeunes. Une exigence incontournable: promouvoir une politique de création nette d'emplois.

Mariani I.F.M. Salari dei giovani e pratiche di reclutamento delle aziende: l'esperienza italiana.

Marsden D.W. Youth pay in some EEC countries and the United States since 1966.

Marsden D.W. and Ryan P. The distribution of youth employment by industry in the EEC.

Tessaring M. Arbeitslosigkeit und Einkommenssituation Jugendlicher in der Bundesrepublik Deutschland.

Thibault J.L. Wage differentials between young people and adults and the unemployment of young people: monograph of the French situation.

Urwin N. What can be done to help youth employment at the company level? What employers and unions can do together? Experiments in a public sector company.

van Rintel P.J.L. The fight against youth unemployment in the Netherlands: plans and impact.

Wells W. The relative pay and employment of young people.

Wiederhold-Fritz S. Is there a relationship between the cost of in-company vocational training and the offer of training places in the Federal Republic of Germany.

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Casey B. Work-sharing for young persons: recent experiences in Great Britain, the Federal Republic of Germany, and the Netherlands. Commission of the European Communities, 1984.

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Noll I. Beicht U. Boll G. Malcher W. Widerhold-Fritz S. The net cost of firm-based vocational training in the Federal Republic of Germany, Summary of a survey report prepared for the Federal Institute for Vocational Training, 1983.

THE EMPLOYMENT AND EARNINGS SITUATION OF YOUNG WORKERS IN THE  
FEDERAL REPUBLIC OF GERMANY

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1. Starting situation

The training and employment situation in the Federal Republic of Germany has been influenced in the last few years primarily by :

- the increasing number of births up till 1965/66 and the subsequent downturn (Demographic factor);
- the increasing popular demand for education;
- growth of the potential labour force - due to demographic developments;
- the influx of foreign labour and its consequences;
- the increasing participation of women in the labour market.

To these influences on the labour supply side we must add influences on the demand side such as :

- the slow growth of net investment and gross domestic product;
- economic growth rates at least matched by increases in labour productivity;
- decreasing scope for changes in the distribution of income and
- the increasing segmentation of the labour market.

At the same time the growing skill requirements of jobs and professions as a result of technological and social change mean that young people need to start their working lives with better and wider-based qualifications.

Nobody questions the fact that it will be almost impossible to find a permanent solution to the employment crisis without state intervention.

All longer-term labour market forecasts (1) show the present job deficit lasting until well into the 1990s. This is bound to affect in particular young people, people starting work and unskilled labourers.

Most young people in the Federal Republic of Germany start their working life in one of three ways. After their compulsory education all young people, with the exception of those entering the labour market directly as "unskilled labour" without any formal qualifications, go on to either in-plant vocational training or vocational training in educational establishments. Currently, just under 2/3 of any age group opt for in-house vocational training; about 30% choose outside vocational training (sometimes in addition to in-plant training) and just under 10% start their working life without any training at all.

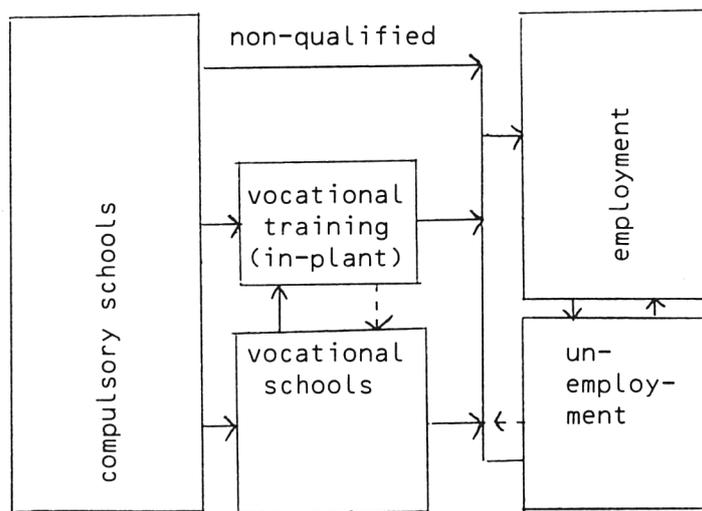


Fig. 1 : Transition patterns from school to labour market

Table 1 illustrates these paths in condensed form. In recent years bottlenecks in training opportunities have led to young people at the start of their vocational training either accepting training courses other than those they originally wanted to take or being prepared to wait a long time for the courses of their choice. And at the beginning of their working

(1) Cf. W. Klauder, P. Schnur, M. Thon: Arbeitsmarktperspektive der 80er und 90er Jahre. Neue Modellrichtungen für Potential und Bedarf an Arbeitsmärkten, in: Mitteilungen aus der Arbeitsmarkt- und Berufsforschung 1/1985, pp 41 ff. (\*)

(\*) English and French language summaries available.

lives young people without specific work experience are again particularly at risk in times of recessionary developments on the labour market. They are the first victims of hiring stops in both the private and public sector and - if they do find a job - they have little protection when it comes to lay-offs.

## 2. Employment situation

Once training is completed, it is becoming increasingly difficult to find a job (2). In 1984 14% of all young people found themselves unemployed after finishing in-plant training (cf. 8% in 1982). The way unemployment statistics for young people under the age of 20 has been handled to date in the Federal Republic of Germany gives an inadequate picture of the extent of youth unemployment. The problem is beginning shift towards the 20-25 age group. At the end of 1985 600,000 persons under the age of 25 were unemployed, of whom as many as 435,000 were aged between 20 and 25. Overall, the unemployment rate of persons under the age of 25 increased between 1975 and 1985 from 6.4% to 11.5% and the rate for the 20-25 age group from 6.5% to 14.0%.

This can be seen clearly when we look at the structure of youth unemployment (see Table 1). On the one hand it has been possible to reduce the number of younger members of this group (under 20) by, for example, introducing training schemes, increasing the number of students and implementing employment policy measures to relieve pressure on the labour market. At the same time, though, we observe that the unemployment problem is shifting towards the older members of this group.

What is more, the official unemployment statistics do not reflect the true extent of youth unemployment. This is because all those young people who, for example, because of imminent or actual unemployment, take part in additional training schemes or who stop looking for work because of the hopeless situation on the job market, even though they would really

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(2) Cf. for data below: K. Schober : Jugend im Wartestand: Zur aktuellen Situation der Jugendlichen auf dem Arbeits- und Ausbildungsstellenmarkt, in: Mitteilungen aus der Arbeitsmarkt- und Berufsforschung 2/1985, pp 247 ff. (\*)

(\*) English and French language summaries available.

Table 1. Unemployed persons below the age of 25, 1975-85, in absolute and percentage terms, with breakdown into age groups and rates of change (yearly averages)

	Unemployed persons below 25			Unemployed persons between 20 and 25*			Unemployed persons below 20**			Unemployment rate (all age groups)	Change (1975 = 100)			Total unemployed persons
	Total	Un-emp-loy-ment rate	As % of total un-emp-loy-ed	Total	Un-emp-loy-ment rate	As % of total un-emp-loy-ed	Total	Un-emp-loy-ment rate	As % of total un-emp-loy-ed		Unemployed persons 20 to	Below 25	Below 25*	
1975	287 373	6,4	26,8	171 620	6,5	17,1	115 753	6,2	10,8	4,7	100	100	100	100
1976	250 486	5,2	23,6	154 456	6,0	17,2	96 030	4,3	9,1	4,6	87	90	83	99
1977	262 592	5,5	25,5	161 873	6,2	17,8	100 719	4,7	9,8	4,5	91	94	87	96
1978	243 241	5,1	24,5	153 931	5,8	17,8	89 310	4,3	9,0	4,3	85	90	77	92
1979	194 692	4,0	22,2	123 709	4,5	16,8	70 983	3,3	8,1	3,8	68	72	61	82
1980	216 293	4,3	24,3	143 526	5,1	17,4	72 767	3,2	8,2	3,8	75	84	63	83
1981	296 318	5,8	23,3	184 676	6,6	14,5	111 642	4,9	8,8	5,5	103	108	96	118
1982	457 657	8,7	25,0	292 625	9,6	16,0	165 032	7,7	9,0	7,5	159	171	143	171
1983	562 837	10,7	24,9	370 599	11,9	16,4	192 238	9,1	8,5	9,1	196	216	166	210
1984	569 747	10,8	25,1	403 565	12,8	17,8	166 182	7,9	7,3	9,1	198	235	144	211
1985	594 392	11,5	24,0	435 400	14,0	17,6	158 992	7,7	6,4	10,0	207	254	137	230
***														

\*) till 1980, including September figures

\*\*\*) till 1976, including September figures

\*\*\*) end March 1985

Source : K. Schober : Jugend im Wartestand, in: Mitt. A.B. 2/1985, p. 249.

like to work, are not included in the statistics. The size of this "hidden reserve" was estimated by the IAB in 1982 at around 300,000 persons (3) and has in all likelihood increased since then. In other words, official data on youth employment represent only the "tip of the iceberg".

One thing remains clear : the reduction of pressure on training facilities due to demographic factors is being replaced by increasing problems in starting work, presenting a new and specific danger as regards the permanent incorporation of the coming generation into the workforce in line with their skills and qualifications. Policy measures in the labour market should not stop at preaching higher mobility and a lowering of professional horizons. The full brunt of finding a new balance on the employment market cannot be borne by young people finishing their vocational training alone.

I shall now go on to discuss one of the various solutions currently under discussion, i.e. increasing the number of vocational training and work vacancies by either freezing or reducing training allowances and youth earnings, based on concrete data on earnings.

### 3. Young persons' earnings

The level of earnings of employed persons in the Federal Republic of Germany is governed exclusively by wage agreements negotiated between employers and trade unions. These agreements also cover training allowances. There is no such thing as a minimum wage, even though this has been discussed once again in recent years. When comparing the earnings of young people with those of adults, we must bear in mind that the earnings of the former are subject, in differing amounts, to discounts according to age.

The data used here is taken from special evaluations of the micro-censuses (1% population sample) carried out in 1978 and 1982. These

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(3) Cf. IAB : Quantifizierung und Strukturierung des Erwerbspotentials 1960-1982. Unpublished manuscript. Nuremberg 1983, Overview 6.

give the net monthly earnings of employed persons after deduction of taxes and social security contributions. To minimize distortions, we will deal exclusively with persons in full-time employment.

### 3.1. Comparison of earnings of young people with those of adults

Average net monthly earnings of all persons in full-time employment amounted to 1,777 DM in 1978, increasing to 2,091 DM by 1982 (men only). During the same period, women's earnings increased from 1,142 to 1,376 DM, i.e. still remaining less than 2/3 of those of men (Table 2).

At 800 DM (1978) and 962 DM (1982) the earnings of young men under the age of 20 (excluding apprentices) were less than half the average earnings of the male employed population as a whole. Young women in this age group earned approx. 64% of average female earnings (not forgetting the generally low level of female earnings) whilst the earnings of young women between the ages of 20 and 25 are very close to the average for employed women as a whole, whilst young men in this age group still earn a third less than the average for all employed men.

In both years the average earnings of apprentices was about half that of regularly employed persons of the same age or 1/3 of that of persons between 20 and 35. Compared with the workforce as a whole, male apprentices earn around 20% and female apprentices around 30% of average earnings for their respective sexes.

Table 2. Income (1) of employed persons (2) by age and sex 1978 and 1982

Income	Apprentices		Young employed persons (excluding apprentices)				Total employed persons	
	male	female	15-20		20-25		male	female
			male	female	male	female		
			<u>1978</u>					
Average income in DM (3)	357	350	800	738	1 164	1 060	1 777	1 142
Standard deviation in DM	220	201	379	308	432	297	962	591
Coeff. of variation in %	61,5	57,3	47,4	41,7	37,2	28,0	54,1	51,7
			<u>1982</u>					
Average income in DM (3)	473	454	962	874	1 347	1 229	2 091	1 376
Standard deviation in DM	245	208	489	360	560	365	1 067	710
Coeff. of variation in %	51,7	45,9	50,8	41,2	41,5	29,7	51,0	51,6

(1) Average net monthly income

(2) Only persons in full-time employment

(3) Arithmetic mean

Source : Micro-census 1978, 1982, Author's calculations.

Here we should add that, owing to uniform wage agreements, there are only minimal differences in earnings between male and female apprentices. It should also be noted that the 30% increase in earnings between 1978 and 1982 for apprentices is greater than that of employed young persons (16%) and the employed workforce as a whole (21%).

Relative differences in earnings are greater in the case of young men (including apprentices) than in the case of young women. Whilst the difference between young employed persons and apprentices decreased between 1978 and 1982, the differences within the young working population in fact increased.

In summary we can say that apprentices earn considerably less than employed young persons, and that in turn employed young persons earn considerably less than the employed population as a whole. One exception are employed women in the 20-25 age bracket, whose earnings are only marginally less than those of the female employed population as a whole, which though, remain very low compared with those of the male employed population. By the age of 20-25 most women have reached their earnings limit. The only way a woman can earn more is by additional characteristics such as professional qualifications. This will be demonstrated in the following section.

### 3.2. Earnings of qualified young employed persons

The earnings of young persons discussed in the previous section showed a relatively high overall dispersion, due, among other things, to differing levels of professional qualifications. If we go on to break down earnings data according to educational qualifications we arrive at some very interesting data (cf. Table 3).

Table 3. Income (1) of employed persons (2) by age, education and sex  
(1982 in DM; 1978 = 100; Comparison with Standard Group (3))

Men				Age	Women			
15 - 20	20 - 25	25 - 30	15 - 70		15 - 20	20 - 25	25 - 30	15 - 70
440 132   22	553 116   27	(853) (115)   (42)	473 132   23	Qualification	423 130   21	546 108   27	(754) -   (37)	454 130   22
916 123   45	1 243 116   62	1 652 119   82	1 714 120   85	Apprentices	815 123   40	1 097 115   54	1 236 118   61	1 231 121   61
1 071 120   53	1 384 116   69	1 813 117   90	2 019 120   100	Unqualified	964 117   48	1 249 116   62	1 455 117   72	1 449 120   72
- -   -	1 495 107   74	2 111 119   105	2 699 120   134	Completed apprenticeship or vocational training	(997) -   (49)	1 394 114   69	1 655 116   82	1 749 118   87
- -   -	1 559 115   77	2 358 123   117	3 252 115   161	Technical College diploma	- -   -	1 557 124   77	1 808 122   90	1 962 119   97
- -   -	1 456 100   72	2 281 114   113	3 600 112   178	Polytechnic degree	- -   -	1 393 114   69	2 022 111   100	2 502 115   124
- -   -				University degree				

1) Average net monthly income

2) Only persons in full-time employment

3) Standard Group; male employed persons with completed apprenticeship or vocational training

Boxes

1982 income in DM
Change in earnings of standard group 1978 (1978=100)
-82 (1982=100)

Figures in brackets: of limited use because of restricted sample size

Source : Micro.census 1978, 1982: Author's calculations

This table shows a clear and positive inter-relationship between earnings levels and qualifications of persons in employment (4). At the bottom of the scale we find unskilled workers and workers with completed apprenticeships or vocational training. Employed persons with a full education (polytechnic or university) obtain above-average incomes. Women's earnings remain well below those of men at all levels of qualifications.

Apprentices' allowances (primarily training allowances) amount to only 28% (men) and 37% (women) of those of unskilled workers and 23% (men) and 31% (women) of those of workers who have completed their apprenticeships or vocational training.

Increases in earnings between 1978 and 1982 were pretty similar for all sub-groups at between 15 and 20%. Above-average increases were recorded by apprentices (23% - men, 22% - women), and below-average increases by female university graduates (up to the age of 30). This means that, at least in the case of women, a university degree commands a relatively low salary. This factor was not so marked in 1978. It can be assumed that this relatively low increase in starting salaries is due to the increasing market supply of university graduates. However, this development is not limited to university graduates. Demographic developments and the expansion of education have led to a general tendency towards lower relative starting pay.

Finally, we have included an earnings comparison, permitting the comparison of earnings by different qualification levels as well as by age and sex.

In this comparison the earnings of the different sub-groups are compared with those of the standard group, defined as "male employed persons with a completed apprenticeship or vocational training" (i.e. basically "skilled blue collar workers" and "skilled white collar workers"). The average earnings of this group amounted in 1982 to 2,019 DM. This

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(4) Cf. on this problem M. Tessaring : Qualifikation und Einkommen. Materialien aus der Arbeitsmarkt- und Berufsforschung 7/1984.

particular group has been chosen because it is on the one hand the numerically largest group on the labour market and also because of the large amount of time and space devoted to public debate on the "skilled worker problem".

a) Men's earnings

Members of this standard group reach the standard earnings level only later in life. Male skilled workers between 20 and 25 earn only 70% and workers in the 25-30 age group only 90% of these standard earnings.

The earnings of unskilled young workers in all age groups is below that of the standard group. More highly qualified persons begin to earn more than standard income between the ages of 23 and 30. Apprentices up to the age of 25 only approx. 1/4 of standard earnings.

The 1978 figures (not shown in the table) present a similar picture, though the earnings of persons starting work with higher educational qualifications were considerably higher compared with the standard group than in 1982. This again demonstrates, as mentioned earlier, that the levelling of earnings is taking place primarily at the level of job start level but that (so far) this has had little effect on earnings differentials of older employed persons.

b) Women's earnings

The earnings of women at all stages in their careers are considerably lower than those of the male standard group and the relation of these earnings to those of the male group hardly changes. Skilled female workers earn only approx. 70% of the earnings of the equally qualified male standard group. Only women with a polytechnic or university degree reach or exceed the income of the standard group, and then only later in life.

In other words there is clear proof that women, depending on age group, need to be two to three steps higher up the qualification ladder than men in order to attain the same level of earnings.

Only in the case of apprentices, where earnings are governed by industrial agreements on training allowances, is there widespread earnings parity between men and women.

In the public services the rule of equal pay for equal qualifications generally applies. This means that the inequalities of earnings would appear even greater if the public services were excluded from the present review.

#### 4. Summary

Youth unemployment in the Federal Republic of Germany is currently at above-average levels, as in most European countries, and is likely to increase in coming years unless massive employment policy measures are taken. The expressions "youth" and "young persons" have been used here for persons up to the age of 25. This is because the number of young employed persons under the age of 20 is going down due to various training and qualification schemes (withdrawal and demographic effects).

An analysis of earnings by age and qualifications confirms the hypothesis that neither training allowances nor the earnings of young employed persons are unduly high compared with those of adults. This means that employment costs alone can hardly be the decisive factor for companies in deciding whether or not to provide training and work openings. Training allowances are often higher in some branches of activity than others for completely different reasons (e.g. investing in good staff for coming years, emphasis on specific skills) (5).

Whilst in isolated cases the earnings levels of young people may appear relatively high, this occurs in areas with low overall earnings levels and in which income hardly grows with age (e.g. unskilled workers, labourers and in particular women).

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(5) Cf. U. Beicht, S. Wiederhold-Fritz: Tarifverträgliche Ausbildungsvergütungen im Jahre 1982, in BWP 1/1983, pp. 11.

A common pattern in all the data evaluated is the discrimination against women with respect to earnings. This discrimination is relatively low in the case of apprentices and younger employed persons, but increases with age. Women need to be two or three steps higher up the qualifications ladder in order to attain the same level of earnings as men.

"IS THERE A RELATIONSHIP BETWEEN COST OF IN-COMPANY  
VOCATIONAL TRAINING AND OFFER OF TRAINING PLACES  
IN THE FEDERAL REPUBLIC OF GERMANY?"

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The main issue to be discussed in this conference is whether there is a connection between payment for young people and their job opportunities. Referring to the situation in West Germany the following two levels have to be distinguished :

- first : the young people wanting to start vocational training in the Dual System before entering the labour market; this level is called "market of training places"
- second: those having accomplished vocational training or those without formal qualification who are looking for their first employment; this level is the labour market in its true sense.

I have been asked to give you some information about the main aspects of the market of training places - the first level as I told - especially some facts about the cost of in-company vocational training.

To begin with, it is indispensable to go into some details of our vocational education and training system, the so called Dual System.

1. Particulars about the Dual System

The distinction between the market of training places on the one hand and the labour market on the other hand is due to the vocational training system in Germany. In most of the other western countries young people normally obtain an initial occupational qualification at school or in college and then pass over to the labour market immediately.

In Germany, however, the Dual System is the link between school and labour market. "Dual System" means the combination of vocational education and training in companies and vocational part-time schools. Apart from tertiary education it represents the traditional approach to a first occupational qualification. In 1984 about 706 000 young people started in-company vocational training. That is approximately 70% of one years' school leavers. Vocational training at full-time vocational schools play an insignificant role only.

Young persons can undergo in-company training in one of the 430 government-recognized occupations throughout the economy, e.g.: in traditional crafts, industry, trade, administration, public services, health system and so on. 46% of the apprentices are trained in the industry and commerce sector, another 395 undergo training in forms belonging to the craft sector.

The trainee concludes a private contract with the company. The duration of training varies from two years to three and a half years according to the occupation he or she has chosen. The main part of the training takes place in the company under legal regulations set up by the government. Generally once a week the trainee has to attend the public part-time school.

After passing the final examination the young persons are qualified for an employment as skilled workers.

In opposition to the pupils attending full-time vocational schools the trainees have the status of an employee during the training period. In accordance with the chosen occupation and the training year they receive remunerations which, in most cases, are negotiated by trade unions and employers by collective bargaining. It can be said that remunerations are seen as payment for the productive work done by trainees. The remuneration is about 20 to 40% of initial wages as a skilled worker. In addition the trainees are integrated in the social security system, e.g.: unemployment insurance, health insurance.

The cost of in-company training is - as a rule - financed by the training company itself whereas the vocational schools are financed by the federal States (Länder).

## 2. Survey of the cost of in-company vocational training

Which cost is incurred by training companies?

In order to answer this question the Federal Institute for Vocational Training carried out a representative survey of more than 2 000 companies involved in training. By means of a detailed questionnaire data were collected about the cost of in-company training in 45 heavily-frequented training occupations. The cost data collected relates to 1980. About 75% of all trainees are undergoing vocational training in the occupations covered by the survey. It is true to say that the whole range of jobs requiring training - with both high and low training costs - is represented in the survey.

The summary of our report was handed over to you. Therefore I shall mention the most important data only.

A firm involved in vocational training in one of the 45 occupations investigated incurred total costs of approximately 17 000 DM (4 250 £) per trainee in 1980. The net cost per trainee is markedly affected by the amount of "apprentice created value". This value is called "revenue", it amounted to more than 6 700 DM (1 675 £). Thus, the average net costs per trainee were about 10 300 DM (2 575 £). These average data vary from occupation to occupation, from branch to branch and depend on the size of the company.

Several examples will illustrate this : the training occupation incurring the highest gross costs, namely 30 700 DM (7 675 £), is the industrial occupation of a turner. The lowest gross costs concern an occupation in the craft sector, namely the hairdresser with 11 400 DM (2 850 £).

In the case of net costs the telecommunications technician, trained in the sector of public services, tops the list with 25 200 DM (6 300 £). The lowest net costs of 2 400 DM (600 £) fall to the agricultural training occupation of a gardener.

If we take a look at the distribution of the training companies to net costs intervals you see that in the case of 6.5% of the companies only the apprentice created value (revenue) exceeds the training costs. In more than 50% of the companies the net costs vary between 1 DM and 10 000 DM (2 500 £). With another 30% of the firms the net costs are in the 10 000 to 20 000 DM (2 500 to 5 000 £) range. Net costs exceeding 20 000 DM (5 000 £) are found in the case of 8% of the companies only.

There are considerable differences between the two most important training sectors: industry and commerce which comprise among others the large companies on the one hand, and the craft sector with its small and medium-sized firms on the other hand. In industry and commerce the average net costs amount to 12 500 DM (3 125 £). They are by more than 50% higher than in the craft sector where the net costs come to 8 000 DM (2 000 £).

If we take an overall look at the structure of the training costs, we come to the following findings :

- the biggest cost element with 48% of the total training costs (8 200 DM/ 2 050 £) are the personnel costs for the trainees. They comprise the trainees' remuneration with a share of 35% and the employers' social security contributions with a share of 13% of the total costs.
- the cost of the training staff (6 900 DM/1 725 £) has a share of 41%.
- materials and facilities (1 100 DM/275 £) amount to 6% only.
- other costs, e.g. teaching aids, vocational clothing (800 DM/200 £), have a share of 5%.

According to the training occupation the structure of the total costs varies considerably.

The share of the personnel costs of the trainee ranges from 70% in the case of the retailer to 32% in that of the dental technician.

As for the cost of the training staff the shares vary from 57% in the industrial training occupation of the turner to 21% in the case of the retailer.

Extrapolating the net costs to all the training companies in Germany you come to a figure of about 18 billion DM (4.5 billion £) in 1980. In that year the number of apprentices amounted to 1.7 millions. If you sum up the average net costs per trainee in 1980 to a 3 years' apprenticeship, a company will have to afford 31 000 DM (7 750 £) for training one young person.

Both figures do not include the expenditure on vocational schools financed by the federal states (Länder) which amounted to 6.4 billion DM (1.6 billion £) in 1980.

In addition, the federal government and the federal states provide grants for group training centres outside companies, where trainees mainly from small and medium-sized firms can obtain practical tuition off-the-job. Moreover, there are schemes financed by public authorities for the promotion of training places for disadvantaged young people. These expenses came up to 558 million DM (139 million £) in 1980. But in the main the training companies have to defray the costs of apprentice training by themselves.

Considering the large amount of training costs it may be surprising that companies in Germany are so much engaged in training young people. Especially if you take into account that companies are free to train or not to train. But corresponding to the growing number of young people asking for training places the total number of new training contracts has risen by more than 40% since 1976.

Why do German companies train after all?

### 3. The influence of the training costs on the attitudes of companies towards vocational training

#### 3.1. Assessment of the findings of the survey

I would like to point out that the survey of the Federal Institute did not aim at finding out in which way the training costs determine the companies'

training attitudes. The main issue was to find out which input factors, such as training staff, equipment and so on, are involved in training and to determine the value of these input factors. The values of the input factors have been summed up for each firm investigated by the same principles.

Training costs defined this way can in many cases not be equated with additional costs incurred by a company. A decisive factor for additional costs incurred by training is the organisation of training. In this respect you can principally distinguish between small to medium-sized firms and large companies.

