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Wissenschaftszentrum Berlin  
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# Youth Unemployment in India:

From a European and Transitional Labour Market Point of View

Günther Schmid

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[www.guenterschmid.eu](http://www.guenterschmid.eu)

# Why should, why can India learn from Europe?

## We all face the same moral obligation:

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

## India and Europe face the same problem:

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

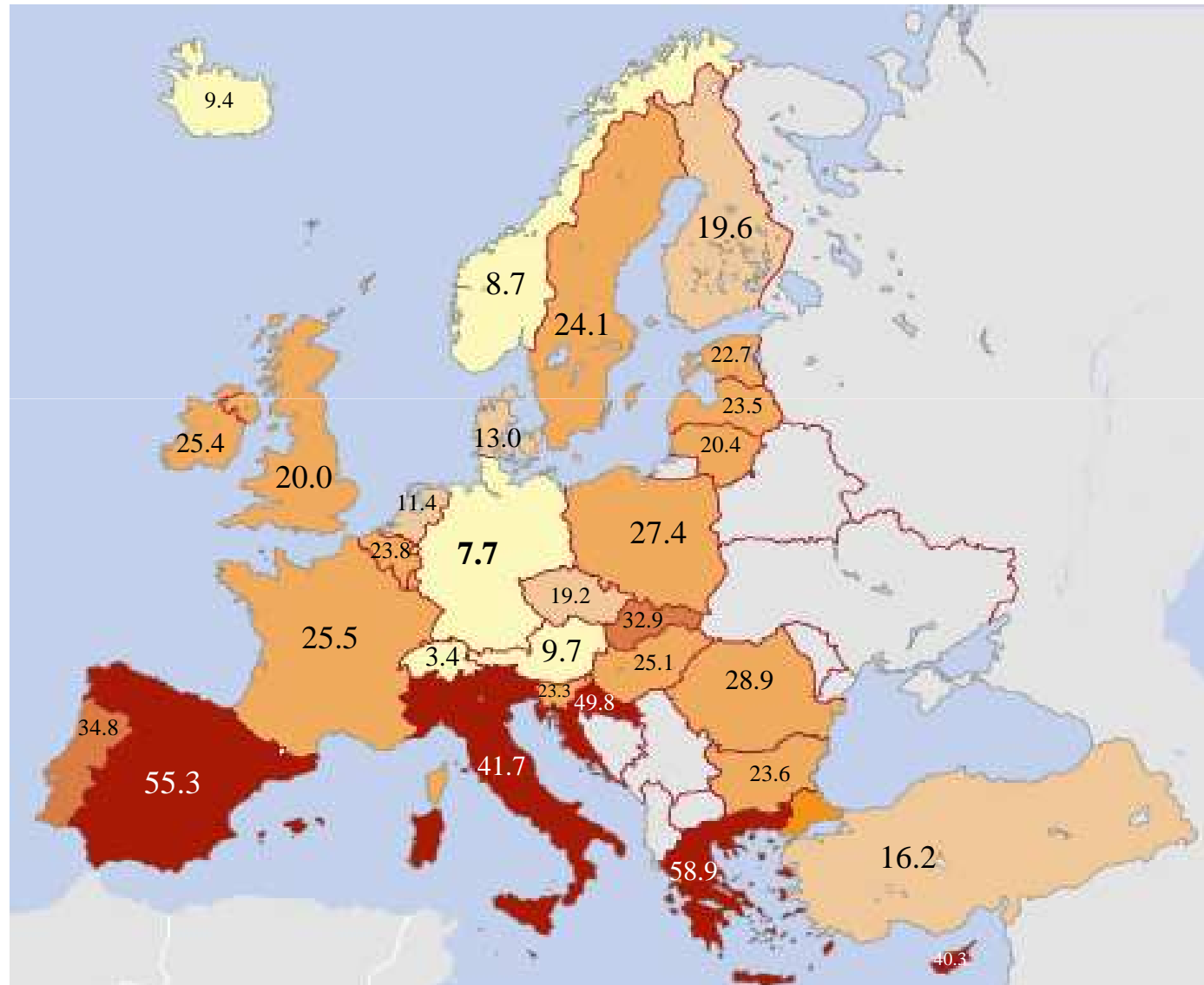
# **Same problems, but for different reasons: Chance for mutual learning**

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

**Let us start with the differences**

# Youth unemployment by conventional statistics

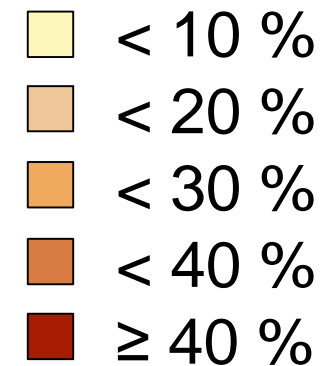
Differences within Europe larger than between Europe and India



U-Rates  
Age 15-24  
Nov. 2013