In the case of small and medium-sized firms the trainees are instructed on-the-job. Actually neither extra staff nor extra equipment are required. There is no or only a neglectable decline in the productivity of the staff and productive means. Moreover, the trainees can be incorporated at an early stage into the production process. Thus the additional cost incurred by training mainly consist of trainees' remuneration and social security contributions payed by the employers.

In large companies, however, instruction often can not take place on-the-job. In that cases companies install special workshops for their trainees. The first and second training year and quite frequently also the third are run here. In addition, full-time training-staff is required. Consequently considerable additional costs are incurred by training. Apart from higher costs it can be said that training in special workshops prevents the youngsters from working productively.

Moreover, in order to analyse the findings of the survey the following methodical aspects are important:

- The results partly reply on the interviewees' estimations. They tend to see the costs of the training-staff higher than they actually are and vice versa to underestimate the trainees' productive work.

- The determination of the trainees' productive contributions (revenue) is based on a concept of alternative costs. This involves working out which percentage of the output of a skilled worker is equivalent to the productive work done by a trainee measured by the payroll costs of a skilled worker. The business profits as a result of the goods and services produced by trainees remain out of consideration. Consequently there is a tendency of underestimating the firms' revenue from trainees' work and of overestimating the net costs.
- You have to take into account that training costs as well as firm expenditures are deducted from the business profit and reduce income taxes.

### 3.2. Aspects of the companies attitudes towards training

In addition to what I already said, you will see that German companies involved in training do not act contrary to reasonable business principles since they take into account cost-benefit-considerations.

Additional costs incurred by training are at any rate the trainees' remunerations and the firms' expenditure for the trainees' social insurances.

Especially in the last two or three years the employers required a freeze of trainees' remuneration emphasizing that in this case the number of training places could be increased. Since 1976 the average trainee remuneration actually has risen from 390 DM (97.5 £) per trainee and month to 602 DM (150.5 £) in 1984. Thus their percentage increase is higher than that of the wage scale. The percentage increase of the average trainee remuneration is 52% and that of the wage scale 46.7%. But you have to take into account the relatively low level of the trainees' remunerations. As a result of this claim the remunerations - on an average - rose by 3% in 1983 and by 2.6% in 1984 only, whereas from 1976 to 1982 their increase varied from 5% to 7%. And in fact in some parts of the economy an increase of training places above average is being observed.

The benefit of apprentice training is at any rate a high quality labour force. But there is no doubt that a cost-benefit-analysis reveals fundamental differences of training attitudes between large companies on one hand and small to medium-sized firms on the other hand.

- It is in the larger companies where the training of skilled workers to their own needs is of major importance. Approximately 15% of the total number of apprentices are trained in companies employing more than 500 persons.

Among the trainees the company can select the best because having passed the final examination apprenticeship and employment terminate. The corresponding independence from the labour market promises the saving of recruitment costs and costs of vocational adjustment of employees coming from outside the company. The long-range-pay-off is why the larger companies put up with the relatively high costs of apprentice training.

- As far as small and medium-sized firms are concerned - which after all train about two-thirds of the youngsters - there is of course also a demand for qualified employees. Due to the increasing mechanisation and specialisation a growing number of smaller firms can no longer provide the whole range of occupational qualifications required by the particular training regulations. Especially in the draft sector this has led to an expansion of group training centres mainly run by the local chambers. Similar to the workshops of large companies in various occupations specific courses supplementary to the firms'on-the-job training are offered here. The firms are - as a rule - obliged to send their trainees to the centres and to pay their fees.

Since the high investment and running costs can not be defrayed by the firms and chambers alone considerable subsidies from public funds are provided. In a few branches especially in the construction trades there is a levy-grant-system. The money raised by the funds helps the training firms to meet the relatively high costs of having their apprentices trained in the group centres.

On the other hand you have to take into account that quite a part of the small and medium-sized firms have always given training above their needs. In these cases the main emphasis is not a selection of personnel. It is understood that training investments in skilled workers would be economically unreasonable when the trainees leave the firms after having passed the final examination. Consequently you can assume that apprentice training itself pays off : the productive work done by the trainees exceeds even the trainees' payroll costs. This is the so called short-range-pay-off. In this respect I would like to hint at the following development in the craft sector where nearly 50% of all firms are training : a high increase in the number of apprentices corresponding with a stagnation respectively a decrease of the total number of employees can be observed.

In addition to the above-mentioned cost-benefit-considerations aspects of market, branch and region play a role.

Let me just briefly summarize additional factors which influence the companies' training attitudes :

- tradition
- demand for training places (number of young people having to be supplied with training places)
- social obligation on the one hand and social pressure on the other hand
- possibility of a future lack of skilled workers
- framework of regulations concerning in-company training together with the possibility of governmental interventions in the existing Dual System (more public control, increasing influence of the trade unions, levy-grant-system).

#### 4. Conclusion

The well functioning German Dual System is the reason why youth unemployment has remained low by European standards. Today, however, the situation of the youth who have finished their training programme becomes more and more difficult. At that stage the labour market in its true sense is

concerned. The percentage of skilled young people without jobs has been considerably increasing in the recent years. In 1984 the total number of young people having passed their final examination came up to 560 000. Nearly 10% (55 000) were unemployed immediately afterwards.

It is true that the unemployment rate of youngsters under the age of 20 amounts to 8.3% only but as far as the youth at the age between 20 and 25 is concerned it increases to 18.9%.

Supply of training places and forms of employment for unemployed  
young people in the Federal Republic of Germany

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Present situation

Youth unemployment in the Federal Republic of Germany is considered to be a particular problem for training and social policy. Youth unemployment is generally taken to mean difficulties in the training or employment of young people. Unemployment can occur at various stages in the work history of young people:

- in the period of transition from general education to vocational training;
- in the period of transition from vocational training to the first job;
- during the training and employment phase.

Young people may be at risk of unemployment relatively early in their work history or much later, up to the age of 20, depending on the type of training chosen.

In April 1985, there were 139,596 unemployed people under the age of 20 in the Federal Republic of Germany; this represented 6.7% of the total number of 2,034,638 unemployed. At the end of September 1984, there were 176,844 unemployed people under the age of 20. 116,700, or 66%, of these unemployed young people had not completed a course of vocational training (1). If the unemployment figures are broken down by age group, the highest proportion of unemployed people, 12.9%, is found in the 20 to 25 age group. One of the fundamental reasons for the relatively high levels of unemployment among this age group is the difficulty that

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(1) Amtliche Nachrichten der Bundesanstalt für Arbeit, vol. 33, 1985, no. 3, p. 176.

young people find in getting their first job. In September 1984, there were 83,500 young qualified workers without a job. Moreover, young workers are more likely to lose their jobs for a wide variety of reasons. On the one hand, young workers have a greater tendency to give up their jobs, while on the other, young people are more likely to be dismissed than older workers.

#### The questions to be asked

New approaches are being discussed in the Federal Republic for solving the problem of youth employment. The relationships between the costs of training and employing young people and the number of training opportunities and jobs available figure prominently in these discussions. Two particular questions arise in connection with this general theme:

1. What is the relationship between the cost of vocational training and the number of training places available?
2. What is the relationship between wages and the employment and promotion prospects of young workers?

Regardless of these specific questions, measures are certainly needed to promote the training and employment of young people.

#### Training costs and training opportunities

The position in the market for training places in the Federal Republic is still very tight. It is true that a record number of places were made available last year; for the first time, more than 600,000 trainee contracts were concluded. Yet it is expected that the demand for places will be even higher this year. The Federal government estimates that between 745,000 and 765,000 places will be required to meet this increased demand. Thus firms, and other training institutions, will once again have to increase the number of training places they make available, if all applicants are to be given a training opportunity.

As a consequence, firms will have to take on more trainees than their own manpower requirements would suggest is appropriate. There are many factors that determine the number of training places available within a firm: legal stipulations, the demand for qualified workers, training costs, the training capacity available and the length of the training period. If the firm has to take on more trainees than it is likely to need, cost becomes one of the most important factors.

The gross cost of training a young person is made up of various types of cost: the employment costs of the trainees, the costs of plant and materials and the employment costs of the trainers. According to estimates by the Institut der deutschen Wirtschaft, the employment costs of trainees account for the highest proportion (44%) of the total training cost. Next come the employment costs of the trainers (43.4%), and finally the cost of plant and materials (11.8%) (1).

Trainees' wages are the largest single item in total training costs. As an investigation by the Bundesinstitut für Berufsbildung has shown, trainees' wage costs account for 35% of total training costs (2).

According to the rates laid down by the Federal Ministry of Labour, the average monthly payments to trainees are currently:

- 566 DM in the first year of training,
- 650 DM in the second year of training,
- 745 DM in the third year of training and
- 789 DM in the fourth year of training.

Current wage levels for trainees are thus much higher than in 1976 (see table 1).

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(1) Rüdiger Falk, Reinhold Weiß: Streitsache: Ausbildungsplätze, Cologne 1984, pp. 47 et seq.  
(2) I. Noll et al: Nettokosten der betrieblichen Berufsausbildung, Berlin and Bonn 1983, p. 43.

The significance of wage levels for the supply of training places is made particularly clear in the following example. In 1983, the trade union representing workers in the chemical, paper and ceramics industries and the Federation of Chemical Industries Employers agreed not to increase the wages of trainees. After this agreement, training places in this sector increased by 16.3%. This was far in excess of the average increase of 7.3% in the number of training places in the economy as a whole (1). This is a classic example of the fact that a reduction in training costs can lead to an increase in the number of training places.

Table 1  
Changes in trainees' wages between 1976 and 1984

Year of training	Average monthly wages for trainees in 1984 in DM	Percentage change compared with	
		1983	1976
1st year	566	+2.0	+49.7
2nd year	650	+1.6	+48.0
3rd year	745	+1.8	+47.0
4th year	789	+1.8	+44.8

Note: Wages for the fourth year of training are not included in all wage agreements.

Source: Federal Ministry of Labour.

In view of the increasing demand from young people for training places, it is necessary to improve the conditions under which firms conduct vocational training. Both sides of industry have a particular responsibility not to allow the wages paid to trainees to rise unnecessarily.

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(1) Rüdiger Falk et al: Ausbildungsplätze, Strategien und Maßnahmen, Cologne 1984, p. 20.

### Employment costs and employment levels

Three developments characterise the labour market in the Federal Republic of Germany:

- Employment has continuously declined in recent years. Since 1983, the number of employees has declined from around 23 million to about 22 million.
- Despite continued growth, the labour market has hardly reacted, as unemployment figures of over 2 million show.
- The number of those seeking work is continuing to increase; it is estimated that there will be an increase of between 200,000 and 300,000 people seeking work by 1988.

In view of these developments, it is often asked how employment opportunities, especially for young people, can be increased. Many proposals have been put forward in the intensive debate on how to combat unemployment. Thus Professor Hans Karl Schneider, chairman of the expert committee for the assessment of economic development, has referred to the upturn in the economy, which should alleviate the problem of unemployment to a certain extent. In addition, Schneider has urged firms to increase investment and thus create new jobs. He has also urged the Federal government to reduce additional employment costs and to take measures to increase flexibility in the labour market (1).

Labour costs have long figured prominently in the debate on labour market policy. Ralf Dahrendorf said some time ago that the industrial society was running out of work. In contrast, many people today believe that there is no lack of work, but that it cannot be paid for because wage and additional employment costs are too high. 'It is not the case - as Dahrendorf said - that we are running out of work. There is enough work. But labour is too expensive' (2). How high are present labour costs in the Federal Republic?

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(1) Schmerzhaft Argumente, in Wirtschaftswoche 1985, no. 18, p. 32.

(2) Martin Posth, Erich Staudt, Ernst Zander: Personalwirtschaft in Zeiten des Umbruchs, Cologne 1983, p. 57.

Labour costs are the expenditure incurred by firms in paying wages and salaries, social security contributions, holiday pay, special payments and so on. They increase regularly each year in the Federal Republic (1). In 1984 they reached a new record level of 53,700 DM per employee, which represented an increase of 1,600 DM over 1983. The increase in additional employment costs are an important factor in the rise of total labour costs. Additional employment costs include all expenditure not connected with actual work. A distinction should be made between expenditure that is legally required, expenditure arising out of collective agreements and voluntary payments made by the firm. Examples of the first category are employers' social security contributions, paid holidays and sick pay. The expenditure arising out of collective agreements is different in each sector. The most common items are extra paid holidays, special payments and contributions to employees' savings plan. The third category includes, among other things, company pension schemes.

A long-term survey for the period between 1966 and 1984 shows how much additional employment costs have increased labour costs as a whole (cf. table 2).

- Employment costs in this period rose by 30.5% from 13,232 DM to 53,700 DM.
- Wage costs tripled during the same period from 9,230 DM to 29,900 DM.
- Additional employment costs per employee rose by almost 600% from 4,002 DM to 23,800 DM.

Thus as labour costs have risen over the past 18 years, there have been particularly sharp increases in the costs to employers arising out of legal requirements and collective agreements. However, it is difficult to restrict the inexorable rise in employment costs. Since about 45% of all additional employment costs are legal requirements (mainly social security contributions), any action in this area must be taken by government. The highest proportion of the remaining additional employment

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(1) Edmund Hemmer: Personalzusatzkosten im Produzierenden Gewerbe, in: iw-trends 1/1985, Cologne 1985.

costs is accounted for by collective agreements. Thus this is a matter for both sides of industry. A quick solution to the problem cannot thus be envisaged. Already, however, a loosening of the legislation governing employment and entitlement to social security benefits is helping to improve the employment position for young adults.

Table 2

Development of employment costs

Year	Total employment costs	Wage costs		Additional employment costs	
	DM	DM	% of total costs	DM	% of total costs
1966	13,232	9,230	69.8	4,002	30.2
1981	48,355	27,236	56.4	21,119	43.6
1982	50,300	28,300	56.2	22,000	43.8
1983	52,100	29,200	56.1	22,900	43.9
1984	53,700	29,900	55.7	23,800	44.3
1984/ 1966	+ 305%	+ 224%		+ 494%	

Source: Federal Statistical Office; from 1982 onwards IW-Berechnungen.

Types of employment for trained, unemployed young people and young adults

In the past two years, firms in the motor, electrical, chemical, mechanical engineering and insurance sectors have developed a series of measures aimed at keeping all trained employees in some form of employment within the firm. Three basic forms of employment have emerged from this:

- Permanent jobs: young skilled workers are taken on in a job area related to their training (as at Hoechst AG and Siemens AG). In many firms, the offer of a job is linked to a specific qualification.
- Temporary jobs: in this form of employment, young qualified workers are taken on for a specified period either in one job or in a variety of jobs in the production process. Thus AEG-Telefunken takes on trained

workers for a minimum of 6 months and a maximum period of 12 months in a job in an area comparable or similar to that in which training has been received.

- Part-time jobs: many firms, such as Siemens AG, Hoechst AG, Merck and BASF AG, have had good experiences with flexible employment forms, mostly part-time jobs for 20 or 32 hours per week.

The introduction of an earlier retirement age also creates more jobs for young people. As a result of the so-called 59 or 58 ruling of 1983, Bayer AG were able to offer a permanent job to all trainees who wished to remain with the firm after successful completion of their training (1).

The various measures taken by firms have been supported by legislation enacted by the Federal government. Thus the Early Retirement Law of May 1984 should make it easier for older workers to take early retirement, and at the same time help the young unemployed find their first job. Under the Employment Support Act, employment contracts can, since 1 May 1985, be limited to 18 months. In addition, part-time and contract work will be made easier. When a new employee is taken on, or an apprentice employed after the termination of his initial contract, it will be possible to limit the employment contract to 18 months. The question still remains as to how the Employment Support Act will work in practice and what effect it will have on the employment of young people. Herr Blüm, the Federal Minister of Labour, maintains that it is better to have even temporary work than to be permanently unemployed.

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(1) Hans-Jürgen Podzun, Reinhard Zedler: Nach der Lehre, Cologne 1985.

Summary

1. There is no quick solution to the problem of youth unemployment, nor indeed to the general problem of unemployment. Nor is there any deus ex machina or miraculous innovation that, over and above the strategies mentioned above, can offer a simple remedy for youth unemployment.
2. Yet 'young people must be integrated into the world of work if we are to avoid the double threat of a lack of skilled labour in the 1990s and an unacceptable burden on the social fabric as a result of the disintegration of the present pool of skilled labour' (1).
3. There is one fundamental insight that must underlie any attempt to reduce unemployment through labour market policy. This is that the demand for labour is dependent on the cost of labour. This relationship cannot seriously be doubted. There is a lot of empirical evidence to confirm the link between an excessively high real wage level relative to productivity and a negative employment effect.
4. It would be possible to achieve the aim of making it cheaper for firms to employ people currently without a job if the problem of additional employment costs were tackled (2). Additional employment costs have now become the major factor in the rise in total labour costs: for every DM paid in wages, approximately 80 pfennigs are paid in additional employment costs.
5. This is an area in which the state could act to alleviate the burden of those costs arising out of legal requirements, for example employers' social security contributions and sick pay.

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(1) Dieter Mertens: Gegen das Krebsübel Arbeitslosigkeit hilft nur eine konzertierte Beschäftigungsstrategie, in: Handelsblatt 26./27.4.1985, p. B 8.

(2) Rolf Kroker: Richtige Diagnose, in: Informationsdienst des Instituts der deutschen Wirtschaft, vol. 11, 1985, p. 2.

NEW FORMS OF STATE INTERVENTION IN THE CONDITIONS OF ACCESS TO EMPLOYMENT  
FOR YOUNG PEOPLE IN FRANCE

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Getting a first job for young people, making the transition from the school situation, where the individual is taken care of and devotes most of his activities to developing his own abilities, to a work situation, where on the contrary the individual is responsible for producing his means of existence and devotes most of his activities to this, is certainly not a new problem in French society. It can even be considered as a correlation of the extension of paid work and the accompanying development of the large modern educational systems.

With the first great employment crisis of the 30s, the problem took a particularly sharp turn since significantly this is when a State educational and vocational guidance system started to be set up, (specialised committees, guidance cycles, school psychologists). This is one of the first forms of State intervention designed to manage the linking of the training and work processes for young people.

Until the start of the 70s, however, management of the transition between the school and work was predominantly a private matter, undertaken by the individuals themselves and especially by their families, and which moreover varied according to the social groups.

Since 1973-1974, we seem to have entered a qualitatively different stage :

- unemployment among young people leaving the education system has reached levels which have never been witnessed before and is having dramatic social consequences ; based on figures from the French National Employment Agency, it is currently estimated that one young school-leaver out of two has no job to go to, whereas in 1974 the figure was only one in five ; in figures between 1974 and 1983 the number of unemployed under 25 quadrupled to 800,000 , out of an overall figure of 2 million jobless (in other words 40%); most of these unemployed have no work experience.

- the various French governments, both before and after the 1981 Presidential elections, have taken an equally large number of measures to combat this situation.

Financial resources : "Social and professional integration" of young people has easily received the largest share of government money spent on continued vocational training (which represents about 1% of the State budget). Since 1976, the State has even forced companies to devote part of the statutory contribution for staff training towards financing this activity, which is presented as being of national importance (in other words 0.2% of a minimum contribution of 1.1% of aggregate remuneration).

Moreover, overall this affects several hundred thousands of young people since the government's aim is that "every young person under the age of 26 should have a job, a training or an activity by the end of 1985" (statement from the Ministry of Work to the press on 12 December 1984).

Institutional means : Since 1974 the government has been continuously developing new ways and acquiring new tools able to affect the various stages of the process involved (formation, recruitment and employment of the youth work-force). There are currently no less than 17 measures directed at the different parts of this process and which vary according to the legal status of their target-group (employee, under a special work contract, trainee on an educational or vocational training scheme).

Although they were initially presented as totally temporary measures drawn up in response to the prevailing economic climate, today they have all the features of lasting measures.

Considered as being heterogenous, today they have all the characteristics of coherent, homogenous measures.

It is as if, with massive State intervention, what J. ROSE (1) calls a phase of "professional transition" has arisen within French society which exists independently of anything else and of which the duration has got

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(1) "Enquête d'emploi" - Paris : Eds Economica, 1984 - several references will be made to this work in this article.

progressively longer. This expression, which will be subject to specific social recognition, will come to mean a complex confusion of training, work and unemployment periods, and the State and the Regions will play a dominant role in the organization of it.

Based on the most recent work carried out in France on this question, in particular the important synthesis (1) made by the economist and sociologist J. ROSE of the Research Group into Education and Employment from Nancy, our hypothesis is that these different forms of State intervention in the conditions of access to employment for young people correspond in fact to the appearance of a new programme, which could be called a programme of socialized management of the professional transition.

Two aspects of this will be discussed in this article :

- its principal forms
- the general issues et raises.

#### I. PRINCIPAL CURRENT FORMS OF STATE INTERVENTION

If we put the various State programmes in order according to the exact stage of the transition process between the education situation and the work situation that they principally affect, starting by the measures at the top of the process, it is possible to distinguish six types of measures :

A. First of all the measures aimed at maintaining the supply of jobs, if not increasing it.

These measures are not the most specific of the various schemes since they do not only concern first-time job-seekers, but they are implemented by the State with the specific aim of checking the fall in the number of jobs available to young people.

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(1) Cf. note above and recommended bibliography in conclusion.

They can be divided into two categories :

- measures of economic policy in the strict sense of the word, directly oriented towards the creation and development of productive activities liable to create jobs. This is particularly true in the case of the various aids for setting up businesses and the various economic development aids : general aid and aid for the agricultural and craft industry sectors, regional development, conversion poles etc ... This is also the case with tax relief. These measures entail great State expenditure, but it is difficult to analyse them as a result of the absence of centralised data.
  
- the measures affecting just the level of the labour market and designed to reduce the pressure of labour demand by organizing early exits from the labour market, by slowing down entries into the market and maintaining insecure jobs.

Among these measures is the recent system of solidarity contracts, whereby the community defrays the cost of early retirement for employed persons. However, this system effectively only has the same aim as the life severance allowance for agricultural workers.

This is also the case with the measures to encourage the immigrant workers to return home or partial unemployment benefit (temporary jobs) which is a considerable outlay for the State.

B. Measures aimed directly at reducing the cost of recruiting the youth work force

In this case the measures more specifically affect those first-time job-seekers. They can be regarded as State responsibility for defraying part of the costs entailed by the hire of a young person "in normal conditions" and are designed to encourage employers and potential employers to recruit workers, especially young people. These measures are above all used by small companies.

The measures mainly involve temporary exemption from social security contributions for those hiring young people or apprentices. In 1980 these exemptions cost the State around FF 1.3 billion. The measures also include, more generally, various bonuses to promote job creation and the hire of first-time employees.

C. Measures based on the creation of temporary jobs

These measures are today developing in a very special way. They consist of creating opportunities for young people to engage in activities producing real goods and services although they do not have the status of employed persons.

These situations have three main features :

- the periods of employment are very short, generally three months extendible to four months,
- there is no real work contract between the organizing body and the young people, who remain State trainees,
- no wages are paid but there is a relatively low State allowance.  
A monitoring system may be set up by the local bodies responsible for employment.

This type of measure is presented as giving young people access to a first work experience that may eventually lead to a real job. However, in France some people have a certain number of reservations about them since they look upon them as measures which in the long-term might make the youth work force an insecure, unskilled and mobile work force which costs little to employ.

Included in these measures are :

- the Community Interest Works (Travaux d'Utilité Collective), set up at the end of 1984. The activities carried out under this scheme are theoretically of public interest and they meet social needs which could not otherwise have been fulfilled. The payment made is roughly equal to a third of the French legal minimum wage.

- the Initiation Courses to Working Life also set up recently (in 1984) which, on the other hand, take place within a company. They are designed to give the trainee an introduction to work within a company and initiate him in one or two work activities. They last from three to six months, and entail 25 hours' presence per month in a monitoring body (collective guidance sessions, personalised aid). the state is responsible for most of the payment (from 500 F to 1600 F), with the company making an additional contribution that varies from 17 to 27% of the minimum wage.
- the voluntary courses for young people, a scheme which has been in operation a little longer than the Community Interest Works (1982) but like the latter involve community interest work which is paid at half the minimum wage.

It should be pointed out that these various measures follow on from two similar experiences carried out between 1975 and 1980 : the temporary creation of community interest jobs, and the temporary access to public sector jobs in the form of three-monthly contracts which may be renewed three times.

D. Measures based on the combination of a job under contract and a training activity

The main feature of these measures is the contractual commitment between three types of partners (the employer, the interested party and the State) which must comprise two parts : a traditional work contract between the employer and the young person, and a contract between the employer and the State concerning the aims and means of the training process.

These measures arouse the greatest interest from employers and the interested parties. Moreover, there were nearly 300,000 cases in 1984.

- The first of these schemes was developed following the Second World War but between 1975 and 1985 there has been a revival in interest in them : it is the apprenticeship contract scheme. The apprenticeship contract

also implies a long training commitment (three years) that should lead to a specific qualification, namely the CAP (Certificat d'Aptitude Professionnelle), which is the first professional diploma in France. It is still important in certain sectors such as construction. There are currently 225 000 apprentices as opposed to 180 000 at the start of the 70s.

- The second scheme was developed more recently, in 1977 : it concerns the job-training contracts which currently affect 30,000 young people. They are a little shorter in length and do not necessarily lead to a real qualification. This scheme is presently tending to be replaced by qualification contracts, introduced in 1984, which have the same aim except that financing of the training is different (the company itself pays for it out of the share it is obliged to contribute for youth activities) and greater emphasis is laid on the qualifications obtained from the training (a qualification that is recognized or in the process of being recognized in the form of a diploma, an equivalent qualification, or a classification in the collective agreements).

E. Measures aimed at setting up alternance courses between the education system proper and the employment sector

These are the most spectacular measures of the scheme and have developed most quickly. They are essentially based on the notion of alternation, in other words the combination on a given training scheme of training in a company and in a training institute. This should as far as possible include a certain number of pedagogical guarantees. For example, monitoring of the trainees in the company mainly through instructors, application in the training centres of activities carried out in the companies, bilateral relations between the company and the training institution regarding the trainees' progress. These courses are available to all young people "that come out of the educational system with no qualification" who have a specific status of "vocational training apprentice".

They have basically led to two types of courses :

- the courses of the National Pact for Employment before 1981 ;

- the alternance courses since 1981 (in particular courses for 16-18 yr olds)

The implementation of these measures comprises three main phases :

- a reception and guidance phase provided by new institutions : reception, information and guidance offices run by the local authorities, local missions under the Interministerial Mission for the Employment of Young People in Difficulty with individual monitoring, group guidance courses and information on existing courses or the design of new courses. This phase dates mainly from 1981.
- A training phase proper with classes in a public or private centre. This phase naturally takes different forms depending on whether the priority is to provide a job or a qualification. Special efforts have been made in the direction of the latter since 1981. Worthy of mention in this area are the experiences carried out by the AFPA and the "youth and technology" network linked to the la Vilette centre.
- An obligatory period in a company. This phase currently involves a detailed description of activities including, in particular, the presence of an instructor among the company staff.

#### F. Measures tending towards the transformation of the education system itself

These measures are obviously only of minor relevance to us, although they are nonetheless very significant, as is, on a more general level, the tendency towards making the education system more vocational.

Throughout the same period there have been a certain number of initiatives affecting the education system itself which have specifically tended to prepare integration into the working world.

These mainly concern in-company courses, of six months duration, for pupils from technological schools, and 10-week educational courses for pupils from vocational secondary schools. These courses are subject to an agreement between the educational establishment and the company ;

the trainees keep their status as pupils and therefore receive no payment or allowance.

For the last six months there have also been some attempts at linking educational establishments with companies.

## II. GENERAL PROBLEMS ARISING FROM THE SCHEMES

As a result of the recent implementation of many of the measures already mentioned, of the fact they have multiplied and have become superimposed, of the disparate nature of the information available, of the time necessary to calculate the effects or results of a particular training scheme, we are unable to make an exhaustive assessment (1) of the schemes in the light of their original aims. Based on the data available on how they are working, in the eyes of analysts and observers there are a certain number of problems that raise questions over how they really work, beyond the aims and resources used.

### A. The target groups of the schemes and how they are identified

The general impression given is that the aims of the State and of the professional people involved in the schemes were structured around an overriding image of the target groups which is effectively a value judgement and a negative one at that. This target group is generally described in terms of failure, difficulties, marginalisation, under-training. Whether it is a question of the young people themselves, their attitudes, their aspirations, their characteristics or of the educational system from which they have come, emphasis is always laid on their lack of suitability but no details are gone into. The name chosen by the mission set up by the government to put forward solutions in this area is significant, since it is entitled the "mission for the integration of young people in difficulty".

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(1) Certain partial assessments have been made concerning in particular the sandwich courses for the 16-18 yr olds by the Centre de Formation de Formateurs du Conservatoire National des Arts et Métiers. cf "Observation et évaluation du dispositif de formation des jeunes de 16 à 18 ans" - O2 CNA" 2 rue Conté - 75003 PARIS.

In addition to the fact that such a type of negative identification hardly favours the creation of a training project or a development project adapted to this target group's specific features, this identification is based on preconceived ideas which are often incorrect. Contrary to this image, however, the young people are currently coming out of the educational system with an increasingly higher level of training, their chances of being unemployed are therefore reduced with this level of training and moreover their level of employability is the highest among all age groups.

B. The resources implemented by the programmes and the role played by the various categories of people involved

Although, as we have already seen, in financial terms these resources are considerable, if we analyse how they are used we see however that a considerable share of expenditure is not devoted to financing the training programmes themselves or developing the people on them but goes towards the trainees' subsistence in the absence of income from a paid job. This makes the various programmes look more like a social project than a training activities.

In addition, these means are very unstable : they are generally used for short duration activities subject to agreements and involve the hiring of training or guidance staff on a relatively unstable basis.

As regards the roles of the people involved, there seems to be a shift in the monitoring of the programmes towards the production system, which is having an increasingly greater say in structuring the courses. This mainly takes the form of direct financing of training in the case of the job-training contracts, and developing temporary jobs.

C. The results

Of course this is the decisive criterion for judging all the programmes in the light of their aims.

Three types of analyses have been made on this level :

1. The skills obtained on these programmes are not professional skills or qualifications but rather characteristics of a social nature.

As we have seen there are important differences between the various measures, in particular as regards the length of the courses, the presence or not of training bodies, the intention or not to follow up a qualification and these differences are also noticeable in the results.

Nonetheless, if we take the scheme overall and look at its results, its most obvious effect does not seem to be the acquisition of skills of a technical or vocational nature. For example, with the alternance courses for 16-18 yr olds, which are an important part of this scheme, it has been estimated (1) that only 10 to 15% of the young people have been able to obtain, at the end of the course, all or part of the CAP whereas the aim was that in 1985 no young person should enter the labour market unless he had a vocational training backed up by a diploma.

There is every reason for thinking that, on the contrary, the results obtained by the greatest number more likely concern the acquisition of social characteristics such as respecting schedules and work rates, getting used to the working environment and conditions or being able to form an integral part of a work unit. In other words, it is as if basically the aim of these programmes was to produce "employability" features or to make the young people good job-seekers.

However, this employability is only very partially translated into a genuine job.

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(1) Observation et évaluation du dispositif de formation des jeunes de 16 à 18 ans. Op. Cit. - Doc. n° 3 - Fonctionnement du dispositif et stratégies des jeunes. Feb. 1985 - p. 376.

2. Once again, a difference should be made between the various programmes depending upon their efficiency in terms of jobs : for example there is no doubt that the schemes which involve a contract are much more likely to lead to a job, if only because the contractual commitment is a sign of the employer's potential capacity to hire a young person.

However, overall the programmes designed to get young people functioning socially in the working world, especially the alternance courses and the temporary employment systems, are in reality only of limited effect. The Centre for Studies and Research on Qualifications has calculated (1) for example that only 20% of the young people on alternance courses got a job at the end (results in May 84). For all the programmes (including job-training and apprenticeship contracts) only 36% have been hired, of which roughly half are in the company where the training period was spent. Moreover, it seems that the hire rate of those young people who have been on one of the schemes is lower than the rate of those who were not on any of the programmes.

It has also been noted that the skill level at the time of employment is low : the trainee generally does unskilled jobs, which is also contrary to the aims of the programmes.

3. Finally, when someone is really hired, it is generally in relatively specific economic and employment sectors.

It seems that the youth employment programmes are basically used by two types of companies :

- Small firms, employing young people for limited jobs, with relatively low skill and wage levels.
- or, on the other hand, large companies which base their recruitment policy on these programmes.

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(1) Survey for trainees between 16 and 18 years old : initial results, note of 14 December 1984 presenting a synthesis of the report drawn up by the CETRQ : young people from 16 to 18 years ; training programmes and the situation at the end of courses - Oct. 84

The latter have the following particular features :

- systematic recourse to the external labour market,
- great work force instability,
- relatively low wage level,
- relatively low unionisation,
- possibly the use of part time work.

In both cases, it is as if the use of these employment schemes by these firms effectively replaces a recruitment policy based on qualifications and an internal training policy. To bear this out, for example, it is noticeable that the use of these employment measures is inversely proportional to the percentage of aggregate remuneration devoted to training.

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#### CONCLUSION

These observations and analyses, of course, still need to be confirmed and validated.

However, as they appear, they give rise to two questions :

- If the results of the employment measures studied, taken together, have the results mentioned above, if they are structured around an image of those they are designed to help which reduces their value, shouldn't questions be asked as to the overall social function these measures play, beyond their aims ? Shouldn't we wonder, as J. ROSE does , if they are all not different means of an overall function of the programmes, namely the channelling of the mobility flows of certain discriminated categories of the work force (young unskilled workers in this case, but also women and unemployed workers) towards companies with a dominant position either on the product market or the labour market and which, thereby, benefit from indirect State aid in the management of their work force ?

- In the short term don't they run the risk of contributing to the segregation of the labour market into two types (and, beyond that, two types of wage-earners) :

= one characterized by qualifications, job stability and a satisfactory wage level.

= the other characterized on the contrary by insecure employment, mobility and a lack of skills ?

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TRAINEE PAY AND THE COSTS OF VOCATIONAL TRAINING  
IN BRITAIN AND WEST GERMANY

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INTRODUCTION

In this paper I present evidence on the relative pay of apprentices and on the structure and level of apprentice training costs in Britain and West Germany. I begin by examining how closely matched are the content and duration of training programmes in the two countries. In comparing the pay of so-called apprentices, to what extent are we actually comparing like with like?

APPRENTICE TRAINING IN BRITAIN AND WEST GERMANY

In a survey of apprenticeship in Europe in the early 1960s, Gertrude Williams drew attention to certain disparities between arrangements in Britain and on the Continent (Williams, 1962). In particular, she noted that whereas most British apprenticeships were of 5 years' duration, in the rest of Europe, including Germany, a 3-year training period was the norm. In Britain, many apprentices were denied the opportunity to attend courses of further education on day-release, with the result that relatively few obtained any F.E. qualifications during their apprenticeships(1). In Germany and most continental countries, the right of trainees to attend F.E. courses on day-release was legally guaranteed. Whilst the achievement of minimum standards of practical and theoretical competence in public examinations or trade tests was normally required for trainees to be recognised as skilled workers in the rest of Europe, in Britain most trainees acquired skilled status simply by virtue of having served that time.

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(1) An EITB survey conducted in 1973 found that nearly two thirds of engineering craftsmen then aged between 35 and 44 had obtained a further education qualification (EITB, 1980).

Earlier surveys of apprenticeships by Lady Williams herself (1957) and Liepmann (1960) had drawn attention to the wide spread of standards which persisted in Britain under this highly informal system of accreditation.

In the intervening 20 years, British practice has moved closer to that observed in West Germany in several important respects. The duration of apprenticeships has been greatly reduced so that engineering and electrical craft apprenticeships are now completed in 3 1/2 years in both countries; in the construction trades, British apprenticeships may now be completed in 3 years (or even less under new standards-based arrangements), compared to 2 1/2-3 years in Germany. Most British apprentices now spend one-day per week throughout their training attending further education courses leading to recognised qualifications. The activities of the Industrial Training Boards have led to widespread changes in the organisation of practical training, so that in many British training schemes, a first year of off-the-job training in an apprentice workshop, technical college, or group training centre, is followed by a structured programme of so-called module training in the workshop (EITB, 1972). These arrangements are very similar to German practice, at least in the large manufacturing establishments, although in many smaller workshops, German trainees tend to be closely integrated into production at an earlier stage of training.

There are still some major differences between the two countries especially in respect of certification. In Britain, as in Germany, most of those currently completing apprentice training will have acquired an F.E. qualification, if the results of a 1973 Engineering Industry Training Board (EITB) sample survey of engineering craftsmen hold for other sectors (EITB, 1980)(2). German trainees however are also required sit publicly examined tests of practical competence, whereas in Britain arrangements for practical testing are of a more informal nature (3). Consequently, comparisons of training standards in the two countries have

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(2) The survey showed that only 9% of engineering craftsmen aged under 25 in the sample had no F.E. qualification.

(3) It is also still the case in Britain that an apprentice may acquire skilled status simply by serving his time, without having had to pass any sort of external examination at all.

relied mainly on the evidence of the F.E: syllabuses customarily undertaken by apprentices (Prais and Wagner, 1983). On the basis of such comparisons across five training occupations, Prais and Wagner concluded that "on the whole, a re-assuring similarity has been found in the standards demanded at the main level of qualification attained in both countries in the age range 18-20, by those who have followed an 'apprenticeship' course".

I conclude from this discussion that the term "Apprentice" represents a very similar category of labour input from the employers' point of view in the two countries. A comparison of apprentice pay relative to that of other broad categories of employee should therefore assist in understanding intercountry differences in the structure and levels of training cost and in the incidence of apprentice employment.

#### THE RELATIONSHIP BETWEEN TRAINEE AND ADULT PAY IN BRITAIN AND WEST GERMANY

In both Britain and Germany, basic or minimum rates of trainee pay (which in Germany are referred to as training allowances) are set in collective agreements made between trade unions and employers' organisations. Table 1 sets out these basic or minimum rates of trainee pay (or allowance) as a proportion of the basic or minimum pay of craft or skilled employees in corresponding British and German collective agreements.

Under the German agreements, trainee allowances are set according to the year of training. In the majority of British agreements, pay is still set according to age, although there are clear signs of a shift towards payment by year or stage of training and it is likely that a majority of British apprentices will shortly be paid on this basis (4).

For purposes of comparison, it is assumed that the representative British trainee enters the apprenticeship at age 16 1/2 and completes after 3-3 1/2 years' training at age 19 1/2 or 20. On this assumption, it can be seen

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(4) The two most important national agreements (in engineering and construction) both embody payment by stage of training.

that, on average, a British apprentice paid the minimum rate specified in the agreement, would have received some 50% of the minimum rate of a skilled worker even in his first year of apprenticeship, which, in many cases, is now spent entirely in off-the-job training. His German counterpart, who would probably spend a somewhat higher proportion of his time in productive work, would have received about 20-30% of minimum adult skilled rate. In the fourth training year, the British apprentice would receive about 90% of the adult minimum rate, compared to about 30-45% in Germany. Thus, with the exception of the trainee building craftsman in Germany, whose pay roughly doubles between the first and third year of apprenticeship, German trainees receive a more modest rate of pay increase than British trainee over the term of their training and moreover start from a very much lower base (as a proportion of the minimum adult skilled rate). Over the term of the apprenticeship, a British apprentice paid the minimum rate specified in the collective agreement would receive about three quarters of the minimum skilled rate compared to perhaps 30-35% in Germany.

#### The relationship between the earnings of trainees and adults

The relationship between the earnings of trainees and adults reflects other factors as well as the basic rates of pay negotiated in collective agreements. In particular, apprentices work less overtime,<sup>(5)</sup> and spend a smaller proportion of their working time in direct production activities than do non-trainee employees.<sup>(6)</sup> They therefore receive proportionately less overtime pay and production bonus payments of all kinds than do their adult colleagues, and so their basic pay (or allowance) is a higher proportion of their total earnings than is the case for adults.

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(5) According to the 1974 NES (1974 being the last previous occasion on which data on apprentice pay was collected in the survey), adult male manual employees worked approximately three times as much overtime per week (6.5 hours) as male apprentices (2.2 hours).

(6) According to unpublished data from the 1974 NES, male apprentices weekly earnings were then some 14% higher than their basic pay. At the same time, adult male manual employees weekly earnings were some 43% higher than their basic pay.

The net effect of these factors in modifying basic pay relativities appears to have been very similar in Britain, and Germany if the data on trainee and adult earnings in the two countries in Table 2 is compared with the earlier information on collective pay agreements.

According to these data the weekly earnings of British apprentices in the 1984 New Earnings Survey (NES) sample (Department of Employment, 1984A) were some two and a half times higher as a proportion of adult male manual workers' earnings than those of German trainees in 1981, a remarkably similar relationship to that observed earlier between the basic pay or allowance of apprentices and skilled adult workers in the two countries.

Table 1

Basic or standard trainee rates of pay as a percentage of the basic rates of pay of adult skilled workers in certain British and German collective agreements, 1984.

Agreement	Britain				Average over apprenticeship period (2)	Germany				Average over apprenticeship period
	Age of apprentice					Year of Apprenticeship(3)				
	16	17	18	19		1st	2nd	3rd	4th	
1.Chemical industry	56	65	82	88	75	31	36	41	46	37
2.Engineering/Metal industry	47	60	75	90	65	29	32	35	40	33
3.Building	43	70	90	-	68	24	37	47	-	36
4.Textiles	43	58	72	87	68	32	37	42	46	38
5.Clothing manufacture	67	83	100		86	30	33	38	-	34
6.Motor mechanic	43	50	65	85	63	21	22	25	-	23
7.Electric.supply	35	47	54	71	56	17	21	24	28	22
8.Painter	33	55	75	85	66	17	20	21	-	19
9.Gas/Water Installation	50	60	75	80	69	26	28	32	36	30
10.Butcher	70	80	85	-	80	27	29	35	-	30
11.Baker	55	64	78	82	72	23	29	38	-	30
12.Hairdresser	47	52	100	-	66	26	30	36	-	31

Sources: Britain: Department of Employment, (1984B).

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Notes: (1) For details of British collective agreements, see Jones (1985A).

(2) Assumes apprentice enters training at age 16 and completes after 2 1/2-3 1/2 years as appropriate.

(3) Apprentice training formally commences at age 15 or 16.

Table 2

Male Trainee earnings as a proportion of the earnings of adult male manual workers in Britain and Germany.

	<u>Germany</u> 1981)	<u>Britain</u> (1984)
	<u>Monthly</u>	<u>Weekly</u>
1. Manufacturing	19	55
2. All industries	20	54

Sources :

Britain: Department of Employment (1984A), Parts C (Table 54) and F (Table 190).

Germany: Institut der deutschen Wirtschaft (1981).

APPRENTICE TRAINING COSTS IN BRITAIN AND WEST GERMANY

Apart from apprentices' payroll costs, employers' decisions on the quantity of apprentice training to offer also depend on the other costs which they incur in providing training (which may include the provision of sheltered workshop facilities, either in the company or in centres operated jointly with other firms, and the costs of supervising trainees as they gain work experience), and on the trainees' productive contribution during training (7).

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(7) Unless the skills acquired by trainees are purely general in character and skilled labour in perfectly elastic supply to the firm, the volume of training employment also depends upon the post-training benefits in the form of a reduced cost of hiring skilled labour. See Jones and Hollenstein, 1983.

In West Germany, a major official report on apprentice training costs and finance (the so-called Edding report (1974)) has stimulated much subsequent research including a large scale survey of training costs carried out by the Federal Institute for Vocational Training (BIBB) in 1980 (Noll et al, 1983).

Apprentice training in Germany is organised according to training occupation and there are no tabulations available from BIBB which analyse training costs both by occupation and industrial sector. I therefore concentrate on the BIBB estimates of training costs in a group of engineering occupations (8) which correspond most closely with those followed by trainees in British surveys of training costs. Although most German apprenticeships are completed after 3 years, these occupations all involve a 42-month term of apprenticeship - very similar to the average duration of engineering apprenticeships in Britain.

No equivalent large scale survey of apprentice training costs across a range of industries and training occupations has been undertaken in Britain, although there have been several smaller scale studies mostly of training costs in the engineering industry (EITB, 1972, Emmerton and David, 1976). The most recent of these was a small sample enquiry into the net costs of engineering apprentice training in both engineering and process industry establishments conducted by the National Institute of Economic and Social Research (NIESR) in September-October 1984 (Jones, 1985B). Despite the relatively small sample size (10 establishments) the estimated gross training costs at engineering firms in the NIESR sample were similar to those reported in previous British surveys, and are used in the comparisons of training costs in Britain and Germany which follow.

Table 3 sets out the estimated gross costs of apprentice training in engineering occupations in the NIESR and BIBB samples. The German data have been updated from 1980 to the third quarter of 1984 using indices of hourly earnings in manufacturing (OECD, 1985) and converted to £ sterling using the average value of the Sterling-DM exchange rate for that quarter (DM 3.8 : £).

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(8) Mechanic (mechaniker); mechanical fitter (maschinenschlosser); electrical and electronics specialist/fitter (energieanlagenElektroniker) and toolmaker (werkzeugmacher).

We see that the proportion of training outlays represented by trainee payroll costs was nearly 50% higher in the NIESR sample establishments than in the German establishments surveyed by BIBB. Because statutory social security oncosts were a higher proportion of trainee earnings in German than in British establishments, the disparity in the share of trainee remuneration in total outlays was even wider. Conversely, costs of training centre provision, supervision and administration were a much higher proportion of training outlays in German than in British establishments.

Table 3  
Engineering apprentice training costs in British and German establishments  
(£ per trainee, third quarter 1984 earnings)

<u>Cost Item</u>	<u>Britain (NIESR sample)</u>		<u>Germany (BIBB sample)</u>	
(1) Trainee payroll	16.3	(72.4)	10.8	(49.1)
(2) Off-the-job training, F.E. fees, administration, etc.	2.4	(10.3)	6.9	(31.4)
(3) Costs of supervising on-the-job training	4.0	(17.2)	4.3	(19.5)
(4) Cross costs (=1+2+3)	23.2	(100.0)	22.0	(100.0)
(5) Productive contribution	11.3	(48.7)	6.3	(78.6)
(6) Net costs (= 4-5)	11.8	(51.3)	15.7	(71.4)

Source : Jones, 1985B.

Relative to costs of workshop supervision, costs arising from off-the-job training were much more important in Germany than in Britain. This difference may have been partly due to the fact that the BIBB report distinguished between trainee productive contribution "in the workshop" (arbeitsplatz) and under sheltered conditions (Lehrwerkstatt) either in the training centre or in training areas set aside from the main workshop (9). Off-the-job training costs (item 2) included the cost of supervising sheltered production which in Britain would be covered under the heading of module training supervision (item 3).

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(9) Sheltered production accounted for approx. a fifth of total trainee output.

Further insight into the significance of the differences in the structure of training costs in Britain and Germany revealed in the NIESR and BIBB samples is gained by expressing the average cost of training an apprentice as a proportion of the annual payroll cost of a skilled worker in each country at the time of the respective surveys (Table 4) (10).

Table 4

Apprentice training costs relative to the annual payroll costs of a skilled worker in Britain (1984) and Germany (1980).

	Britain	Germany
	<u>NIESR sample</u>	<u>BIBB sample</u>
Trainee payroll costs	1.87	0.87
Other training outlays	0.71	0.92
Cross costs	2.58	1.79
Productive contribution	1.26	0.51
Net costs	1.31	1.28

Source : Jones, 1985B.

The results of Table 4 indicate that the "normalised" gross cost of training in NIESR sample establishments was nearly 50% higher than in the BIBB sample of German establishments. This was because normalised trainee payroll costs in Britain were over twice as high as in Germany - a result, broadly in line with the estimates reported earlier of apprentice earnings relative to those of their employees in the two countries. The higher level of other training outlays in Germany partly offset the difference in trainee payroll costs.

Trainee Productive Contribution and Net Costs

Estimates of trainee productive contribution were obtained in a broadly similar fashion in both the NIESR and BIBB surveys. Trainee performance or productivity at different stages of training was estimated relative to that of an experienced or qualified worker and these "equivalence factors" were then multiplied by the payroll costs of the reference employee. For reasons discussed in Jones (1985B), this approach may

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(10) See Jones, 1985B.

generally be expected to underestimate the "true" productive contribution from gross costs will also tend to be upward biased estimates of the "true" net cost. However there is no reason to suppose that the degree of bias involved differs systematically between the two surveys.

According to the data in Table 4, normalised net costs in the two countries were very similar despite the much higher gross costs in British establishments, because the normalised output contribution of British trainees was more than twice as high as that of German trainees.

Institutional differences between the two countries may have contributed to these different cost structures. In particular, the more rigorous German arrangements for controlling the quality of output, which require trainees to pass theoretical and practical tests of competence on completion of training in order to qualify as skilled workers, may help to explain both the relatively higher costs of training supervision (the need to ensure trainees reach the required standards) and the relatively lower output contribution of German trainees (trainees have to spend more time preparing for exams). Thus, in the training occupations on which attention has been focussed, output contribution during the final six months of training was considerably lower than would have been predicted given the performance profile during the earlier stages of training. This effect was especially marked for the electrical and electronics occupation where the rate of trainee output in the final six months was significantly less than half that achieved during the previous year.

Economic analysis of the firm's trainee employment decision also throws light on these results. If the cost of employing trainees is relatively high then few may be employed, but the average and marginal revenue products of those that are would be correspondingly high. In other words, given the relatively high costs of employing trainees in Britain, British firms find it profitable to employ fewer of them and to use those that they do employ more intensively in production than do firms in Germany.

SUMMARY

The evidence presented in this paper may be summarised in the following way. From the employer's point of view, apprentices represent a very similar type of labour in put in Britain and Germany. Despite the possibility that a more rigorous concern with certification in Germany may impose some additional costs on employers there by comparison with the relatively informal arrangements prevalent in Britain,(11) it still costs considerably more (as a proportion of the payroll costs of skilled employees) to employ and train apprentices in Britain than in Germany. This is because the pay of apprentices is a much higher proportion of adult pay than the training allowance received by German apprentices.

There is evidence from econometric studies that apprentice recruitment in Britain has varied inversely with apprentices' relative pay, as theory would predict (Lindley, 1975; Merrilees, 1983). Extending these results to cross-country differences it therefore seems very likely that the relatively high costs of employing and training young people in Britain have contributed to the much lower level of apprentice employment observed here than in Germany even in those sectors of the British economy where there is a strong apprenticeship tradition (Prais and Wagner, 1983) (12), and also to the much smaller proportion of young people in employment in Britain receiving any form of systematic vocational training.

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(11) There may well of course be offsetting benefits which we have not considered in this paper.

(12) For further analysis, see Jones, 1985A.

YOUNG AND OUT OF WORK : THE LABOUR MARKET FOR YOUNG PEOPLE (1)

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1. Introduction

Every year about three-quarters of a million children reach school-leaving age (in England and Wales) and decide whether to stay on at school or whether to enter the "real world" of employment and unemployment. In 1983 about 44% stayed on in school and about 56% (433,000) entered the labour market (2). The past few years have seen a dramatic collapse of the labour market for young people with a decreasing proportion finding work and an increasing proportion being unemployed. The collapse of the labour market for young people is primarily, in my opinion, due to the recession in Britain. Some economists and supporters of the Tory Government have ascribed the collapse to increased relative wages of young people, to the "pernicious" influence of trade unions and to allegedly "generous" social security benefits. The Government has intervened in this labour market on a massive scale by the introduction of various Special Employment Measures, notably the Youth Training Scheme (YTS) and the Young Workers Scheme (YWS). In 1983, of the 16 year olds not remaining in full-time education, 48 per cent entered the YTS! (3)

Before we turn to an analysis of the collapse of the labour market for young people, it is worth noting that young people are normally unskilled and enter non-professional occupations and non-career grade jobs. They enter jobs which are often "dead-end" jobs which require little in the

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(1) I am grateful to Ruth Hermitage for research assistance and Pat Dutton, Peter Elias and Rob Wilson for helpful comments. I am responsible for errors and prejudices. A longer version of this paper is available from the author on request.

(2)(3) De Gazette October 1984 p. 445.

form of skills, which provide little training "on the job" and a very small percentage of them are unionised. A high proportion of them enter part-time poorly paid jobs. Partly as a result of the nature of the jobs and partly due to the young being more mobile (by location, by industry, by firm), they have a relatively high turnover and search for better, more satisfying jobs. In an uncertain environment employers may prefer to hire young people as they are paid less, they are non-unionised and their high quit rate makes it easier to adjust their labour stock to meet cyclical movements in demand. However, they are also less experienced and employers may think of them as being less reliable and trustworthy. The high turnover is reflected in the higher rates of inflows into, and outflows from the unemployment stocks. For example, in January-April 1984, the likelihood of becoming unemployed was 10.5 per cent for the under 18s and 3.2 per cent for the 30-34 year olds. The likelihood of ceasing to be unemployed was 52.3 per cent for the under 18s and 33.4 per cent for the 30-34 year olds. According to agreed industrial relations practice, firms fire workers on a last-in-first-out (LIFO) basis : the young with short job tenures (almost by definition) suffer disproportionately. Employment protection legislation reinforces this : employees with longer job tenures are more expensive to fire or make redundant. The young provide a convenient reserve army of labour to be hired and disengaged (fires or quits) according to the level of economic activity.

This paper, in Section 2, outlines the scale of the problem; Section 3 reviews some of the explanations; Section 4 discusses the consequences of increasing unemployment; Section 5 reviews some of the policies to combat the problem; Section 6 concludes the report.

## 2. The Scale of the Problem

Almost all data sources confirm a collapse of the labour market for young people with a decline in employment and a rapid rise in unemployment. In addition, long term unemployment has been rising and we are fast approaching a situation where some school-leavers may have to face a lifetime of unemployment. A recent feature has been a massive intervention in this market by an allegedly laissez faire Government : there has been an enormous growth of the Youth Training Scheme (YTS) as a means of alleviating

the problem. For the purposes of our discussion, we define young people as those below 25 years of age.

Table 1  
First Employment of Young People (England & Wales)  
(of those reaching school-leaving age)

	Percentages			
	1978 <sup>(1)</sup>	1979 <sup>(2)</sup>	1980 <sup>(3)</sup>	1983 <sup>(4)</sup>
(a) Employed (by end Dec)	53	45	33	21
(b) Staying on at school (or entered full-time higher education or training)	40	50	50	44
(c) Unemployed (or not in labour force)	7	5	17	8
(d) Entering YTS				27

Table 1 illustrates some aspects of the changes in the labour market for those reaching school-leaving age in England and Wales. In the space of five years (1978 to 1983) employment falls from 53 per cent to 21 per cent (a fall of 60 per cent). From 1979 to 1980 unemployment (or not in the labour force) increases by over two hundred per cent! If we include those in YTS as being in the unemployed (or not in the labour force) category - which is how they are treated in official statistics - there is an increase of 400 per cent between 1978 and 1983! It is clear that the bottom has dropped out of this particular labour market over the space of five years. Estimates for 1984 suggest a continuation of this trend.

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Sources:

- (1) DE Gazette, Dec. 1980 (pp. 1201 - 1203)
- (2) " " March 1982 (pp. 117 - 120)
- (3) " " May 1984 (pp. 230 - 234)
- (4) " " Oct. 1984 (pp. 445 - 448)

Using the General Household Survey (GHS) data for Great Britain (Diagrams 1 and 2) we can see a fall in employment of young males and females (except the 18-24 females) from onwards. The relatively good showing of the 18-24 females reflects in part the growth of the services sector which has expanded by hiring part-time workers. A similar picture emerges if we look at youth unemployment (Diagrams 3 and 4) which is rising from 1973 with a fall for 16-17 year old males between 1982-83 (4). This latter "blip" is presumably due to the big expansion in YTS/YOP. The increasing unemployment of 18-24 females (and more-or-less stable employment) reflects the increasing participation rate of that group.

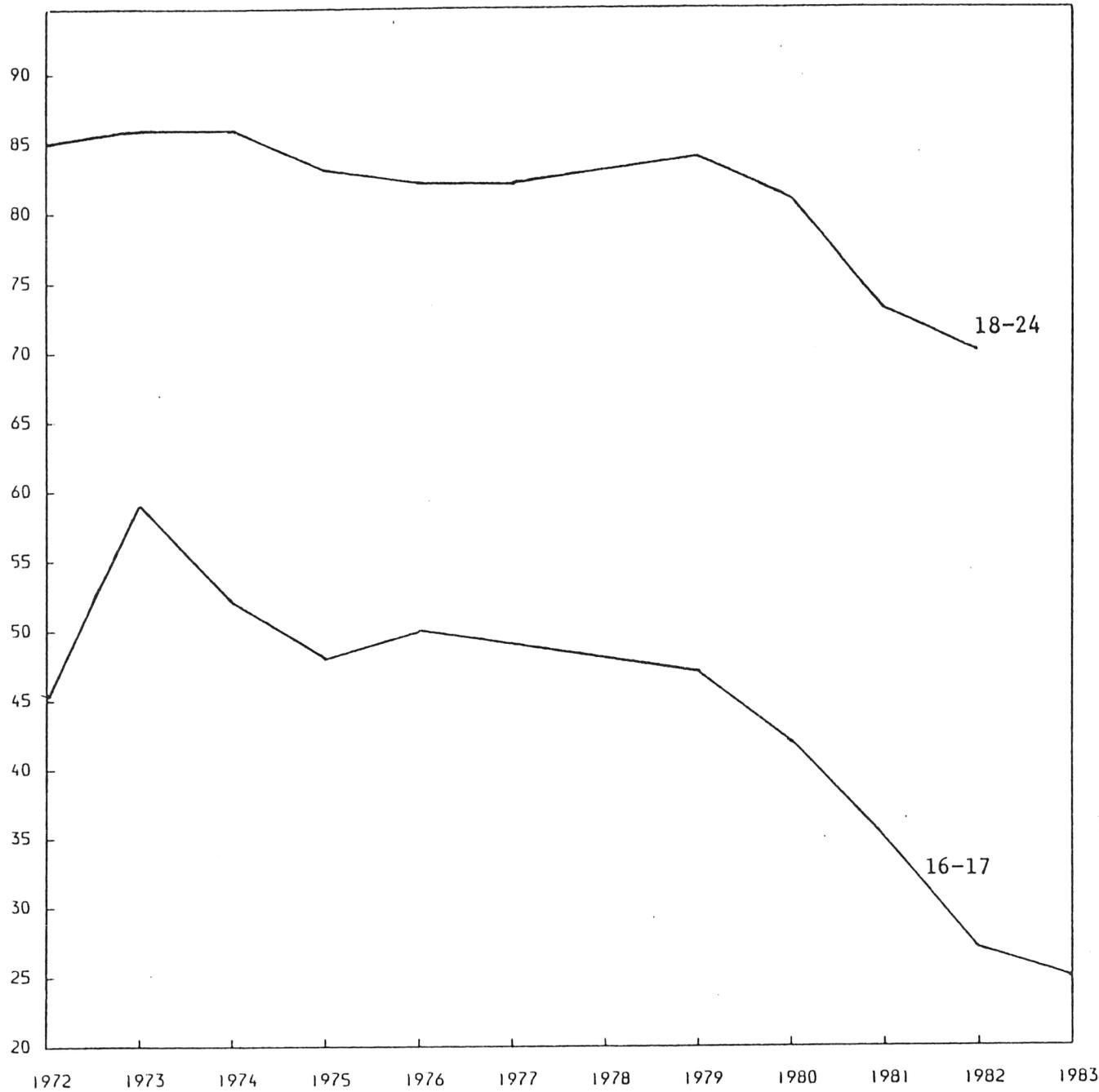
The Department of Employment (DE) data for the United Kingdom on unemployment (Diagrams 5 and 6) show similar trends to the GHS although the age categories are different. The Break (and lower levels after) in the fourth quarter of 1982 reflects the change in the data series from registered unemployed to claimant unemployed. Strictly speaking, the data before and after 1982 are not comparable. However, the diagrams make clear that the change-over gives a different (and perhaps misleading) view of the labour market. Diagrams 7 and 8 based on DE data are the best indication of the scale of the problem; long term unemployment (duration greater than 52 weeks) has been growing throughout the period (5). The proportion of the young who have been unemployed for more than a year has increased to over thirty per cent for males and over twenty per cent for females. This provides an especially worrying feature of the labour market for young people. It is hard to believe that those people are voluntarily unemployed, refusing wage offers because their reservation wage is too high!

To conclude this section, we see that the available evidence suggests that the young are facing a serious problem in the labour market. In the next section we consider some explanations for the growth of unemployment.

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(4)(5) The apparent improvement in 1973 was due to the raising of the school-leaving age (ROSLA) in 1972. This decreased the supply of young people on to the labour market.

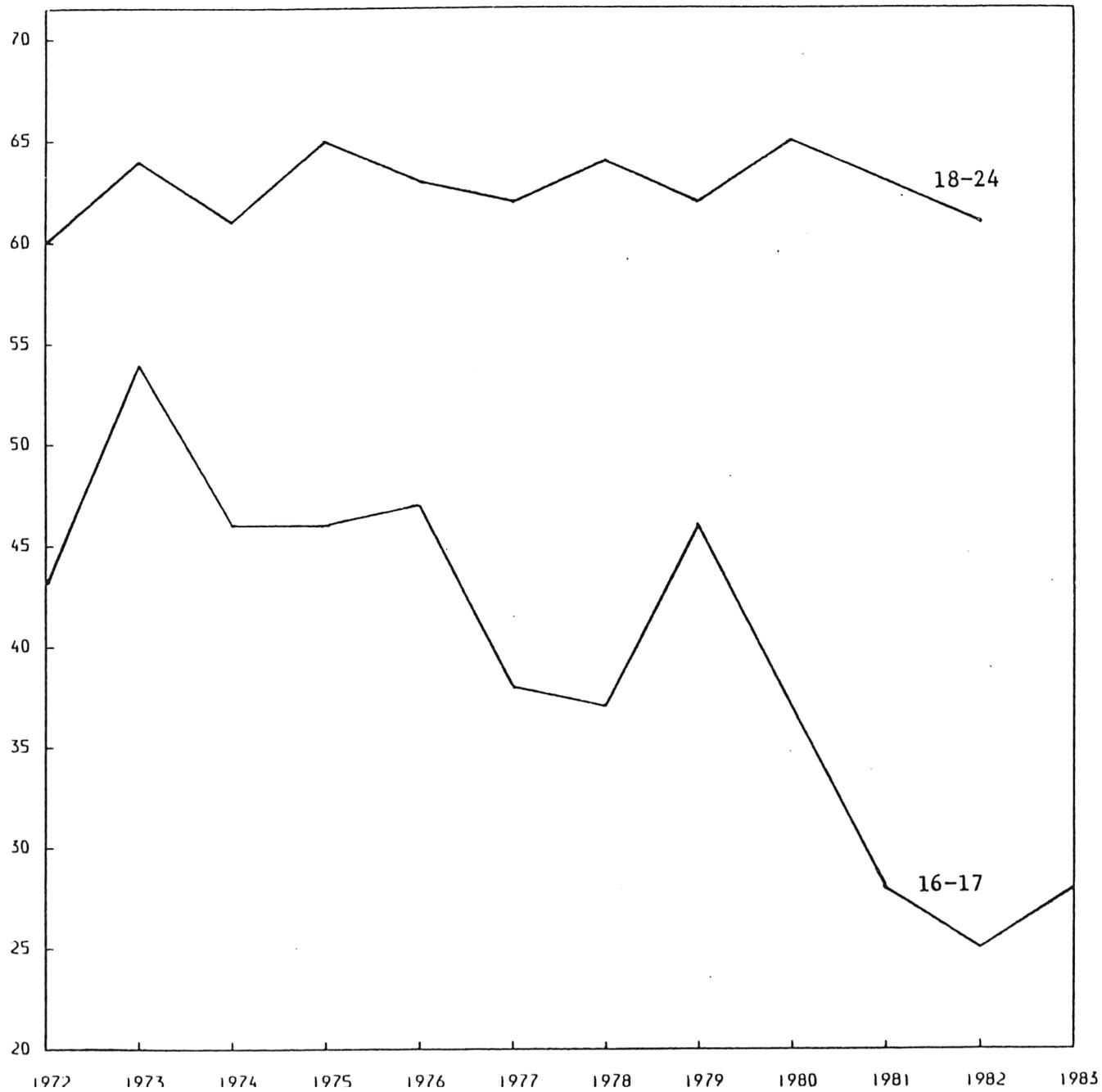
Diagram 1 Youth Employment: Males (Percentages)



Source: GHS

Note: Percentage of population of age group (i) that is in employment.

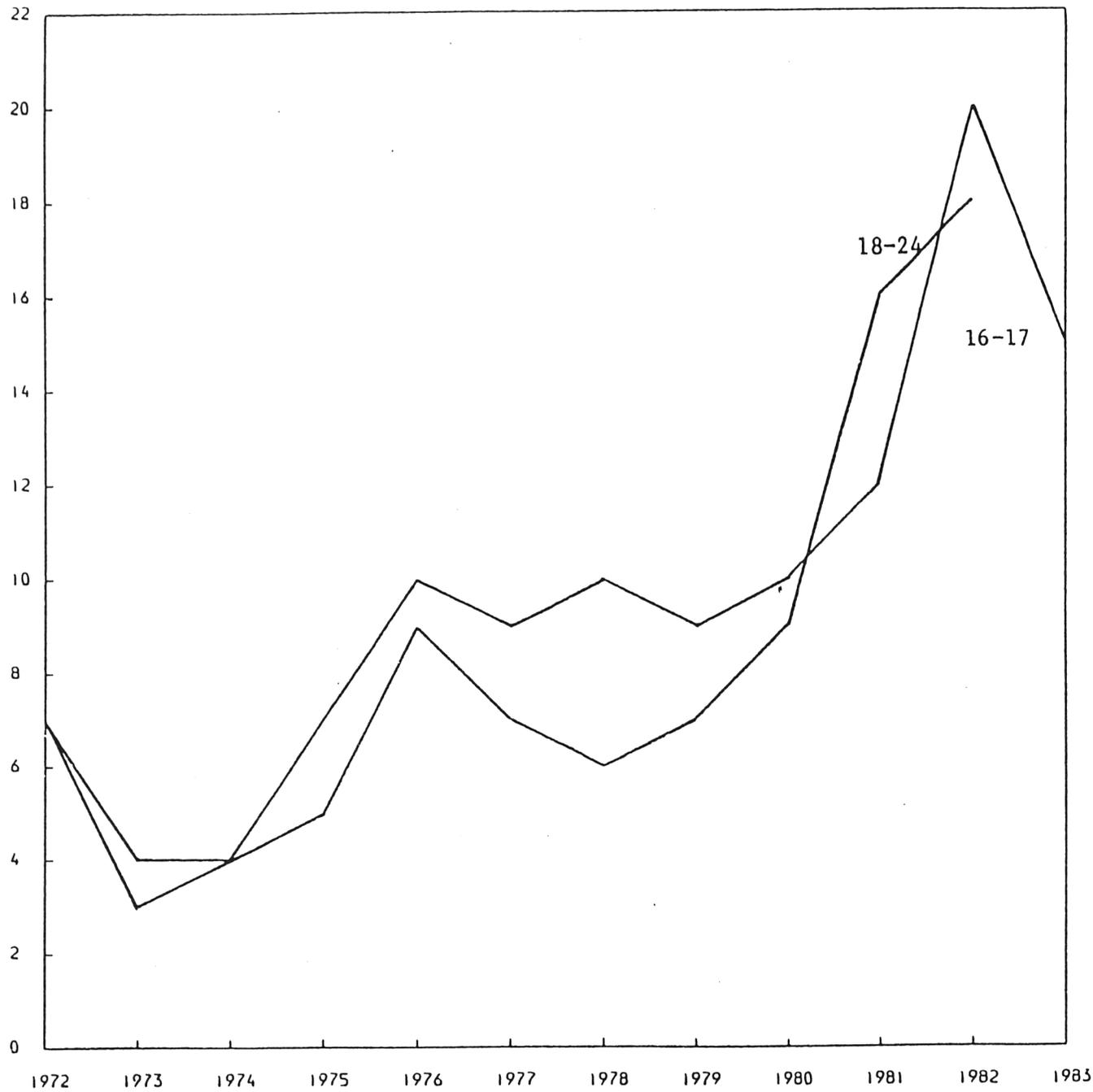
Diagram 2 Youth Employment: Females (Percentages)



Sources: GHS

Notes: See note to  
Diagram 1

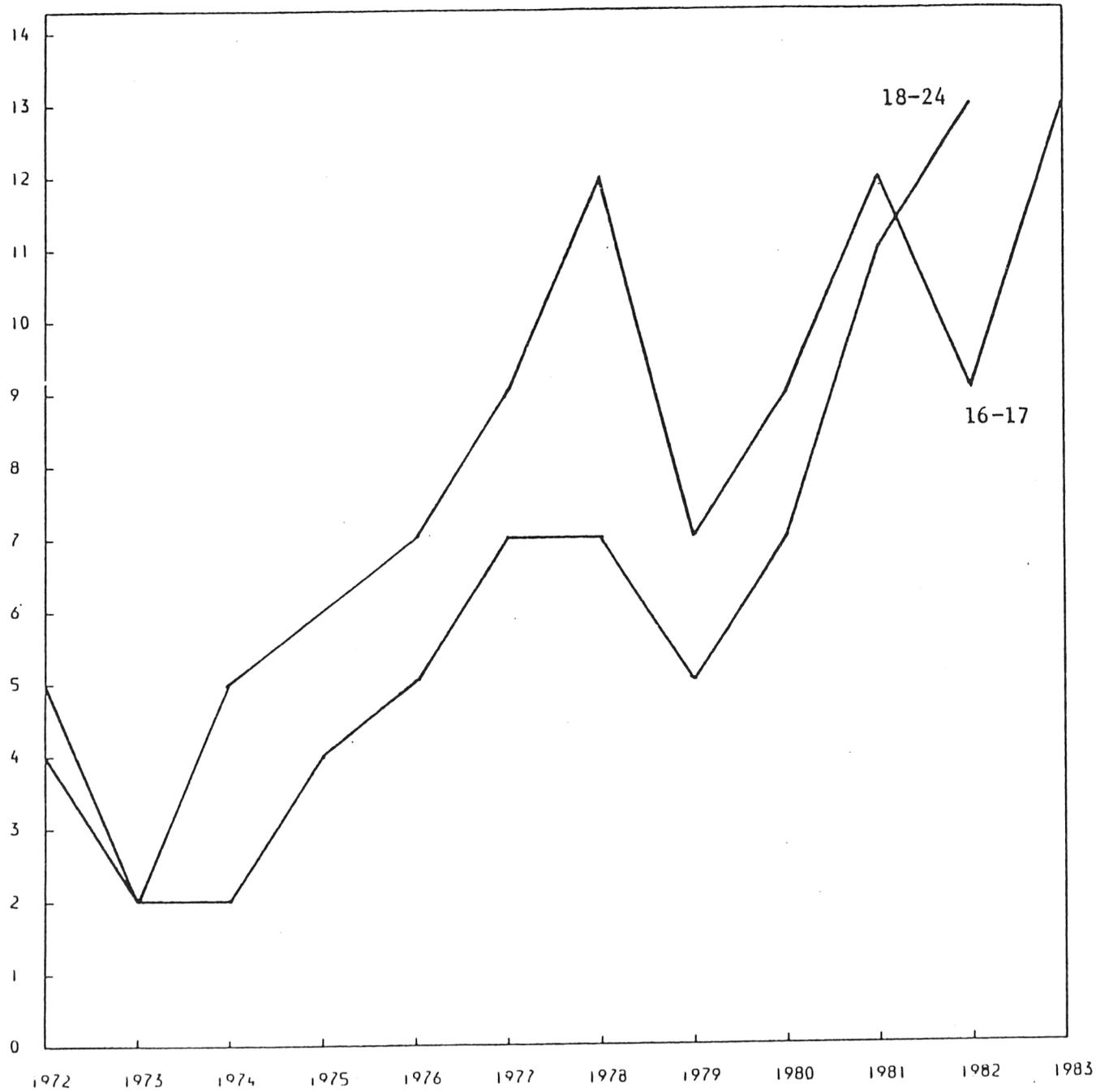
Diagram 3 Youth Unemployment: Males (Percentages)



Source: GHS

Note: Percentage of population of age group (i) that is unemployed.

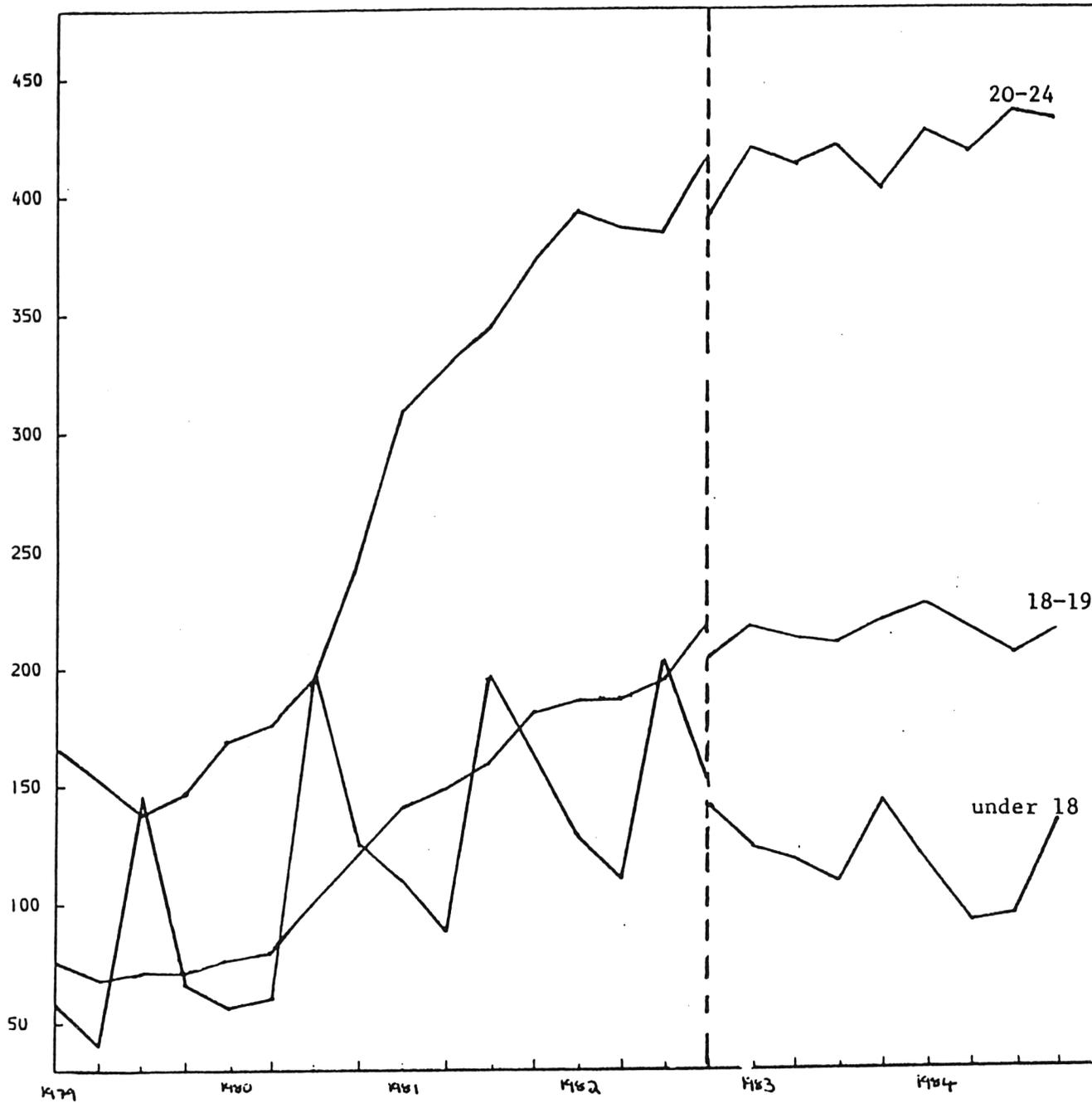
Diagram 4 Youth Unemployment: Females (Percentages)



Source: GHS

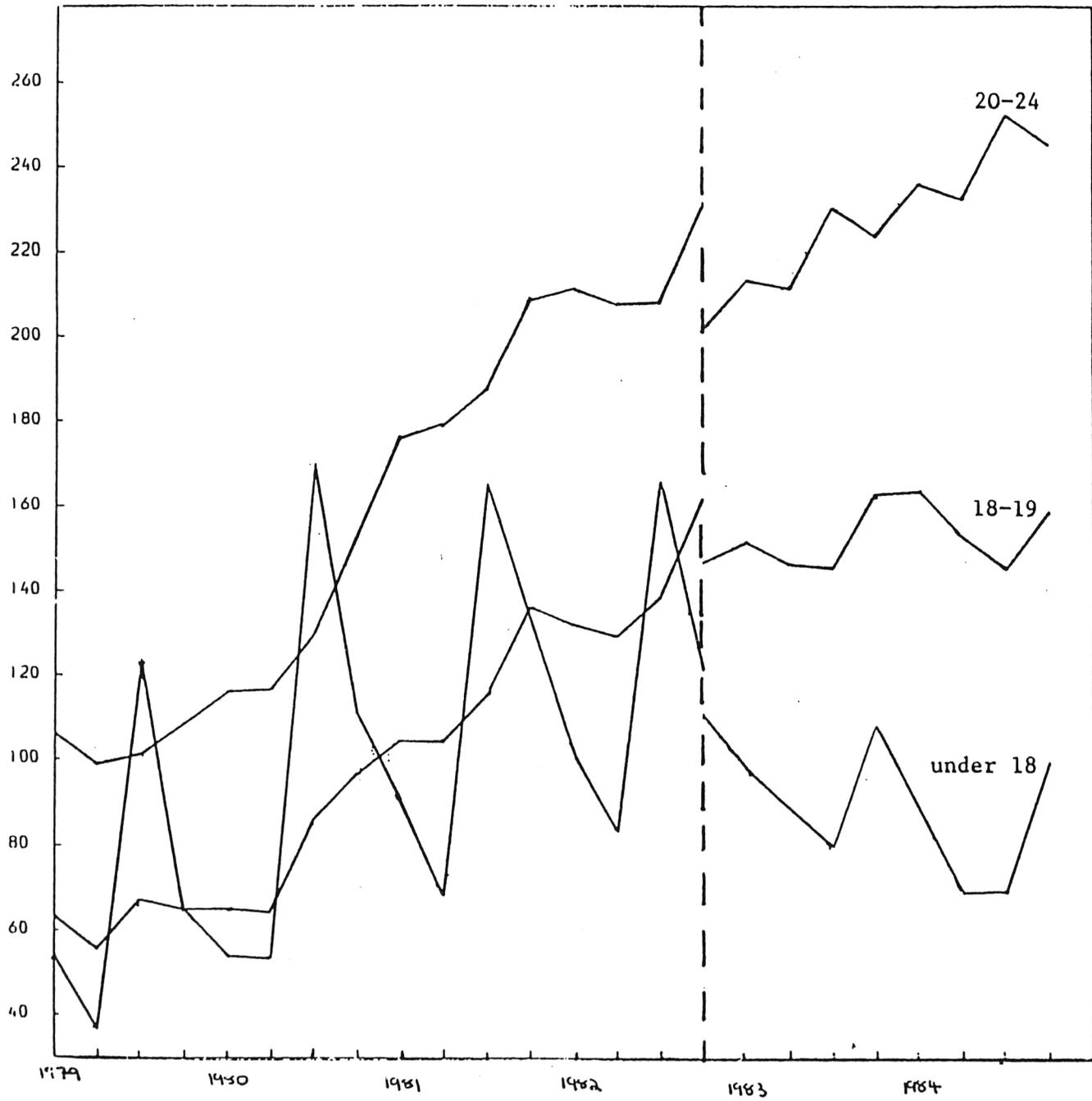
Note: See note to  
Diagram 3.

Diagram 5      Youth Unemployment: Males (Thousands)



Source: DE Gazette

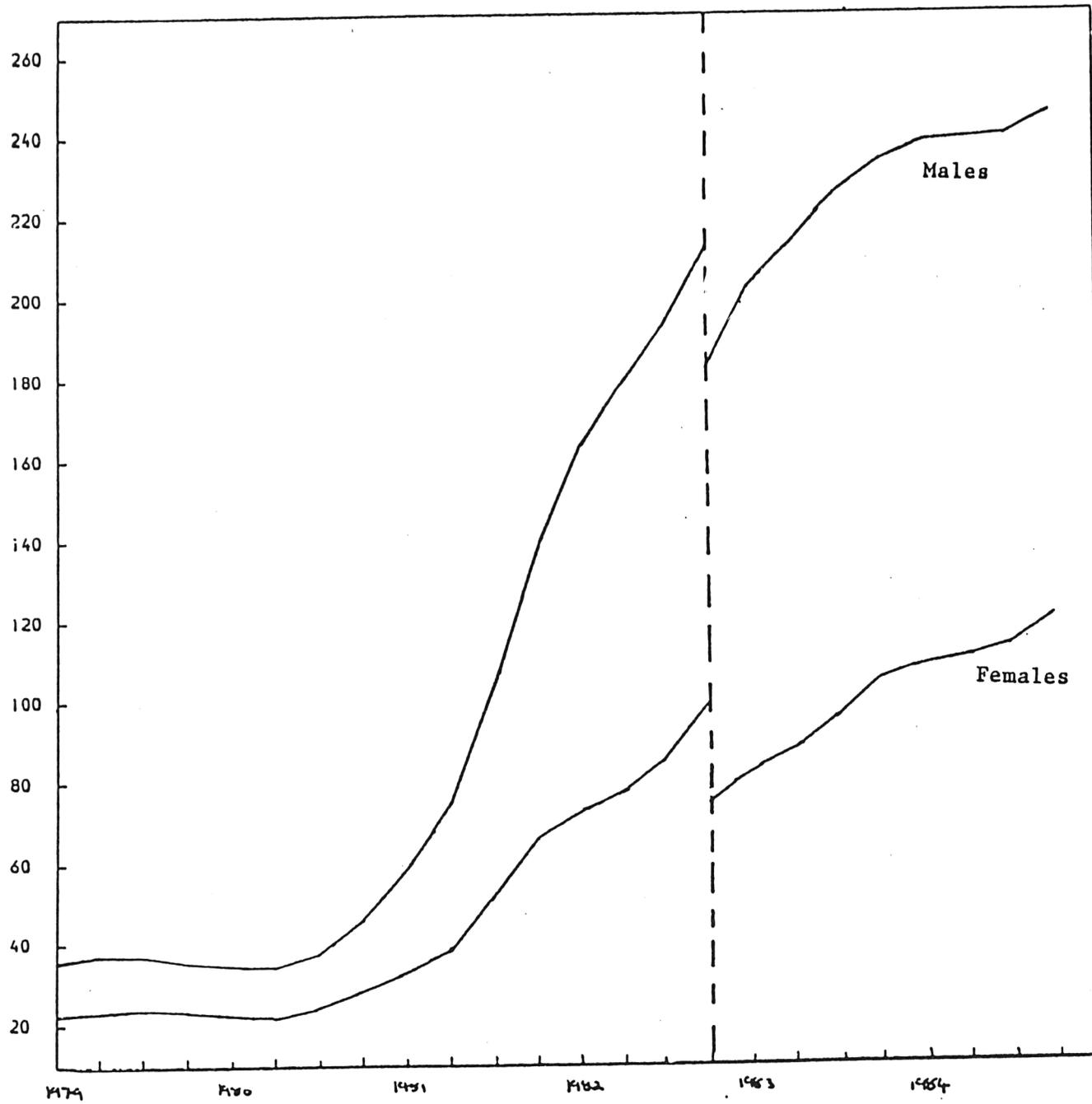
Diagram 6    Youth Unemployment: Females (Thousands)



Source: DE Gazette

Diagram 7

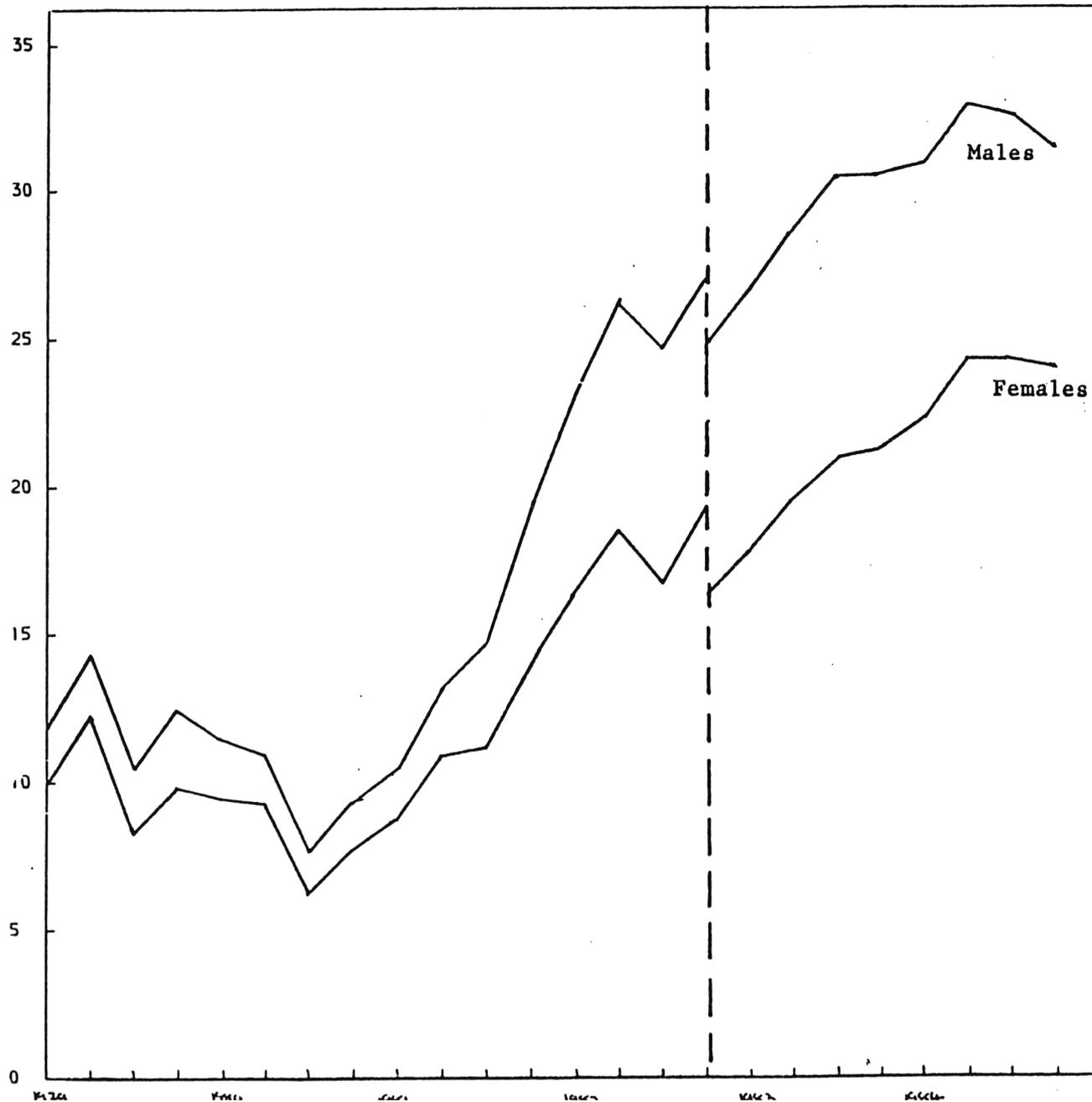
Long-term Youth Unemployment (Thousands)



Source: DE Gazette

Note: Persons less than 25 years, unemployed for more than 52 weeks

Diagram 8    Long-term Youth Unemployment (Percentages)



Source: DE Gazette

Note: Persons less than 25 years, unemployed for more than 52 weeks as a proportion of all persons less than 25 years.

### 3. Some Explanations

The changes in the youth labour market over the past few decades are usually explained in terms of changes in the demand for, and supply of young people. In some models it is assumed that (real) wages are sufficiently flexible to clear the market so that the only unemployment that exists is voluntary. In other models, which I believe are more realistic, wages are assumed to be inflexible (or at least do not adjust instantaneously) and a labour market disequilibrium exists: unemployment is involuntary. If, for various reasons, the output market does not clear (and there is inadequate aggregate demand) then it leads to involuntary unemployment even if the real wage is perfectly flexible (6).

If the output market is a non-Walrasian market (that is output prices are not perfectly flexible and trade takes place at disequilibrium prices) producers are rationed in how much they can sell and, hence, they reduce their labour demand. During the past few years, there has been a severe recession with aggregate output just beginning to overtake the level in 1979. During this recession, many firms have gone to the wall and fired their workers, the forms that survived have decreased their employment by firing workers and decreased their hiring of new workers. The public sector has also been squeezed and has made people redundant and hiring of new workers has decreased. The young are particularly sensitive to such changes: as firms fire workers the young are the first to lose their jobs. With a decrease in hiring, the young are again affected since they are just entering the labour market or because of their higher mobility re-entering the labour market. There is much evidence to support the view that youth unemployment has risen due to the recession, see Junankar and Neale (1985).

Another explanation of the growth of unemployed young people is that there are structural changes taking place in the economy away from "youth-intensive" industries. Although there is some evidence for this view, it is a relatively controversial issue, see Raffe (1984). During the past few years there has been a spectacular decline in the manufacturing sector

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(6) See Malinvaud (1977).

and, hence, a decline in hiring by that sector. In particular, young people (in the past) would have joined the manufacturing industries as apprentices and these have also declined. The decline in the manufacturing sector has been accompanied by a growth in the service sector. Much of the expansion of employment in the service sector has been of part-time female (married) workers. Again the young who are looking for full time jobs have suffered.

A possible explanation for the growth in unemployment (but not of the fall in employment) may be that, due to demographic reasons, there has been an increase in numbers of young people in the past few years with the "bulge" peaking in 1986/87. In addition, there has been a marked increase in the participation rate of females. It appears that the labour market has been unable to absorb the increased supply. (The raising of school-leaving age in 1972 led to a sudden fall in labour supply which was reflected in a fall in unemployment.) However, this cannot explain the fall in employment.

A currently popular explanation of the problems of the youth labour market is in terms of employers not hiring young people because of increased wages of young people relative to adults. However, data from the New Earnings Survey on relative labour costs of the young show that, since the mid-seventies, they have been declining and yet employment has been falling (unemployment rising). Junankar and Neale (1985) using a disequilibrium about market model show that relative wages are not an important variable in explaining employment of young males. The major fact explaining the fall of employment is a fall in aggregate demand. It has been argued by some that Unions have led to increased unemployment of the young by raising their relative wages. As we saw above, there is little evidence for increased relative wages. In addition, union membership has declined in the past few years and, in any case, the young are relatively under unionised (partly because they are in industries/occupations with low unionisation). A final Monetarist argument is that generous social security benefits have fallen very slightly for young people. (Due to recent changes in legislation, school-leavers cannot claim benefits for the summer and have to wait until September.)

In some cross section studies (7) of this labour market, it has been found that the poorly educated, unskilled, those with poor parental background and the ethnic minorities are more likely to be unemployed. For example, according to the Labour Force Survey in 1981, the unemployment rates for the under 25s were 19, 38 and 25 per cent for White, West Indian and Asians respectively. Lynch (1984) also finds that the longer a young person has been unemployed, the less likely (s)he is to find a job (so called "state-dependence"). These cross-sectional studies also find a large number of the unemployed young are not registered as unemployed. This suggests that many of them are not "rational (maximising) economic agents" but, due to various social and institutional reasons, prefer not to be stigmatised as the "unemployed". Note that, even of the registered unemployed (until 1982) many young people are not receiving any benefits (unemployment or supplementary). The proportion of unemployed boys and girls less than 18 years receiving any benefits, increased from approximately 40 per cent in 1968 to 75 per cent in 1974. Of unemployed young people less than 20, the proportion increased from 80 per cent in 1975 to almost 90 per cent in 1983. This increased take up may reflect the increased duration of unemployment as well as a change in social climate. Thus, although there is evidence of increasing take up of benefits, it is still not universal.

#### 4. Consequences

The consequences for the individual are obvious : a loss of income, lower likelihood of subsequent employment and a lower profile of future incomes. However, a major consequence for the individual is a loss of self-respect and an inability to join the consumer society which only respects those who demand goods backed by money. A job provides an individual with psychological and social satisfaction. There is some evidence to suggest that the unemployed are more prone to illness (both physical and mental) and some fragmentary evidence linking it to suicides. There is some evidence linking unemployment to crime by young people (8). There is evidence in a

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(7) See Lynch (1984), Main (1981).

(8) See Junankar (1984).

study carried out by Dr Martin Plant of Edinburgh University that unemployed boys are more likely to use illegal drugs. (Guardian, 7th November 1985). To quote the Select Committee of the House of Lords on Unemployment (1982) :

"We believe unemployment to be among the causes of ill-health, mortality, crime or civil disorder." (p. 59)

There is also some work which suggests that unemployment leads to increasing stress within marriages which sometimes leads to separation and divorce.

besides the costs of social security benefits, youth training programmes and loss of tax revenues, society suffers a real output loss. Society also loses future real income due to inadequate current work experience (inadequate investment in human capital). It also leads to a disgruntled generation who may become social misfits in the future.

## 5. Policies

There are four major methods of affecting the labour market:

- (i) increase aggregate demand,
- (ii) decrease labour costs of young people,
- (iii) increase the skills of the young either through formal higher education or through training and apprenticeship schemes,
- (iv) affect the incentives of the young towards work/leisure.

As argued earlier, the most important way of improving the employment prospects of young people is by increasing aggregate demand. As the economy expands, firms would hire more young people and fires (dismissals) would go down. Given that there is usually a period before changes in aggregate demand affect employment, the results of policy changes may take over a year before any significant change in employment/unemployment takes place. Neoclassical economists (especially) argue that the relative labour costs of the young must be reduced (by the abolition of minimum wages, by weakening trade unions, or by lowering National Insurance charges) to increase employment. As mentioned earlier, even though the under 18s have been getting cheaper, the level of employment (unemployment) has been falling (rising). At present the Government is

trying to put downwards pressure on wage rates via the Young Workers Scheme (which subsidises firms if they pay less than the "going rate") (9). Similarly, it is hoped that the low YTS allowance would put pressure on wage rates. A decrease of (or exemption from) National Insurance charges for young employees should make young people more "competitive". Recent budget changes have lowered the employers' National Insurance charges for lower paid workers. In addition, the Government has just excluded young people under twenty-one from the Wages Councils, in an attempt to stimulate employment of the young. However, most estimates of the relative labour cost elasticities are fairly small.

The major plank of the Government's policy towards young people has been the introduction of the Youth Training Scheme (YTS). The object of this is, in theory, to lower the training costs of the firm (employer) and to increase the "human capital" of young people. However, if there is a lack of demand, all that may happen is that firms substitute YTS people for employees (or trainee employees). At the end of the YTS firms can use the YTS as a "screening device" and, hence, lower their hiring and firing costs. Again, given a shortage of demand, only the "better" YTS people would find jobs: the total number of jobs may not change but YTS simply selects who is successful in finding a job. There is accumulating anecdotal evidence to suggest that some (many?) employers are simply taking on YTS people as cheap labour and taking on a new set at the end of the so-called traineeship. However, there is no "hard" evidence on the success rates of YTS people. A much quoted figure by the Government is that 60% of the YTS people found jobs or went into further education. However, this figure has been criticised by many people and organisations, in particular, Youth Aid (10).

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(9) Evidence presented in Rajan (1984) suggests a very small impact on employment.

(10) See Guardian Report (17th October 1984) entitled "Clash on claims that more youth trainees find jobs".

Unfortunately, there has been no proper study of the effectiveness of YTS comparing it with a (matched) control group. There is certainly anecdotal evidence that some YTS schemes are good and do provide training while others are purely disguised cheap labour. A further assessment of this must await the results of the Manpower Services Commission follow-up surveys of the YTS people.

Neoclassical economists (especially Monetarists) believe that young people are refusing job offers because social security payments are too generous. They suggest that these benefits should be decreased or withdrawn completely. As mentioned earlier, many young people do not register as unemployed (or claim benefits) which suggests that, even if the argument is true for some young people, the impact on employment is likely to be very small. It was mentioned earlier that the lengthy periods of unemployment do not suggest people refusing job offers.

## 6. Conclusions

In this paper we argued that the labour market for young people is in a crisis: employment has been falling, unemployment rising and relative wages falling. Although large numbers are being taken off the unemployment register via the YTS, we believe that only disguises the problem. What is required is a boost in aggregate demand to mop up the large numbers of idle young people. The serious problem of growing long-term unemployment amongst the young may be storing up social problems for the future. Beveridge (1944) said, "(f)ailure to find any use for adaptable youth is one of the worst blots on the record of the periods between the wars." (p. 72) It is a sad reflection on society that forty years later the situation is much worse!

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A POLICY TO CREATE REAL JOBS -  
A PREREQUISITE FOR COMBATING YOUTH UNEMPLOYMENT

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This text presents some reflections on measures and proposals presented in France as possibly being able to combat youth unemployment.

I - YOUTH INTEGRATION AND TRAINING SCHEMES AND EMPLOYMENT

Over the last few years, as a result of persistent, worsening unemployment among young people, governments have taken measures (1) designed to promote youth integration and vocational training. These were officially assigned the aim of promoting the recruitment of young people, preparing them more adequately to do a job and bringing up to standard those many youths who had failed at school and who we know more often than not come from the social sectors undergoing the most difficulties. This last aim was later added to the original aims in preparation for technological changes bearing in mind the low skill level in this area in spite of progress made at school.

The longest-standing of these measures, known as "Employment Pacts" have been the subject of many analyses which today have all reached the same conclusion, namely that this scheme has a very low level of efficiency. For its part the C.G.T. rejected them from the outset on the grounds that basically all they did was keep young unemployed people waiting without really helping them to integrate into the working world or obtain a professional qualification. A recent OECD report (2) on youth employment in France stated that many of the young disadvantaged people who had taken part in these programmes were still social cast-offs, and had no stable jobs.

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(1) Françoise AMAT : les mesures en faveur de la formation et de l'emploi des jeunes de 1977 à 1985. Formation Emploi no.9 - Jan./March 1985.

(2) O.C.D.E. : l'emploi des jeunes en France, les stratégies récentes - O.C.D.E. 1984.

The report also stated that many of the practical training courses and work contracts that were part of the scheme only led to insecure jobs. Likewise, the practical training courses did not help combat periodic youth unemployment. The training period was not long enough and their content was too limited to allow these young people to obtain real qualifications that made up, even partially, for the shortcomings of their initial training.

The courses again channelled the young people into the same areas but did not produce any worthwhile job opportunities and caused much disappointment among the young people. The OECD quite rightly pointed out that "it was an expensive policy in that the automatic subsidies or tax exemptions meant that employers have profited in an unexpected way when they would have had to recruit people anyway, and the real impact of these measures on job creation is difficult to determine." (1)

The criticism levelled at the "Employment Pacts" can also be applied to later measures. This is the case with the "General Interest Works" ("Travaux d'Utilité Collective" (TUC)) and the introductory courses to the working life for youths which above all involved insecure types of jobs and provided no real training.(2) On the other hand, we have a favourable opinion of the vocational training courses for youths in the 18-21 age band aimed at youths with a very low level of schooling or those finding it difficult to integrate into the working world.

It is worth recalling that the data available on trainees on the 16-18 year old plan concerns those youths most disadvantaged at school, who did not go onto apprenticeships, who left school at 15 or 16 as well as those who left school during the lower sixth form. Most of these people had failed at school and came mainly from large families in which nearly a

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(1) OECD : op. cit. p. 69.

(2) We are referring here to the courses resulting from the agreement of 23 October 1983 and institutionalized by the Act of 24/02/84.

quarter of their fathers were inactive. Of these, 9.4% were unemployed or pensioned off, and 14.5% were absent from home or deceased. 68.8% of the fathers were manual workers (mainly unskilled).

At the time of the survey (1), 45% of the youths (girls and boys) interviewed were unemployed and 9.3% were inactive. Only 15.8% had a job. The others were still on the scheme (20.9%), on an apprenticeship or on a training scheme (7.2%). 2.1% were doing their military service.

Although they are too recent to be indicative of the overall effectiveness of the scheme, these results clearly show that the programme will not shorten the long queues on the labour market that accompany massive unemployment and that the only answer is real job creation. The question will not be resolved by courses even if their actual content is positive and job creation would have a decisive impact on making genuine vocational training activities effective. These results also show the difficulties inherent in overcoming the handicaps resulting from insufficient or unsuitable initial training which is characterized by failure at school and social difficulties.

However, the results of the jobs/training contracts, another measure recently modified and which enjoyed strong State backing, showed a much higher proportion of recruitment. In 1984, the figure was 75.5% compared to 78.2% in 1982. In 1984, 61.5% of the trainees remained in the company where they had done their course as opposed to 64.5% in 1982. In 1984 as in 1982 a large proportion (93,2%) obtained stable work contracts (unlimited term contracts). On the other hand, only 81.5% of the trainees who became employees in another company (14% in 1984 and 13.7% in 1982) were given a normal work contract in each of the two periods.

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(1) BREF - no. 12 - February 1985 - bulletin produced by the Centre d'Etude et de Recherche sur les Qualifications (CEREQ).

The results from this measure are therefore quite significant. It would be interesting to know what the recruitment behaviour of the companies concerned would have been if the strong recruitment incentive provided by the scheme had not existed. The data available does not allow such an assessment to be made.

However, when the measures adopted do lead to jobs, these jobs all too often do not match the training received and are therefore unstable.

We shall now take a brief look at the government's last scheme.

The General Interest Works (TUC) were launched in November 1984. They enable certain bodies (associations, public establishments, local authorities, works councils and Social Security bodies) to recruit young people from 16 to 21 (1) for socially beneficial activities, work to improve the environment and community projects. They receive a monthly payment from the State of FF 1,200. Work on this programme is underpaid since the payment received by the youths is well below the legal minimum wage. We therefore take the view that this programme effectively calls this legal minimum wage into question. The youths spend between 3 months and a year on the scheme working half-time (20 hours a week). At the end, they receive a "work experience" (?) certificate from the institution organizing the programme. Attempts have been made to present the General Interest Works as reflecting "a strange consensus among young people for job, time and income sharing (2). Through the activities of the CGT's Confederal Centre for Young People we have noted that the young workers had a realistic view of the contents of this programme and that they were not expecting to be trained or get a job providing them with a skill. But they were not resigned to this situation and many of them said their main aim was to get a stable, skilled job.

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(1) There is now talk of extending the programme to include adults.

(2) For the opinion of an apologist for the Public Interest Works -  
Cf. François Le Bouteux : les TUC ... et après ? Droit Social  
no. 4 - 1985.

With no training element included in them, these programmes are aimed at providing a cheap, insecure work-force for private or semi-State social bodies for certain jobs. This point was not lost on the groups of craftsmen and small companies who regard the scheme as a competing sector which could lead to job losses. The General Interest Works are just another example of the increasing instability of working and training regulations that is seriously affecting young people and is one of the most serious human and material wastes.

Integration programmes, especially when they do not provide a genuine qualification, effectively come up against the obstacle of an insufficient number of real jobs to meet demand. In this context, a change has been detectable in the general behaviour of companies for some time now in terms of their more general management strategy. As a result of their new methods of employment management, they tend to resort to temporary contracts and lengthen the trial periods. This is what the French National Employment Agency's assessment for 1984 shows (1).

This increased selectivity particularly affects young job-seekers and becomes all the more acute as unemployment gets worse.

As the crisis gets worse, average "employability" requirements tend to increase. The differential "employability" of young people which involves their insufficient qualifications, but also employer's selectivity strategies, is bound to be affected by the crisis. It is in employers' interests for there to be a high proportion of job-seekers on the labour market with a particular qualification that they do not want to recognize and against which he puts forward the unilateral idea of "ability", which is a cover-up for recruitment discrimination practices. However, the

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(1) It highlights the fall in supply and the spread of fixed term contracts. Its Director pointed out "We have noticed that as unemployment goes up, companies are less likely to come to the Agency to find employees" - La Tribune de l'Economie - 23/4/85.

vocational training and integration programmes, even if they do have real training component and are not solely aimed at transferring unemployment, do not effectively combat the destructive effect of this phenomenon. As it becomes massive and lasting, unemployment worsens and exacerbates inequalities and hits hardest those sectors trying to reintegrate into the labour market, thereby strengthening the strategies designed to reduce job stability, to be selective and exclusive and which do so much harm to young people.

This tends to be translated by increasingly selective entry requirements for the most attractive training schemes. However, at the same time those courses providing training in traditional areas with few job opportunities are full. There are cases of waiting lists of more than six months for courses providing a qualification at the end.

It seems appropriate to combat these indirect unemployment-induced phenomena, to increase the effectiveness of public funds earmarked for training and to link training more effectively to job opportunities, employment and the creation of extra jobs. This directly concerns the contractual provisions associated with public financing but also the strengthening of trade union control over employers' practices in these areas. This poignantly brings up the link between production - employment - training and between growth and employment.

The rapid advance of unemployment tends to destroy those vocational training and integration programmes that have a sound content and are not just a cover-up for unemployment. This lack of effectiveness backs up the arguments of those in favour of pseudo-solutions aimed at curbing wage costs under the pretext of increasing employment.

## II - WAGE LEVELS AND EMPLOYMENT

The General Interest Works are a low-skilled form of employment that provide no qualifications and are of little value in terms of their content

and remuneration (1). They have been seen by some people, and quite correctly in our opinion, as public encouragement for a measure designed to reduce wage costs for young people through calling the legal minimum wage into question.

Before analysing this proposal, it should be pointed out that young wage-earners are on the whole subjected to low wages, often around or below the legal minimum wage.

According to the last known survey on low wages (2) as defined by the Centre d'Etudes et de Recherches on income and wages, the proportion of low wages by age group was as follows : under 18 years (94%); 18 to 20 years (39%). The proportion of low wages overall was 19.3%.

It is worth pointing out that the law provides for substantially reduced minimum wages for young people under the age of 18 and an even more greatly reduced minimum wage for those on an apprenticeship contract.

Another survey on wages in 1979 (the last available (3) shows that wages for young people under 18 years were 64.4% lower than those for 18-20 year olds 44.7% lower than average wages. For both of these ranges together the difference was 57.8%.

Moreover, those branches where wages are below the national average employ 72.3% of young workers from 15 to 19 years old, 68% of 20 to 24 year olds

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- (1) The public debate in France on whether those people on the programme should be included in the unemployment statistics is accompanied by the argument as to whether they comprise a particular type of worker not subject, because of a legal expedient, to minimum wage legislation.
- (2) Study on low wages. Documents du DERC, no.59, 3ème trimestre 1981 p.64. A low wage is conventionally defined as corresponding to FF 2,000 net per month in 1977. At that time the average wage for full-time wage earners was FF 3,138.
- (3) Les salaires dans l'industrie, le commerce et les services. Année 1976-1979 Archives et Documents - no. 107.

whilst only 63.7% of employees work in these branches (1).

Low wages for young people are just part of a much wider scenario.

Accompanying the rise in unemployment over the last few years there has been a resurgence in economic debate of the neoclassical thesis claiming unemployment is the result of too high labour costs. This argument has to a large extent been propounded by the Employers' National Council in the form of their demands for "less regulated" jobs, their questioning the legal minimum wage which has been in force in France since 1950 and above all their suggestions that it be replaced by a special lower minimum wage for young workers.

We contest the basic tenets of this theory whose application, through deregulation practices, leads to serious social decline and offers no other prospects other than to worsen the crisis.

As regards the relation between wages and employment, if we look for empirical evidence of the neoclassical thesis by briefly comparing the share of wage costs in total costs and unemployment rates, we find there is no significant correlation. "Indeed, the Japanese inflation rate is much lower than the OECD average over the last decade whilst the wage share is one of the highest. On the contrary in the United Kingdom, wage share was lower than anywhere else at the end of the period yet unemployment was greatly above average," as a recent study on the relation between wage costs and employment shows (2).

This same study compares works by various authors on the subject and concludes they are heterogeneous, "rather negative" and "at variance with the insistence of many analysts who regard the development of the wage

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(1) If one excludes non-market services in the branches where wages are below the national average, the respective percentages would be 64.2% (15/19 years), 52.4% (20/24 years) and 42.6% (all employees).

(2) Jacques le Cacheux and Daniel Szpiro, Part salariale et emploi - observations et diagnostics économiques, Revue de l'OFCE, no. 8 - July 1984.

share or the real wage gap (1) as being the main factor in determining employment levels".

A more specific examination of the impact of wage levels on economic activity, employment and unemployment among young people, which is only a variation of the more general thesis according to which unemployment is due to the development of wage costs, shows that the studies available from university or official institutions do not confirm the neoclassical theory either. An analysis of these studies made by the OECD together with studies carried out by that organization itself not only do not confirm it but moreover show how inaccurate existing knowledge is of the elasticity of demand of young workers to changes in wage levels and the possibility of substitution effects between the young people themselves or between young people and other categories of the work-force. These results do not have much social significance if the question is viewed from the perspective of a fall in unemployment and not from the point of view of managing an increasing mass of unemployed people which might be interested in the structural effects with a view to reducing certain components of aggregate remuneration. The creation of a lower minimum wage just for young people might indeed have effects on the structure of unemployment to the detriment of other categories of the wage-earning population. We are against this because it does not lead to the creation of new jobs and because the resurgence of age-based discrimination for wages or anything else can only be greatly discouraging, have adverse effects on productivity and have a negative impact on job opportunities and therefore also on employment.

The OECD's special study on North America and France (2) concludes that in France changes in the minimum wage have no effect on the labour market for young people, from the point of view of labour demand. As regards

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(1) Real Wage Gap : a concept which describes the difference between the theoretical wage share at full employment and the current observed share.

(2) John P. Martin : Effects of the minimum wage on the labour market for young people in North America and in France. OECD Special Studies Collection - June 1983.

supply, the changes registered would be of little scope and have the opposite effect depending upon whether young females or males were being considered.

Moreover, these works confirm studies which aim to assess the impact of exemptions from employers' contributions which, theoretically, were designed to promote employment and reduce the wage bill. These measures have been very or totally ineffective in creating real jobs but they have led to selectivity resulting in a redistribution of unemployment among the various categories of job-seekers, not to mention the other indirect effects.

These attempts directed at the wage bill are indicative of a refusal to attack the roots of the structural crisis. Employment and training policies are only rarely related to an explicit analysis of the crisis. And when they are, more often than not they are based on the neoclassical theories which after having explained youth unemployment in terms of the evolution in attitudes, today attribute it to excessively high wages. They do not take into account the role of wages, since they only consider them as a cost and underestimate their importance for employment and for savings. Of course, an improvement in the employment situation could not result just from a Keynesian-type boost. The wages factor is not the only factor determining employment levels as the dead end reached by policies based solely on consumption stimulation shows. These policies come up head on against management strategies. After the international boost to the French economy in 1981, employers did not want to invest, preferring to use their profits for financial operations and to export their capital (1). The French government's measures to stimulate consumption after May 1981 were destroyed by the lack of provisions capable of influencing the rationale behind company management, even in nationalized companies.

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(1) Rapport Annuel sur la situation économique et sociale de la France (mai 1981 à décembre 1982) - CGT - Institut Syndical d'Etudes et de Recherches Economiques et Sociales.

This rationale led to financial imbalances and the continued extraversion of the French economy which worsened the dislocation of its productive apparatus and led to increased foreign penetration of its domestic market. These conditions meant it was very difficult for French growth and employment to develop independently.

Very soon after this period came a period of economic austerity (1) with a policy designed to reduce consumption and which is now based on social and economic deregulation. To justify this policy, it is claimed that the increases in profits which accompany it will tomorrow generate the investment for future modernization and employment. This theory is not credible. It just serves to perpetuate excessive, permanent capital accumulation, which limits job opportunities and increases unemployment. This can be seen from developments in many countries, along with France. For example, from 1981 to 1984 the share of wages in the value added of all individual companies and businesses fell from 58.2% to 56.2% whilst the profit margins of these companies rose from 37.2% to 39.1% Real wage costs per unit of output fell by 3.1% from 1981 to 1984 (2). Nonetheless, unemployment continued to rise from 7.8% in 1981 to 10.1% in 1984.

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Massive unemployment cannot be isolated from companies' profit strategies and the reduced efficiency of the production system as seen in the increase in capital per unit of output. This relationship is not just a question of technology as it is all too often made out to be since other productivity factors, particularly the skill-level of the work-force, the process of economic growth and job creation must also be taken into account.

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(1) In France in 1983 domestic consumption made a 0.6% contribution to a 0.9% increase in the rate of GDP whilst in 1984 the figures were 0.6% and 1.3% respectively.

(2) These figures come from the provisional and National Accounts for 1984.

The CGT's analyses lead it to believe that the only way to start a process of recovery from the crisis is to give priority to the creation of real jobs, and particularly skilled jobs, in competitive, efficient sectors in economic policy and in management strategies. This implies promoting a new, more efficient production combination based on capital savings, the skill-level of the workers, improved working conditions and new relations between labour and management. As opposed to the exclusive profit criterion, management strategies encouraging economies in the use of physical and financial capital should be promoted. These would lead to an increase in value added and allowing a greater share of it to be spent on men through job creation and vocational training. This would create the job opportunities necessary for increasing production and developing useful services. Economic policy and especially State encouragement measures should take these same criteria into account.

This is not possible without full trade union participation and full recognition of the workers' rights to be involved in economic policy and company management.

In our opinion, these are the conditions necessary for attacking the unavoidable question of job creation which is central to finding a solution to the crisis.

DOES CUTTING YOUTH WAGES HELP YOUNG WORKERS TO FIND JOBS ?

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FERD CRONE

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PREFACE

In the Netherlands, as in other countries, youth unemployment is far higher than adult unemployment. The teenage unemployment rate rose to 40 % in the early eighties, whereas the overall rate was 17 % (taking both as a percentage of the active labour force). Of course these facts make the struggle against youth unemployment a focal point of government policy and often also of negotiations between trade unions and employers.

Government policy has concentrated on cutting minimum wages and unemployment benefits for under 23 year-olds. It also encourages special programmes to develop job skills, especially by subsidizing on-the-job-training. Finally, the government wants to offer newcomers to the labour market public sector jobs for only 32 hours a week, instead of the normal 38 hours.

This follows the general worksharing trend at present occurring in the Netherlands.

In this paper I will comment on the effects of the minimum wage cuts. Then I shall give some brief information about worksharing by means of a reduction of the hours worked by each employee, and possible ways of solving youth unemployment.

1. Introduction to Dutch unemployment

In the media, the unemployment figures get much more attention than the employment figures. Usually one is interested in the number of unemployed as well as in the rate of unemployment. In table 1 some figures are given from which it appears that youth unemployment is indeed very high in the Netherlands.

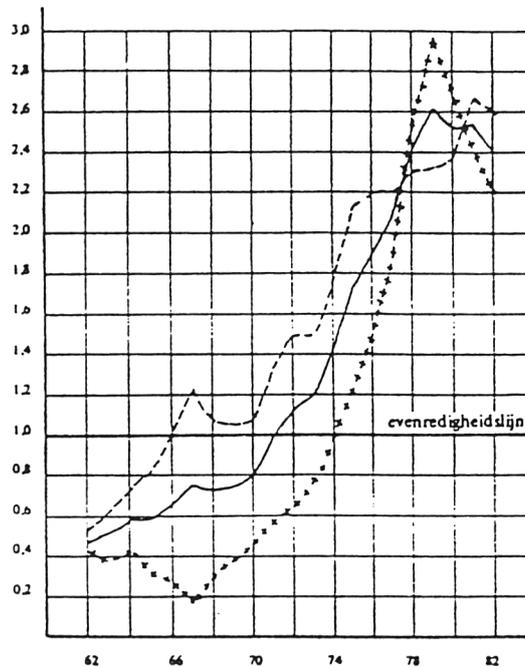
Table 1 : registered unemployment

	1981	1982	1983	1984	1981	1982	1983	1984
	x 1000 persons				% active labour force			
19	59.0	71.9	73.0	62.5	30.8	38.9	41.0	35.1
19-22	98.7	140.6	175.2	179.4	15.7	22.3	27.8	28.5
23-24	40.4	56.9	71.7	77.0	12.2	16.6	20.5	22.0
total								
( 65)	479.8	654.6	800.4		10.7	14.3	17.1	17.6

Figure 1 shows the relationship between youth unemployment rates and those of people over the age of 24. The so called relative youth unemployment ratios are also given. It will be seen that youth unemployment has exceeded that of adults since 1971. A peak is reached in 1979, whilst in recent years relative youth unemployment falls.

Figure 1 : Relative youth unemployment ratios

\_\_\_\_\_ youth  
 - - - - - boys  
 + + + + + girls



Minimum wage for youth : a quarter less in four years

In recent years, minimum wage cuts have been very popular in government policy. This policy has focussed on the legal minimum wage for youth, although theoretically the relationship between youth wages and unemployment is not clear cut. The minimum wage is a particular case, but it seems to be an easy instrument with which to achieve employment objectives.

In 1974, the government of socialists and christian-democrats introduced minimum youth wage legislation, five years after the introduction of minimum wages for adults (workers aged 23 and over). This youth wage is linked to the adults' minimum and is gradually reduced by 7.5 % per year (see Table 2). Since 1981 several measures have been taken which reduce the minimum youth wage by about a quarter compared to 1974.

Table 2 : Minimum wage for youth : its introduction (1974) and the reductions of 1981 and 1983

age	1974	1981	1983	1974	1981	1983	1983/1974
	%	%	%	(1)	(1)	(1)	%
23	100	100	100	2049	2049	2049	0
22	92 1/2	90	85	1895	1844	1741	- 8
21	85	80	72 1/2	1741	1639	1485	- 15
20	77 1/2	70	61 1/2	1587	1434	1260	- 21
19	70	60	52 1/2	1434	1229	1074	- 25
18	62 1/2	52 1/2	45 1/2	1280	1076	932	- 27
17	55	45	39 1/2	1126	922	809	- 28
16	47 1/2	40	34 1/2	973	820	707	- 27
15	40	35	30	819	717	614	- 25

(1) : gross wages, basis 1983 , HFL.

At first sight, the minimum wage cuts seem to have been successful, as the number of unemployed youth and the share of teenage unemployment in the overall figure started to fall.

On reflection, I am not convinced that reductions in the minimum youth wage will help to diminish youth problems in the labour market. Let us focus first on the wage side of the labour market, and then on the question of supply and demand.

Minimum wage : an instrument or a result ?

As mentioned above, the minimum wage is only a part of the relationship between wages and unemployment

First, it may create some unemployment for those whose productivity is below that wage. On the other hand, a reduction in the minimum wage may create some new jobs in the lowest-skills sector of the labour market.

If this had been the case, one would expect that during the periods when the minimum was introduced and raised in real terms, the number of jobs paid at minimum level would have risen. Because then the share of existing jobs with productivity at or around the rising minimum level increases too. Empirically, no such clear relationship has been found in the Netherlands. On the contrary, since the introduction of the minimum wage, the share of minimum earners (adults and youth) dropped, except during a short period just after its introduction. So the minimum wage plays a less and less important role.

Secondly, the minimum wage can have an upward effect on the wage structure. This effect has not been found empirically, or it is negligible.

Thirdly, a minimum youth wage can worsen their competitiveness in relation to adults. This means that if the relative youth wage, i.e. the wages for youth divided by those of adults, rises, the youth lose their jobs to adults (substitution effect).

In Figure 2, we can see that neither the introduction of minimum (youth) wages, nor the recent reductions, gave exogenous "shocks" to the relative youth wage ( $L_{jo}$ ) :

- in 1969, the introduction of the minimum wage for adults did not lead to a falling relative youth wage ;
- in 1974, when the minimum youth wage was introduced, there was no acceleration of a growing relative youth wage
- the reductions in the minimum wage for youth in the early eighties did not lead to an exogenous shock.

My conclusion is that changes in the legal minimum wage do not affect the development of wages very strongly. I would rather support the converse, that the minimum wage legislation follows the market.

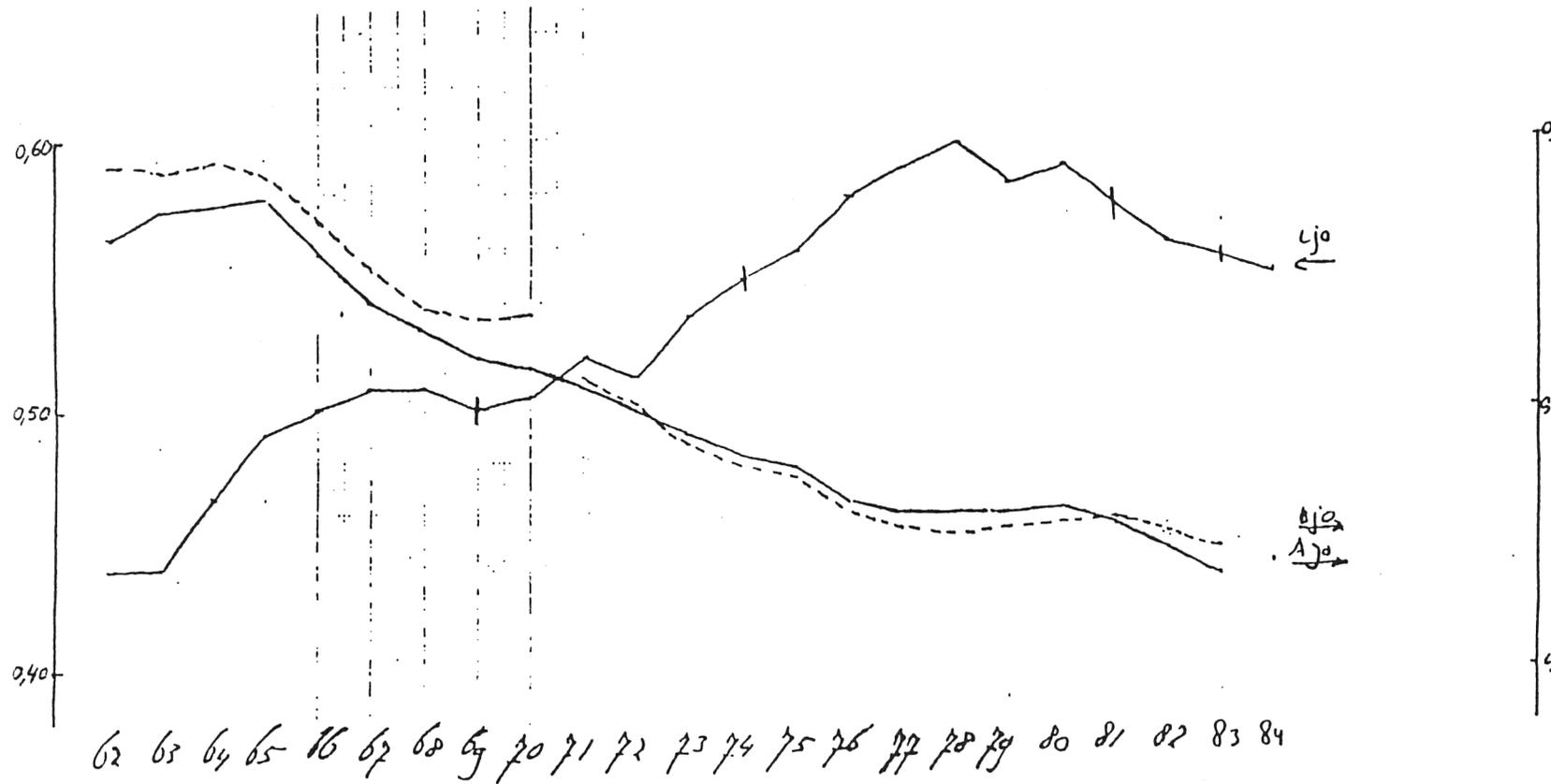
Figure 2 lends support to this proposition. So the minimum wage is a result, and not a very useful instrument in wage policy.

Figure 2 : Relative wages (earned per hour) of youth compared to adults (male)

Ljo = relative wages

Bjo = relative supply (active labour force)

Ajo = relative employment



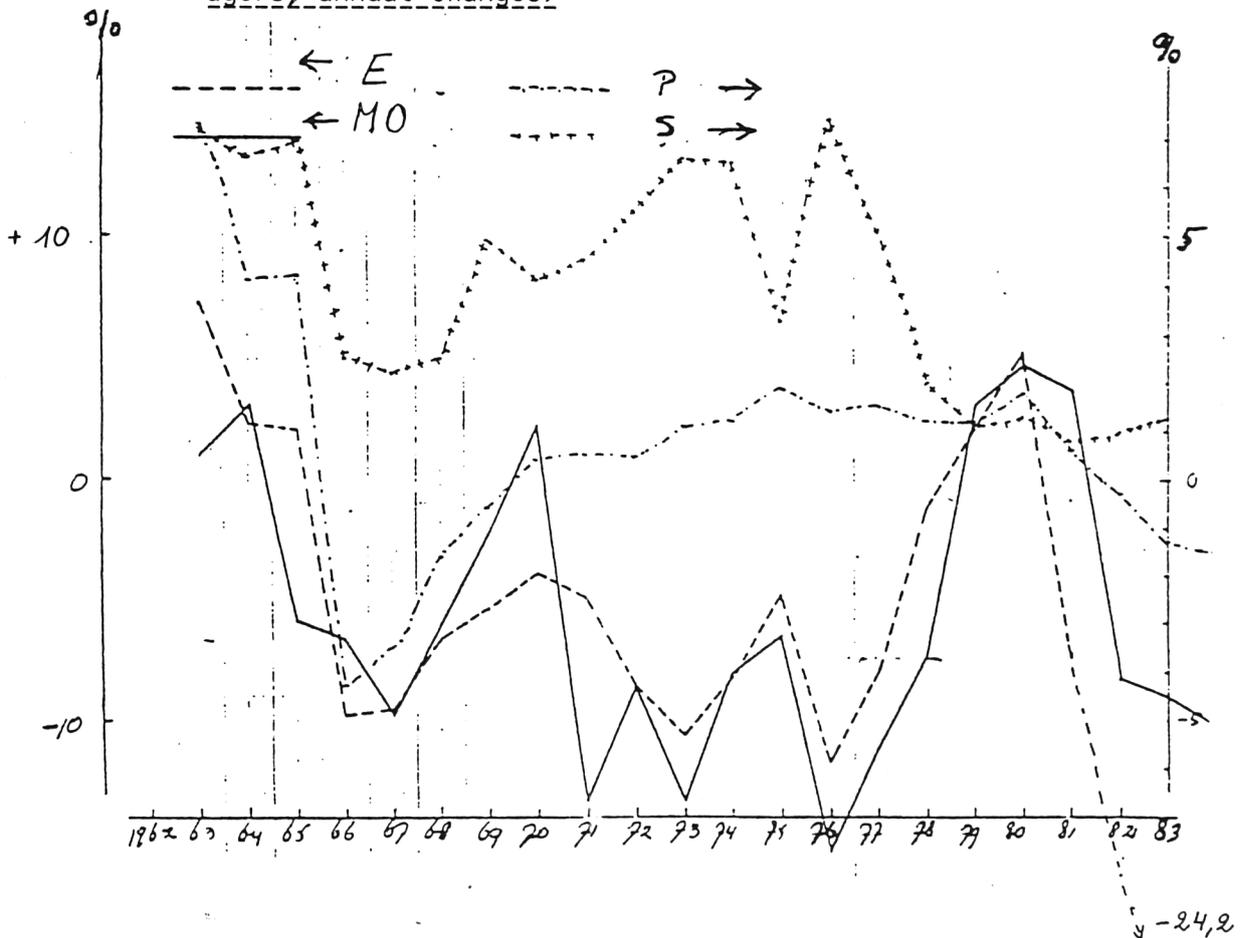
What is important, unemployment or employment?

So far I have focussed on the wage side of the labour market. The other question I will deal with is the relation between the (minimum) wage and employment.

As mentioned above, teenage unemployment has fallen. But of course unemployment is the result of two variables: the employed population and the active labour force. It makes quite a difference to the measurement of either employment or unemployment if the active labour force is not constant. For it is quite possible that the unemployment rate drops at a constant level of employment, because of a declining labour force. So one should a priori make a choice between studying employment or unemployment.

Empirically, it is very clear from the Dutch data that the active youth labour force does not remain constant. It is shown in Figure 3 that the teenage labour force fluctuates considerably, due to "exogenous" variables

Figure 3 - Population, Students, Employment and Labour Force (male teenagers, annual changes)



Like variations in total population and school enrollment. There may also be an endogenous relationship between active population and (minimum) wage levels, but it seems to be very weak. The government stimulated school enrollment by cutting unemployment benefits.

I prefer to concentrate research on the employment effects of the trend in the (minimum) wage. The reason is of course that employers, who are assumed to react to a lower minimum wage, can only work through the number of employed. Consider the demand curve. (A different question is whether the level of unemployment affects their ability to change wage levels.)

Employment should also be considered from the social aspect, because reducing unemployment without creating new jobs does not reduce the problems of the unemployed if they give up looking for jobs, and hence are not counted as unemployed. In addition, they feel obliged to accept new forms of on-the-job training with no or very low pay and no prospect of a viable job. To ensure that training is followed by jobs, a growth of total employment is required.

Does the labour market work?

The following conclusions can already be drawn:

On the wage side of the labour market, the minimum (youth) wage has no or very little effect on the general wage level and the relative youth wage.

On the supply and demand side, the employment, and not unemployment, effects should be studied, because they measure the effect of the (minimum) wage development more accurately, and the supply cannot be assumed to be constant.

This leads to two questions. First, whether a minimum wage cut as such would create new jobs at productivity levels below the former minimum wage: the expanding of employment.

It appears that the effect is minor and that there are other, more effective variables. Studies on minimum (youth) wages show only very small elasticities of less than -3% change in youth employment per 10% minimum wage increase.

It is increasingly being argued that in countries where there are special youth minimum wage systems, the level of this minimum is already low enough. There are other variables that have greater influence on youth employment, like growth of population, school enrollment and the overall demand for labour.

Finally, in the year when the minimum youth wage was cut by ten percent in Holland (1981), the labour market clearing was less effective than all the other years with the higher minimum youth wage.

The second question is whether the relative youth wage level (although it is not affected by the minimum wage) has much effect on the share of youth employment in overall employment. I do not know of any Dutch studies on this subject, so I undertook one myself last year. I tried to avoid the "traps" mentioned above, so I did not use as a variable the number of persons unemployed.

The dependent variable is relative youth employment ( $A_{jo}$ ), which can be taken as a parameter for the market share of youth as the choice between offering a job to a younger or older worker is directly influenced by the demanding party: the employer. This is the only way that they, through their views on wage levels and productivity, skill, obedience, etc., affect unemployment.

One independent variable which can explain a fall in the market share of youth is the relative wage, which can mean that youth becomes relatively more expensive when the relative youth wage rises. Then we expect a negative elasticity.

The second independent variable is the percentage change in relative labour supply, measured by the active labour force. It can be assumed that when the relative supply of youth grows, they will form a larger

proportion of the applicants and will thus have better employment opportunities.

The third variable is the percentage change in total employment. When employment falls, there will be fewer new vacancies, and (older) employees will tend to stay in their jobs. Opportunities for new arrivals on the labour market, especially teenagers, will diminish rapidly owing to their lack of skill, experience, etc.

These hypotheses are tested with a simple single equation model, where variables are measured in % changes. (See equations (1) and (2)).

$$\begin{aligned} A_{jo} &= 0,4L_{jo} + 0,9B_{jo} + 1,3A_t && (1) \\ &\quad (1,69) \quad (8,0) \quad (2,54) \\ R^2 &: 0,76 \\ DW \text{ . statistic: } &2,29 \end{aligned}$$

$$\begin{aligned} A_{jo} &= \quad \quad \quad 0,77B_{jo} + 1,55A_t && (2) \\ &\quad \quad \quad (8,8) \quad (3,0) \\ R^2 &: 0,71 \\ DW \text{ . statistic: } &1,99 \end{aligned}$$

Number of observations : 13 (1970-1982)

A<sub>jo</sub> = relative employment = employed teenagers/employed persons aged over 20 years

A<sub>t</sub> = overall employment

B<sub>jo</sub> = relative active labour force = a.l.f. teenagers / a.l.f. over 20

L<sub>jo</sub> = relative youth wage

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The regression results indicate that overall employment and the supply of youth do have a dominant influence on youth changes in the labour market. Of course the supply data give us some implicit information about school enrollment, etc.

It should be noted that the elasticity of the relative youth wage has the wrong sign, and the t-statistic is rather low. This indicates that the youth wage has no or a very small and not unambiguous effect on relative youth employment.

Estimates using the same equations but an age limit of 23 years (where one gets adult's minimum wage), give the same regression results.

This confirms my conclusion that prices do not play a dominant role in the (youth) labour market. There are probably rather different things which make the working of the labour market much more complex than the basic theory of supply and demand suggests.

#### Sharing working time

In the Netherlands, there has been a broad move since 1982 towards work sharing, in particular through a reduction of weekly and monthly working time. For a majority of workers, working time is reduced to 38 hours a week (it was 40 hours). At the moment the unions, and also the government, wants another reduction of 5% to 36 hours. The employers are resisting another collective reduction, and only want measures for special groups: youth, older workers (voluntary early retirement) and voluntary part-time jobs.

For youth, this means that they would be offered jobs of some 32 hours a week. In recent years the situation on the labour market has been so bad that this type of job has spread. The trade unions and the youth movement, however, are opposed to this development, as it creates a new segment on the labour market of unskilled, low paid and uncertain jobs. Moreover it threatens the collective agreement covering full-timers. The trade unions prefer a collective reduction of hours worked by each employee. Of course the employment effects depend on the reallocation of the working hours which are freed. The unions want special measures for unemployed youth, e.g. by giving them a quota in the reallocation of freed hours. As is shown above, this would be the most effective instrument to promote youth employment, as work sharing is the only instrument which can lead to a growth of total employment.

At the moment, a collective reduction in hours worked is the major objective, in some cases even leading to strikes in several industries. A part of it is the special attention to youth, but now it gets a bit under-exposed.

I personally fear that, in view of the bad labour market position of youth, no end is in sight to the part-time job trend for youth and a falling relative youth wage. Nor will this lead to any improvements in the situation of unemployed youth.

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Young People's Pay and Employment

Peter Kane

Trades Union Congress - London

Introduction

The dramatic deterioration in the employment prospects of young people over the last five years has generated an intense policy debate. The TUC and European trade union movement has been at the forefront of this debate as there has been a longstanding concern about the economic and social consequences of prolonged unemployment. The TUC has in fact recently published in conjunction with the Labour Party a major policy statement 'A Plan for Training'. Not only does this Plan provide a response to the current policies of the UK Government, it also deals with the underlying changes in the UK and world economy which require new policies to equip the workforce with the skills needed for the 21st Century. In contrast, the UK Government has produced a belated and wholly inadequate response to the problem of youth unemployment. The central thrust of the Government's strategy is the drive for greater wage and labour market "flexibility".

This paper is largely concerned with analysing the evidence and rationale behind the Government's flexibility model. It argues that it would have profoundly damaging social and economic consequences as it would result in a deeply divided labour market and a low wage-low productivity economy.

Background

The UK Government's youth unemployment policies are dominated by the belief that young workers have been priced out of jobs (1). The

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(1) P.M. January 1984: "We would have more people employed if somehow people who are responsible for negotiating wages had not insisted on much higher wages for young people".

solution therefore lies in young people pricing themselves into employment by wage cuts and through the weakening or removal of 'obstacles' which have prevented greater flexibility. Young people are not alone in being offered this cure as this solution is seen as having general application to the wider unemployment problem. However, young people will often be the first and most severely affected by a range of measures which include the reform abolition of Wages Councils, the breaking up of full-time jobs, the use of casual short-term jobs with less security of employment, weakening of social security and other forms of income support and government schemes such as the Young Workers Scheme. Of central importance to this strategy is a weakening of trade unions through restrictive legislation at a national level and the return of a 'macho' style of management at a company and plant level.

#### Evidence

The evidence on which to judge the rationale for the strategy can be looked at in three ways.

First, econometric studies of the youth pay-employment relationship in the UK have failed to find any consistent link between the pay of all young workers and their employment. A number of serious weaknesses have been revealed (1) in the most recent DE study (Wells 1983) (2) which make it impossible to place much weight on the results. Nevertheless, it is significant that it confirmed that the key factor affecting youth employment was the general level of employment in the economy as a whole.

Secondly, the pattern of real wages and employment since 1979 appears to contradict the UK Government's case as youth real wages have fallen in both absolute terms and in relation to adult workers and yet youth unemployment has risen continuously. Young males and women aged 18-20 have experienced a real pay cut of 3% and 2% respectively and young manual workers aged below 18 have had real wages cut by 6%. The relative decline of youth wages is set out in Table 1.

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(1) P. Junakar and A. Neale (September 1984): Relative Wages and the Youth Labour Market; IER Warwick.

(2) W. Wells (1983) 'The Relative Pay and Employment of Young People' Department of Employment Research Paper No. 42

TABLE 1 - Young Workers Pay as a Percentage of Adult Pay

<u>MEN</u>	<u>1979</u>	<u>1984</u>
Under 18	39.7%	34.9%
18-20	61.0%	55.7%
21 and over	100%	100%
<u>WOMEN</u>	<u>1979</u>	<u>1984</u>
Under 18	56.0%	48.3%
18-20	74.6%	67.9%
21 and over	100%	100%

Source: New Earnings Survey

Thirdly, there is little evidence that Government measures which have or are likely to be introduced in order to force down youth wages will have the desired effect on employment. The Government has already acknowledged the failure of the Young Workers Scheme which is specifically designed to encourage employers to reduce youth wages, as it has announced the termination of the Scheme in 1986. The response to the YWS was far less than originally anticipated and research (1) has shown that over 80% of the jobs would have been created in any case or have resulted from the displacement of older workers. Similarly, the Government's view that Wages Councils need to be reformed or abolished particularly because of their impact on youth employment is unsupported by firm evidence. In fact a recent NEDO study (2) of the Distributive Trades concluded that existing research 'left largely unproven the assertion that the wage rates determined by Wages Councils are substantially reducing the employment prospects of young people'.

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(1) A. Rajan (1984) Young Workers' Scheme; A Preliminary Assessment. IMS Sussex.

(2) NEDO (1985) Employment Perspectives and the Distributive Trades.

The NEDO report suggested that the key factors influencing youth employment prospects were the overall level of demand in the economy and volume of retail sales, retailing practices and local labour market conditions. This conclusion is supported by the views expressed by leading retailers following changes to employment costs which were likely to impact most on low paid workers and women in the 1985 Budget; Marks and Spencer, for example, claimed that they would have little effect as it recruited on a longer term basis in line with its investment and sales planning.

The UK government's strategy of forcing down youth wages and removing 'rigidities' from the labour market therefore receives very little empirical support. The clear view which emerges is that the key determinant of youth employment is the overall level of employment, output and sales.

Why, therefore in the face of this evidence does the UK Government persist with this approach and what are the implications for the economy if it is carried through? The reason why is straightforward: it provides an opportunity for the Government to place the burden of the blame for the rise in unemployment on others, especially trade unions. Moreover, the acceptance of the conclusions reached above would entail the reversal of the deflationary macroeconomic strategy in which so much political capital has been invested by the UK and other W. European Governments. Given that the continuation of this strategy implies slow and sporadic economic growth, these governments are forced into depressing productivity and wages as the only way of creating more jobs.

### Implications

The implication of developing a low wage - low productivity economy are most clearly seen by an examination of the long term viability of such a strategy for the economy as a whole and of the impact on training and skills. Although it may lead to the creation of a small number of low grade jobs in the short term it is untenable in the long term: first, it stands sensible economics on its head to suggest that the UK economy should enter into a competitive reduction of wages and working conditions - trying to pass the economies of S.E. Asia on the way down just as they are on the way up and proving that improved economic performance goes hand

in hand with rising living standards. Secondly, the implied decline in the tradeable sector will create major structural difficulties in the balances of payments. Thirdly, even if productivity and output did rise in the remaining primary employment sector it would not be sufficient in the light of investment and R & D trends to sustain current living standards even if redistributive policies were introduced.

The major part of the population would suffer a sharp decline in living standards and economic and social divisions would widen as many groups of workers, such as young people and women, would be marginalised into inferior jobs or squeezed out of the labour force altogether.

The impact of this strategy on skills and training would accentuate these divisions. The general skill level of the workforce will be reduced as the type of jobs which will be created will be in the low paid 'service' (servant?) sector. This will not only lead to a continuing decline in private training through the traditional apprenticeship system which is concentrated in manufacturing. It will also encourage a further rundown in public provision through industrial training boards, skill centres and expenditure on quality training in YTS - there is little 'economic' value in training young people to a high level in order to perform menial tasks. This will mean, however, that the skill 'gap' which currently exists between the UK and other leading industrial economies such as W. Germany, the USA and Japan will grow.

At the company level, the segmentation of the labour force into a small relatively well paid, secure and skilled 'primary' group and a low paid, unskilled 'secondary' group of workers will also tend to depress the level of training and encourage the deskilling of work processes. Although this may produce short-term cost saving to the firm, they will be more than outweighed by the higher turnover, weaker job attachment and low morale which are often associated with unskilled, unstable jobs. Moreover, firms will face considerable difficulties in expanding the primary workforce in the event of a marked increase in demand as the deskilled secondary labour force will become less and less adaptable to change. There are already signs of skill shortages despite the current high levels of unemployment.

It is clear that skills and training do need to be adapted to take account of changes in the occupational and industrial structure. Training policies should, however, be directed towards the creation of a more highly skilled and flexible workforce which would help to reduce the gap with the UK's main competitors. The extension of YTS into a two-year scheme is welcome as it provides the potential for a more coherent programme of education, training and work experience. However, the future credibility of YTS will depend on the availability of quality training and worthwhile productive employment in which young workers are able to apply the skills they have acquired.

The extension of YTS is not however a sufficient response to the current economic situation or to the major long-term structural changes in the economy. The TUC has called for a larger injection of government resources into further education and vocational training which recognises the wider benefits of a skilled workforce. At the same time, the trade union movement are discussing what changes are required to the traditional apprenticeship system to ensure that it is relevant to current needs.

### Conclusion

This paper has shown that there is little empirical evidence to support the UK and other W. European Governments' claim that greater wage and labour market 'flexibility' is the route to a significant increase in youth employment. The creation of a low wage - low economy is not only socially undesirable but also economically untenable in the long term. The most effective means of reducing youth unemployment is to reverse the current deflationary macroeconomic strategy and to ensure that young people are provided with a coherent programme of education, training and work experience.

YOUTH PAY AND EMPLOYERS' RECRUITING PRACTICES :  
THE ITALIAN EXPERIENCE

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1. According to the latest figures (January 1985), there are currently 1,250,000 young people in Italy looking for work, representing more than half of the unemployed work force and 5.5% of the total work force.

This means that in terms of numbers youth unemployment is large in Italy as well.

Indeed, in some respects, the problem is greater than in other Community countries. According to the latest Eurostat estimates (April 1984), the overall unemployment rate for young people under 25 years of age is 33% in Italy compared with a Community average of 20.8%. For young men the rate is 27.4% (Community average : 19.5%), and for young women 39.9% (Community average : 24.4%).

None of the other 9 Community countries shows such a high level of unemployment for young people under 25.

The increase in the number of young people registered as unemployed in Italy from 1978 onwards has been less marked than in most of the other countries. However, unlike these other countries (with the sole exception of Belgium), the increase has been greater for women than for men. As in other Community countries, young women represent the majority of young people registered as unemployed, showing the change of attitude of younger generations of women towards work compared with previous generations.

2. From the qualitative point of view, on the other hand, youth unemployment is considered a less serious problem in Italy than in the other countries.

This is due to the fact that in Italy family structures are still relatively intact and the family unit still plays an important role, not only in the countryside (more than 12% of the labour force is employed in agriculture), but also amongst the urban population. Young people tend to remain with their families, even when they have become adults, at least until they marry (and, in the large cities, even after getting married, due to the difficulties of finding housing). The possibility still exists, then, of taking advantage of the material "protection" offered by the family unit, and sharing the family income.

Given this protection, young people who are unable to find stable employment frequently prolong their studies, whilst others busy themselves with intermittent and marginal work which at least pays them "pocket money".

3. This means that from the economic point of view, youth unemployment does not seem to be a major problem in Italy.

However, let us not forget the moral side to the question. Demoralization, demotivation and the risk of deviating into illicit activities remain the most important negative prospects for the future, with the danger of many young people having to face adult life in a permanent state of underemployment, if not total unemployment.

We must also bear in mind that Italy as a country is characterized by widespread unemployment - or more accurately, underemployment - of a structural nature, caused by a series of imbalances : between needs and resources, between investment and consumption, and so on.

In such a situation, youth unemployment forms part of a larger picture. Also, youth unemployment cannot be said to be more important than that of heads of families, of single women, of older adults without adequate social security protection etc.

The specific nature of the problem is shown by the fact that we are dealing with young people who have never worked and who, owing to a lack of suitable facilities, risk not even being able to begin to work.

4. The application in Italy of wage differentials - or, more generally, of differences in labour costs - does not in itself appear sufficient to encourage the employment of young people.

In the past, the egalitarian policy pursued by workers' trade unions in wage negotiations since the end of the 1960s, had led to the abolition of any differences between young people's and adults' pay at the legal minimum end of the pay scale.

This tendency has been favoured by legal interpretations which read art. 37 of the Italian Constitution, which guarantees equal pay for equal amounts and quality of work, as meaning equality of positions and job functions, without recognizing that a younger person is inevitably less productive than an older one. According to these interpretations, the cost of living allowance in particular (the variable element in pay, governed by a sliding scale, which represents, for the lowest paid, more than half of aggregate pay) should be the same for all, both young people and adults.

5. As a result, collective labour contracts, both for workers and salaried staff, do not contain any differences in pay levels by age (or by sex); differences which can still be found, in the case of skilled workers, in the minimum levels fixed for young apprentices. To these minimum pay scales we must add, in order to arrive at aggregate take-home pay, the cost of living allowance, the amount of which is greater than the minimum wage amounts and, as has already been stated, is the same for everyone.

In fact, the aggregate take-home pay of an apprentice is 95% of that of a qualified worker.

Whilst employers' social security contributions for apprentices are lower than those for adults (which amount to around 40% of wages), this difference in costs does not in itself provide a sufficient incentive to take on new apprentices.

6. The only statistical surveys available on wage differentials between young people and adults are those done by Eurostat on wage structures, in 1966, 1972 and 1978.

In 1972, the pay of male workers under 21 in Italy was approx. 22% below the average (for skilled workers the difference was 24-25%, whilst differences were less marked in the case of women). These differentials were larger than those of all other Community countries, with the exception of the Netherlands (1). There is reason to assume that these differences are due more than anything else to the fact that most young people are employed in lower paid jobs (as well as the fact that periodical seniority increases are certainly granted less regularly in the case of young workers) and not to differences in pay due to age, for which, as has been stated earlier, there is no contractual provision for people on the same basic pay level.

7. Generally, experience in Italy shows that the decision whether or not to employ young people is connected with factors other than salary levels.

In 1977 the Italian Parliament adopted Law no. 285 on the promotion of youth employment.

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(1)

These measures prescribed that employers taking on skilled young people on a fixed-term contract would receive a subsidy equal, in lira, to about 10% of the average contractual pay at that time. However, the same law required employers wishing to take advantage of this system to take on young people by order of position on an official listing, i.e. without any right of choice of candidate. As a result, of the 647,000 young people originally on these lists, only a little more than 22,000 were taken on over a three year period by private industry ( a further 80,000 were given jobs in the public sector).

On the other hand, Law no. 79 of 1983 made provisions, for an experimental 12-month period, for people to be chosen from the above list by name. Within 12 months a further 113,000 young people had been given fixed-term contracts involving vocational training.

After the expiry of this law - which did not provide for employers' social security contributions for the young people they took on other than a lower level of social security contributions already provided for in Law 285/1977, it was superceded by another (no. 863/1984), which, in place of fixed term employment/training contracts, provided companies with the possibility of choosing young people individually and giving them non-renewable employment/training contracts for periods of no longer than 24 months.

Nonetheless the inflexible nature of the conditions and the procedural complexities of obtaining government approval to enter these contracts have meant that this initiative has met with little success. Indeed, in the first six months in which this new law was in effect, work and training projects were approved for only one quarter of the number of young people who were given work during the same period under the employment/training contracts provided for by the 1983 legislation.

8. The Italian experience suggests therefore, at least in the Italian situation, that increases in youth employment are encouraged not so

much by reductions in pay or work costs compared with those of adult workers, as by allowing companies to make their own choice of whom they employ, without being too tightly bound as to the duration of employment, by administrative procedures, by union control etc.

This is not to say that sizeable salary reductions cannot also be a useful instrument; and indeed the proposal to introduce a "starting salary" for all young people entering work for the first time has been made by Confindustria, the private industrialists' organization, in a document dated October 10, 1984. A similar proposal was also formulated soon after by the Minister of Finance. But, as mentioned previously, there are serious legal obstacles to the introduction of salary differentials based on the age of workers (2).

Currently, salary differentials can only be applied in the case of apprentices, who are, however, as mentioned under point 5 above, still too expensive in comparison with production workers. For this reason there is a tendency to reduce costs : a recent union agreement reached in December 1983 in the craft sector provided for overall pay levels of apprentices under 18 of between 58% and 85% of that of qualified workers and of between 62% and 85% for older apprentices.

Other instruments likely to favour a higher level of employment amongst young people compatible with the general conditions of the labour market and within the context of a growth policy aimed at broadening the output base are linked with greater flexibility of contractual formulae for people working in companies (part-time contracts, fixed-term contracts, employment/training contracts, training periods inside companies, interim work, etc.). Also there is a need to provide fiscal and financial incentives in the form of technical assistance for people who want to become self-employed as independent entrepreneurs either on their own or as partners in cooperatives.

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(2)

10. At the end of last April the Minister of Labour announced to both labour and management his intention of encouraging a higher level of employment by means of series of measures providing, among other things, for young people: 1) 40,000 work and training contracts over a two year period; 2) incentives to encourage new forms of working partnerships in work and production cooperatives as well as in companies, to be set up primarily by young people with financial and technical support during the start-up and marketing phase; 3) for young long-term unemployed, the opportunity of working for "fixed but significant" periods of time. To this end work projects "with long term benefits for the community" (preservation and improvement of cultural heritage, of equipment belonging to public services and urban areas, and environmental protection) (3). These proposals are detailed in a report published in September, on employment policies for the next ten years.

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(3)

Notes

- (1) Analysis of the results of this research shows that the differences in salaries by age of workers in Italian industry are not very different from those found in France and Germany (but less than those recorded in Belgium and the Netherlands). However, in 1966 Italian salaries always increased with age, whilst in other countries one noted a reduction as age increased. By 1972 this situation had changed, evidently as a result of egalitarian policies pursued after 1968-69, and the second survey shows a situation in Italy more similar to that in the other Community countries. Moreover, in 1966 Italy was the country in which the salaries of young people under the age of 21 were closest to those of people in the middle of their working life. In 1972, in the other countries the differential between younger groups of workers and those in the middle of their working life appears narrower than in 1966, but in Italy the opposite appears to have happened. (cf. GUISEPPE CANULLO: Retribuzione e occupazione: differenziali per sesso ed età, (Work and pay, age and sex-based differentials) in "Costo del lavoro e occupazione", surveys carried out by R. Schiattarella and G. Canullo, edited by Pietro Alessandrini, Il Mulino, Bologna 1978; for observations on the phenomena of the reduction of salary differentials between young people and adults observed after 1969. See also: ALBERTO ZEVI: Differenziali salariali e atteggiamenti dei giovani verso il lavoro, (Salary differentials and the attitude of young people towards work) in "Politica ed economia", 1978, no. 4).

At the time of drafting of the present memorandum the Italian results of the third Community survey on pay structures (reference year 1978) are not yet available.

- (2) One way of avoiding these obstacles is not to link the "starting salary" with the worker's age, but to fix it with reference to the initial period of activity in the company. Another way is to agree that young people, for a certain period of time, are either not entitled, or only entitled in reduced amounts, to certain regular payments made in addition to the minimum wage (production premiums, additional monthly payments etc.) under the terms of company-wide

pay contracts. Agreements of this kind have recently been reached in certain companies and in certain geographical areas, referred to by LINO TERLIZZI in his article entitled Sconti speciali per giovani (special youth deductions), published in "Mondo Economico" no. 18, of May 6, 1985.

- (3) In the same document the Minister gave advance notice that the ten-year plan for employment prepared by the Minister of Labour in line with the industrial policy programme of the Minister of Industry and in coordination with the Planning bodies, would be presented in May to the competent bodies and to labour and management.

THE FIGHT AGAINST YOUTH UNEMPLOYMENT IN THE NETHERLANDS (PLANS AND IMPACT)

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I - INTRODUCTION

For the Netherlands 1984 will be a turning point in the fight against youth unemployment.

Since 1980 the Dutch economy has been rather slack. It has been estimated that at that time one out of every two jobs in the manufacturing-industry operated at a loss.

Therefore it was hardly surprising that in the subsequent years a substantial loss of jobs occurred. At the same time about 70,000 school-leavers a year are unable to find jobs.

The reduction in employment and the (still) growing workforce causes great concern. This concern relates even more strongly in the case of young people among whom the unemployment rate is much higher than among other age categories.

Against this background the employers and trade union federations represented in the Foundation of Labour reached agreement in November 1982 on recommendations for the 1983 round of wage bargaining talks at company and industry-wide level.

One of the recommendations was a policy, aiming at a redistribution of work to fight youth unemployment. In the ensuing process of free bargaining employers and unions put forward new initiatives to fight youth unemployment. These results however were overshadowed by the results of reduction of working time.

On July 13th 1984 the Foundation of Labour reached an agreement in line with the 1982 central recommendations (on recommendation) on imparting an extra impulse to the fight against youth unemployment.

In line with these recommendations employers committed themselves to a policy on tackling youth-unemployment. Therefore it is gratifying, that after years of excessive growth of the unemployment rate (especially for young people), the average number of unemployed people younger than 25 years, shows a slight reduction in 1984 and that for 1985 a reduction of 28,000 is expected.

Table : Unemployed people younger than 25 years (\*1000)

	1982	1983	1984	1985
younger than 19 years	71.9	73.0	62.5	54.0
19 till 23 years	140.6	175.2	179.4	163.9
23 till 25 years	56.9	71.7	77.0	73.1
Total	269.4	319.9	318.9	291.0

Now, one year after the July 1984 recommendations, we may conclude that the aim of these recommendations has been reached. The number of young unemployed people has been reduced and about 20,000 young longterm jobless have been accommodated in the labour process.

Reasons for this success might be :

- The overall recovery of the Dutch economy in combination with the improvement in industrial profits.
- The central recommendations of November '82 and July '84 and the related results of the collective bargaining process 1983/1984 and 1985.
- Last but not least the cut in the legal minimum wages.

In the following paragraphs we will describe in detail the central negotiations and the results of the collective bargaining process since 1983.

The paper ends with a look at the reduction of the minimum wages.

## II - CENTRAL RECOMMENDATIONS

On November 24th 1982 for the first time in ten years the central federations of employers and trade unions represented in the Foundation of Labour reached an agreement on recommendations for the collective bargaining process at company and industry-wide levels. This frame agreement holds recommendations with respect to :

- Improvement of (trade and industrial) profits.
- Improved distribution of existing employment through for instance shorter working hours and an increase in the use of part-time labour.
- Measures to fight unemployment.

It was understood between parties that the improved distribution of existing employment should not lead to extra costs to the enterprises concerned. Within the Foundation of Labour some aspects of a division of labour and the fight against youth unemployment could be discussed with the intention to make recommendations before 1 January 1983 (for the complete text see appendix 1).

The importance of the agreement is that the central federations of employers and of workers accept responsibility for the handling of the unemployment problem, and youth unemployment in particular.

However, it was not possible to arrive at recommendations before 1 January 1983, On March 4th 1983 Mr. Van Veen, chairman of the Dutch employers organisation VNO, wrote a letter to his members about "employers recommendations to fight youth unemployment". In this letter employers showed three possible ways of creating more jobs for young people despite the decline in industrial employment.

These suggestions were :

- Introduction contracts.  
the employer offers an introduction period during which an unemployed young person will be acquainted with the working procedures of the

firm. The duration of the period depends on the education and the ideas of the unemployed young person. There is no guarantee for the young person that he/she will be taken on at the end of the introduction period.

- The apprenticeship system.

During a certain period the apprentice will receive professional training related to the function he/she will fulfil in the future. This training often takes place in industrial training centres or on the job training. The student must follow a vocational training course for at least one day per week. In principle, the employee cannot claim a minimum wage, instead he receives an apprenticeship fee with compensation, fixed by the partners to the collective agreement. For the employer this approach means that young people will be trained to become skilled labourers, so the number and the quality of the skilled people within the firm will be maintained. For the young employee this approach means that he/she will have an opportunity to acquire professional training and at the end he/she will receive a certificate, which means a better chance of a job.

- Accelerated incorporation of young people in the firms.

The acceleration of incorporation of young people in the enterprises can be served by negotiating collective labour agreements with a working time of 80% of the normal working time with adjusted wages. For instance a firm which requires four more employees can take into service 5 instead of 4 unemployed people when the future employees will have a working time of 80% of the normal working time. If the working time is further reduced to 50% of the normal working time, then there are possibilities not only for 4 more employees but also the remaining time can be used for further education.

For the employer it is extremely difficult to put the recommendations into practice.

In spite of the many reorganisations in 1983, which employers had to face to secure the continuation of their business, the employers also felt responsible for contributing to the fight against youth unemployment. Many employers at both company and industry-wide levels put forward initiatives

along these lines in order to reduce youth unemployment. These initiatives are temporary labour contracts, educational training for a specified time, combined instruction - and labour agreements, part-time functions and to institute training funds.

These arrangements are not only made for employees covered by a collective labour agreement. A lot of enterprises take regional initiatives to fight youth unemployment.

In this context the plan made by the employers' and employees organisations for industry can be mentioned.

With the cooperation of the government a plan has been made for the years 1985 and 1986. The main objective of this plan is to prevent a further increase in unemployment and at the same time to reduce existing unemployment because the industrial partners were unable to execute the plan alone, firstly because it could not succeed without a solid foundation and secondly because the partners were facing bottlenecks which could only be resolved through new legislation, the plan was put before the Foundation of Labour in the middle of May 1984.

Again on the basis of discussion of the Industry-plan on July 13th 1984 the Foundation of Labour called on the parties of collective contracts to make effective agreements on imparting an extra impulse to the fight against youth unemployment, in connection with policies aiming at a redistribution of labour over the next few years.

The Foundation of Labour is thinking of both the creation of more jobs for young people and an extra effort to accommodate jobless young school-leavers of all types and of all levels of training and to reduce the number of young longterm jobless by about 20,000. An effort by both industry and government is required for this. Crowding-out effects on others should be limited as far as possible.

Bearing in mind the specific characteristics of the various categories of young workers, the specific natures and possibilities of individual firms and branches, and possible labour market bottlenecks, the Foundation

of Labour underscores the importance of a selective and pluriform approach in order to attain the set goals.

Without seeking to be exhaustive, the Foundation of Labour is thinking of the following options besides the creation of extra jobs for young workers (including possibly part-time jobs) :

- reinforcement and expansion of the apprenticeship system so that its total capacity will be doubled as compared with 1982, whereby an optimum matching with Short-term Medium-Level Vocational Training will be important;
- training by in-house and branch schools;
- creation of on-the-job training facilities, notably for young workers who cannot (yet) be accommodated in the apprenticeship system; customary terms of employment should apply in accordance with the degree to which the partners to the collective agreements feel that the subjects are engaged in productive labour;
- creation of growth jobs, for which the growth route is determined through collective bargaining, also taking into consideration the customary working times in the firms and branches concerned.

In conclusion the Foundation of Labour calls on all parties concerned, including the government in its role of employer to follow these recommendations (see appendix 2).

Soon after the recommendations the cabinet consulted the Foundation of Labour on removing possible bottlenecks, which could obstruct the implementation of youth plans. These bottlenecks are the legal minimum wage and the social security system.

a. The legal minimum wage

Many of the youth plans contain a combination of training and work. In the case of productive labour every employee who works more than one third of the normal working time has a right to a legal minimum wage.

Part-time work means payment on a pro rata basis. In the case of training there is no legal right to a minimum wage.

The distinction between work and training is not always clear and payment agreements between employer and employee can be misunderstood. To prevent such misunderstanding Social Affairs and Employment Minister J. de Koning introduced legislation, stating that under certain circumstances the legal minimum wage does not apply to employees taken into service under a youth plan (act of June 27th 1985).

The circumstances mentioned above are :

- there has to be a collective labour agreement, which applies to the labour relation.
- the remuneration of the employee has to be fixed by a collective labour agreement.
- there has to be a written training or familiarisation contract in the collective labour agreement.

In those sectors where no collective labour agreements exist, the partners will be permitted to reach a collective labour agreement, specific to the labour relation of the young employee. The legislation will be in force until 31 December 1986; after that the number of employers and employees which have made use of this provision will be evaluated.

#### b. Social security system

At present family allowance benefits are payable for unemployed young people aged up to 18.

Family allowance benefits are also payable for young unemployed persons aged 18 to 21, who spend the majority of their time in education.

Other unemployed young persons are entitled to a benefit under the state group regulations for unemployed persons.

Although there seems to be a clear distinction between unemployed persons to whom a family allowance benefit applies and those who are entitled to a benefit under the state group regulations, a situation can arise in which on the basis of a youth plan a young person will accept a combined labour and training agreement for 32 hours, which does not provide him with enough income to be self-supporting. At present the way in which the majority of time is spent determines whether family allowance benefit is payable, or whether the person is entitled to supplementary benefit under the State Group Regulation.

To prevent confusion, Social Affairs State Secretary L. de Graaf has made provisions to determine which benefit is applicable :

- young people aged up to 18 and those studying for more than 50 percent of their time and aged under 21 are eligible for family allowance.
- young people aged between 18 and 21, who work at least half of the agreed time (that is at least 16 hours or more out of the 32 hours agreed upon under the youth plan) and young persons older than 21 are entitled to a benefit under the State Group Regulations.

Furthermore the State Secretary cancelled the obligation for young people aged 18 to 23 to seek jobs if they participate in a youth plan and are entitled to an additional benefit.

### III - AGREEMENTS ON SPECIAL PROVISIONS FOR YOUNG PEOPLE

In the process of free bargaining the partners to the collective agreements in the Netherlands have agreed upon several initiatives to fight youth unemployment.

In general there are four kinds of provisions :

- a. agreements to employ more unemployed young persons in part-time functions or on growth jobs. The wages will be pro rata.
- b. more and better vocational possibilities to give the unemployed young persons a better start on the labour market.

- c. familiarisation contracts, which are neither work nor training contracts. These contracts are of short duration and are designed to facilitate familiarity with working life.
- d. a combination of a, b and c.

Examples of these provisions in some major branches of industry and major companies are :

- During the 1983 collective bargaining process partners in the Graphic Industry have agreed on a youth plan. This plan aimed at employing some 1,800 young unemployed persons in 1983 and 1984 (about 4,0% of the employees, covered by the collective agreement), mainly on a part-time basis. For 1985 a training - and youth - plan have been agreed.

Some elements are :

- ° the training of 1,000 apprentices and additional 500 unemployed persons each year.
  - ° extra education possibilities.
  - ° labour agreements for apprentices for three days a week (with a payment for 2,5 days).
  - ° labour agreements for the duration of the training.
- The partners to the collective labour agreements for Banking have agreed to offer 2,500 young people (about 3% of the employees, covered by the collective agreement) a part-time job for 50% of the normal working time.

In addition 400 apprentices will be taken into service on a mixed training and labour agreement for two years.

One day a week the apprentice will go to school and 2,5 days a week he/she will have on the job training. The wages are 50% of the standard minimum wage for young people.

Finally a training agreement for 2 years will be offered to a maximum of 1,000 pupils. These pupils will get a training allowance of HFL 500

per month. (For 1985 the negotiations did not lead to a collective labour agreement.)

- The partners to the collective labour agreement for Insurance have agreed on an extra placement drive for 300 unemployed young persons a year during the period 1983-1985.

The aim of the drive is to give young people a better position on the labour market by providing them with a short four-month training course.

In addition vacancies will be filled by young people on a part-time basis. With this last provision the partners expect the creation of about 100 additional part-time jobs.

- The partners to the collective labour agreement of the Construction Industry have agreed on a working time of 80% of the standard working time for new employees below 21 years if there is no training agreement and below 22 years if there is a training agreement.
- The Philips youth-plan. In 1983 Philips made a youth-plan which aimed to fight youth unemployment in three ways :

- ° part-time labour.

In principle young people under 23 will get a labour contract based on an annual working time of 1,500 hours.

- ° introduction-agreements for one year at the most. Young persons will get the opportunity to become more experienced and therefore they will have a better starting position on the labour market.

- ° training facilities.

Together with the relevant labour office Philips will introduce a number of vocational courses to improve the links between education and work.

For 1985 Philips has agreed to an extra effort to employ about 3,000 young people (4% of the employees, covered by the collective agreement).

- The employment of 2% more young people in the Metal Processing and Engineering Industry in 1985.

In 1983 partners to the collective labour agreement of the metal processing and engineering industry already agreed to employ all new employees on a part-time basis, based on an average 32-hour week. Young people aged less than 23 who already have a job will be given the opportunity of a 32-hour working week. Until July 1985 their payment will be 90% of their current wage. However this measure proved not to be effective and partners agreed that after July 1985 this agreement will not be continued.

The most important reasons are that this measure seems only to be effective if all firms and branches in the Netherlands have the same agreement. Otherwise young people will prefer a full-time job with a full-time payment.

Partners have agreed on a separate collective labour agreement solely for the establishment of training- and development funds. The aim of these funds will be to improve training and distribution of the training-costs.

- Ahold (chain of retail shops) has extended the number of special shops to 16. In these shops only the staff is recruited from inside, the other functions are open for young unemployed persons. They will be taken into service on so-called growth-job agreement.
- civil servants aged up to 25 will be taken into the civil service on a maximum working time of 32 hours per week. When the person becomes 25 or after 5 years of service and he/she wants a full-time job the government will consider possibilities for such a post.

Furthermore the government has agreed on the extension of the number of vocational labour places. The government expects that with these provisions an additional 10 to 15 thousand young people will become civil servants.

In addition to the youth-plans several companies and branches of industry agreed to a further decrease in the early retirement age. The increased out-flow of older employees means that more young people can be taken in.

Now one year after the 1984 recommendations of the Foundation of Labour, when we compare the unemployment figures for young people for August 1985 with those of August 1984, it can be said that the aim of these recommendations has been reached.

	<u>August '84</u>	<u>August '85</u>	
- Unemployed people younger than 25 years of which	342.859	308.888	-33.971
long-term unemployed people younger than 25 years	135.100	115.600	-19.500

However this does not mean that employers and unions can now relax. The unemployment rate for young people is still very high and in the years to come parties will have to keep a close eye on this.

#### IV - THE LEGAL MINIMUM WAGES

The standard minimum wage provisions are legally enforceable in respect of all employees aged between 23 and 64 and working under contracts of employment for at least one third of the normal working week.

The standard minimum wage is currently HFL 1987,70 a month. Till 1983 adjustments to the standard minimum wage were generally made automatically twice a year, on January 1st and on July 1st, on the basis of changes in the index of collectively agreed wage rates.

Since January 1983 no adjustment has been made, while in January 1984 the minimum wages were decreased by 3% to the current level of HFL 1987,70.

For younger workers their minimum wage is a percentage of the standard minimum wage. Till 1981 the minimum wage of the young employee was the standard minimum wage minus 7,5% for each year under 23.

On January 1st 1981 and on July 1st 1983 these percentages were legally decreased to the percentages mentioned in the table below. As the table shows, the percentage change during the period 1980 till 1985 is less than the decrease of the youth rates, while up to 1983 the minimum wages were still automatically adjusted.

age	youth percentage		% change 1980/1985	Level '85 (monthly)
	1980	1985		
23 t/m 64	100	100	+ 6,7	1987,70
22	92,5	85	- 2,0	1689,50
21	85	72,5	- 9,0	1441,10
20	77,5	61,5	-15,3	1222,40
19	70	52,5	-20,0	1043,50
18	62,5	45,5	-22,3	904,40
17	55	39,5	-23,4	785,10
16	47,5	34,5	-22,5	685,30

During the period 1980-1985 there was a very strong reduction in the minimum wages for employees aged 16 to 19.

For employees aged 23 to 64 the minimum wages still increased by 6,7%.

Although there is no way of proving that the cut in minimum wages has led to a reduction in the number of unemployed young people it is remarkable that when we compare the expected unemployment figures of young people for 1985 with those of 1984, that the unemployment rate for those aged less than 19 decreases by 13.6%, while the rate for people aged 23 and 24 falls by only 5%.

	1984 (x 1000)	1985 (x 1000)	variance (%)
younger than 19	62.5	54.0	- 13.6
19 to 22	179.4	163.9	- 8.5
23 to 24	<u>77.0</u>	<u>73.1</u>	<u>- 5.1</u>
total	318.9	291.0	- 8.7

In spite of the decrease in the unemployment rate, the number of unemployed young people is still very high, 45% of the unemployed people are aged less than 19, 26.3% are aged 19 to 23 and 20.3% are aged 23 or 24. The unemployment rate in the Netherlands is therefore still and will continue to be of great concern to everyone.

Annex I

translation of the agreement reached in the Foundation of Labour on 19 November 1982 :

The central federations of employers and trade unions represented in the Foundation of Labour :

- considering that for a structural improvement of employment the following is essential :  
recovery of economic growth, a stable price level, reinforcement of the competitive power of enterprises and in connection therewith an improvement of profits;
- considering that for that purpose a positive lasting social and economic policy at all levels is necessary;
- considering that even when there is a recovery of economic growth it will not be possible in the years to come to employ the total labour-force, its increase included;
- considering that next to the above policy a policy approach is commanded for the years to come directed to a more equal division of existing employment; an approach through which several forms of redivision of employment are to be considered such as shortening of working-time, part-time work, the fight against youth unemployment;
- considering that the collective agreements should not only contain agreements on form, phase and employment effects but it should be understood that, taking into account the weak financial position of enterprises a better division of existing employment should not lead to an increase of costs;
- considering that in the year 1983 such a concrete policy should be brought forward and that it should be left to the social partners at the industry level to bargain about a different way of spending the already agreed upon wage agreements (for 1983);

- I. call upon the social partners at the industry level to create the conditions to bring about such policy as soon as possible;
- II. are of the opinion that next to such policy the Foundation of Labour could discuss some aspects of a division of labour and the fight against youth unemployment with the intention to make recommendations before 1 January 1983;
- III. express the desirability - reserving the opinions and feelings of each of the social partners with regard to the policy options of the new government - that on the basis of the above considerations and objectives the collective bargaining process for 1983 at the company- and industry- level will start at short-term and make an urgent appeal on the government to allow the social partners just mentioned to conduct their collective bargaining in freedom on the basis of the above recommendations. They commit themselves to inform the government, in the spring of 1983, about the factual development and outcome of the collective bargaining process.

Without seeking to be exhaustive, the Foundation of Labour is thinking of the following options besides the creation of extra jobs for young workers (including possibly part-time jobs) :

- reinforcement and expansion of the apprenticeship system so that, in conformity with the recommendations from the "open consultation" on the Wagner Report, its total capacity will be doubled as compared with 1982, whereby an optimum matching with Short-term Medium-Level Vocational Training will be important;
- training by in-house and branch schools;
- creation of on-the-job training facilities, notably for young workers who cannot (yet) be accommodated in the apprenticeship system; customary terms of employment should apply in accordance with the degree to which the partners to the collective agreements feel that the subjects are engaged in productive labour;

- creation of growth jobs, for which the growth route is determined through collective bargaining, also taking into consideration the customary working times in the firms and branches in question.

The employers' and trade union federations represented in the Foundation of Labour trust that all the parties concerned, including government in its role of employer in common consultation with the trade unions concerned, will follow these Foundation of Labour recommendations. They assume moreover that the Cabinet will soon enter into consultation with the Foundation of Labour on removing possible bottlenecks involving government in its role of legislator or financier.

In conclusion the Foundation of Labour calls on the government to put forward clear policy intentions in particular with regard to young long-term jobless and to enter into consultation thereon with the Foundation of Labour in order to verify the coherence and consistency of such policy intentions and this appeal from the Foundation of Labour.

July 13, 1984

YOUTH PAY AND EMPLOYMENT, THE EMPLOYER'S PERSPECTIVE

Peter LOBBAN and Peter INGRAM  
Confederation of British Industry

The purpose of this paper is to highlight the employer's view of the issue of youth pay and employment and possible policy for the amelioration of the extent of youth unemployment.

One particularly worrying aspect of the dramatic increase in unemployment since 1979 has been its disproportionate impact on the young: in 1973, males under 20 had an unemployment rate identical to all males, however, now their unemployment rate is over twice the all male rate. The years 1980-81 were marked by a significant increase in the youth unemployment rate. Since then the dimensions of the problem of youth unemployment in the UK have aroused a considerable amount of concern, not least among employers, in response to the damaging social consequences of youth unemployment and the adverse effect prolonged unemployment has on the career chances of the current young workers' cohort in the labour force throughout their working lives.

From the point of view of UK employers the recent rise in the level of youth unemployment has been caused by several factors. It is worth briefly considering each of these in order to outline the possible scope for employer related policy responses.

The first principal influence is one of demography. A major contribution to the increase in youth unemployment has been the increasing supply of young people entering the labour force throughout the 1970s. The number of school leavers, 2/3rds of whom are 16 year olds has risen considerably since 1980, reaching a peak level in 1982-3 at 774,000 as compared with 726,000 in 1976-7. Correspondingly, the proportion of 16-19 year olds in the total labour force increased from 8% in 1971 to 10.2% in 1983. Over the same period however youth employment contracted: the number of 16-19 year olds in employment fell from 7.6% of total employment in 1971, to 6% in 1983, or from 1,817,000 in 1971 to 1,344,000 by 1983.

This increase in supply and seeming fall in employment of young labour gave rise to youth unemployment. What factors caused this fall in demand for young workers?

Concomitant to the increase in the supply of young workers to the labour force was the sharp downswing in the level of economic activity. By 1981 employers faced the full forces of the economic recession: in response to the depressed level of demand, labour shedding was inevitable. As a result 1981 was a record year for redundancies, over half a million confirmed redundancies were reported to the DE, nearly three times the figure for 1979. Insofar that this operated on a last in - first out basis, increased redundancies had a disproportionate impact on young workers.

As labour shedding increased so recruitment fell, with employers freezing places so reducing the number of young people taken on. As a result the number of vacancies notified to job centres fell from 155,000 in 1977 to 96,000 by 1981. As the economic recession deepened so the level of corporate profitability reduced. The rate of return on capital employed fell to 3.4% in 1981 from 6.4% in 1977. This slump in profitability had the effect of freezing employers' training budgets so further worsening the extent of youth unemployment.

With employment levels contracting throughout the age distribution employers' concern focussed on the employability of young workers. Against a background of increased competitive pressure, employers perceived the quality of the potential young recruit to be unsuitable. From the perspective of employers an important factor affecting the extent of youth unemployment was their employability.

Typically the skills possessed by young entrants to the labour market were considered by employers to be of a low standard. Young workers were not perceived as an attractive prospect to potential employers: levels of literacy and numeracy were considered poor; the attitudes and approach of young people to their work were thought inadequate; even general appearances of young people imitigated against their employability.

Indeed, among employers, the quality of the average school leaver, indicated inadequacies in the educational system which was widely considered to be giving rise to a low skill base relative to other countries. By international cross section 96% of those aged 16-18 in Japan are in education compared with 86% in W. Germany and only 52% in the UK.

A related issue determining the employability of young people is their level of pay relative to adult workers. Movements in relative labour costs since the late 1960s suggest that, relative to adults, 16 and 17 year olds have become substantially more expensive to employ. As a result many employers took the view that the cost of teenage labour was too high relative to its productivity. Faced with the choice, employers would prefer to recruit higher productivity adult workers at only marginally increased cost.

During the early 1980s the combined effect of demographic influences, the perceived decline of young workers' levels of human capital relative to cost and the effect of economic recession led to growing levels of youth unemployment. Today however there are signs that these adverse factors have abated. The demographic trend, the level of redundancies, recruitment and profitability and relative wages of 16-17 year olds have begun to move favourably.

- The demographic composition of the population is contracting in the 16-19 age range. Since the peak year of 1982-83, the 16-19 cohort in the labour force has fallen by 42,000 and will continue to contract until the 1990s.
- The level of redundancies in the economy has substantially reduced to under half the level in 1981 and continues to fall annually.
- Recent evidence shows employers are recruiting again, particularly in service industries such as distribution, hotels and catering. The current number of vacancies in the economy has increased to 1977 level.

- Company profits are recovering. A rate of return on capital employed of 7% has been predicted for 1984. This had had the effect of increasing industrial investment and improving training budgets for expansion.
- Within schools, more emphasis has been given to the provision of education and training that focuses on the requirements of employers thereby improving the quality of the average school leaver entering the labour market. This has been achieved through the Understanding British Industry scheme which has attempted to provide teachers with an orientation towards the realities and requirements of the business sector.
- The relative pay of 16-17 year olds after stabilising in recent years, shows signs of falling with the possible removal of 16 & 17 year olds from the remit of Wages Councils.

Notwithstanding these recent improvements, the extent of youth unemployment remains a problem. At the height of the impact of the cyclical effect of the recession on youth unemployment the principal policy response towards the young jobless which offered itself to Government and employers was to attempt to increase the skills of young workers through the provision of vocational training and to reduce relative wage levels of 16-17 year olds.

The challenge facing both Government and employers in introducing an adequate system of vocational training was that of building it into the existing framework of industrial training whilst maintaining the cost within a budget acceptable to firms facing serious competitive pressures and within existing Government finances which were similarly constrained.

The scale of the problem of youth unemployment by the early 1980s suggested that a piecemeal approach to the provision of youth training would be inappropriate. Government and employers considered that the best strategy would be to co-ordinate the provision of training into one principal scheme: this became known as the Youth Training Scheme (YTS) which was intended to provide a guarantee of an offer of training to all minimum age unemployed school leavers.

The introduction of YTS extended the existing Youth Opportunities Programme (YOP) increasing the Government's annual youth training budget for £1 billion in 1983 to provide 300,000 vocational training places a year for teenagers. YTS sought to develop skill training in such a way as to enable young people entering the labour market with different educational attainments to acquire skills appropriate to the jobs available and to provide them with a basis for progress through further learning. These skills were to include literacy, numeracy, basic use of tools and machinery, office practice and communication skills.

Introduced in September 1983, YTS continues to be the main vehicle of youth training today. The role of employers in the provision of YTS involves their participation either as Managing Agents or Sponsors. A Managing Agent undertakes to deliver full year training programmes from start to finish in terms of a contract agreed with the MSC whereby the agent is responsible for the design and management of the training programmes, maintenance of quality and standards and support of YTS trainees including certification of their progress. A Sponsor undertakes to deliver only parts of the programme such as work experience and on-the-job training.

From the point of view of the employer in order to work effectively, the training provided under YTS should serve as a bridge between school and work. It should be based on the workplace and should be augmented by relevant training away from the job. It should be broadly based and not necessarily focussed on only one occupation and it should aim to develop the competence of young people. A good quality scheme should be seen to enhance those attributes which the trainees, their parents and their perspective employers see as necessary and attractive. Those outcomes that are most likely to be attractive to prospective employers include an ability to be versatile and flexible in working and learning, to learn by listening and understanding, to demonstrate a good time keeping record and to possess a constructive attitude towards work.

The dimensions of unemployment among the young in the UK today remain high. In 1983 17% of all unemployed workers were under 20 and 29% of the long term unemployed were under 25. 38% of 16 year olds in Britain will leave

school during 1985 without jobs to enter, ranging from 29% in the South East to two thirds in the North. This year YTS will provide one year's occupational training for over 380,000 unemployed school leavers. In addition the 1985 budget proposals will add an extra 200,000 places in the future. These changes include an aim to guarantee an offer of two year places for 16 year olds and one year for 17 year olds with an emphasis towards shifting the provision of training to private employers and to encourage YTS to become a permanent feature of training provision.

Hitherto YTS has been greeted with approval from employers. Currently 60% of young people leaving YTS are moving directly into full time jobs. This success, in part, reflects the improving economic climate, giving rise to higher profitability, fewer redundancies and increased recruitment in industry. However, it also demonstrates the quality of YTS graduate. The dialogue between business and schools under the Understanding British Industry Scheme by communicating business realities to schools has made a favourable impact on the school syllabus which in turn has been complemented by constructive vocational training through YTS.

In response to the widely held view among employers prior to the introduction of YTS, regarding the lack of readiness of school leavers for full time employment, YTS has been judged a success. By increasing their skills the scheme has increased the demand for young workers. Furthermore, by providing the trainee with an allowance of £25 per week. YTS has had the effect of decreasing the relative wages of young people outside of YTS thus lowering the cost of teenage labour relative to its productivity this promoting the recruitment of young workers.

The problem of the growth of youth unemployment since the late 1970s represents both a supply problem, generated by increased numbers of school leavers entering the labour market, reinforced by a demand problem created by the economic recession. The cyclical downturn in the level of economic activity has had a dual adverse effect on young workers caused by a disproportionate shedding of young labour and a freeing of recruitment, cutting off entry to employment.

From the view of the employer these factors were compounded by a perceived reduction in the quality of young potential recruits, particularly in relation to the increase in relative labour costs of young workers.

YTS has been particularly efficacious in response to the latter problem. The employability of young people has, according to employers, improved and is expected to continue to do so which suggests that a period of post school vocational training should become a permanent arrangement for young entrants to the labour market.







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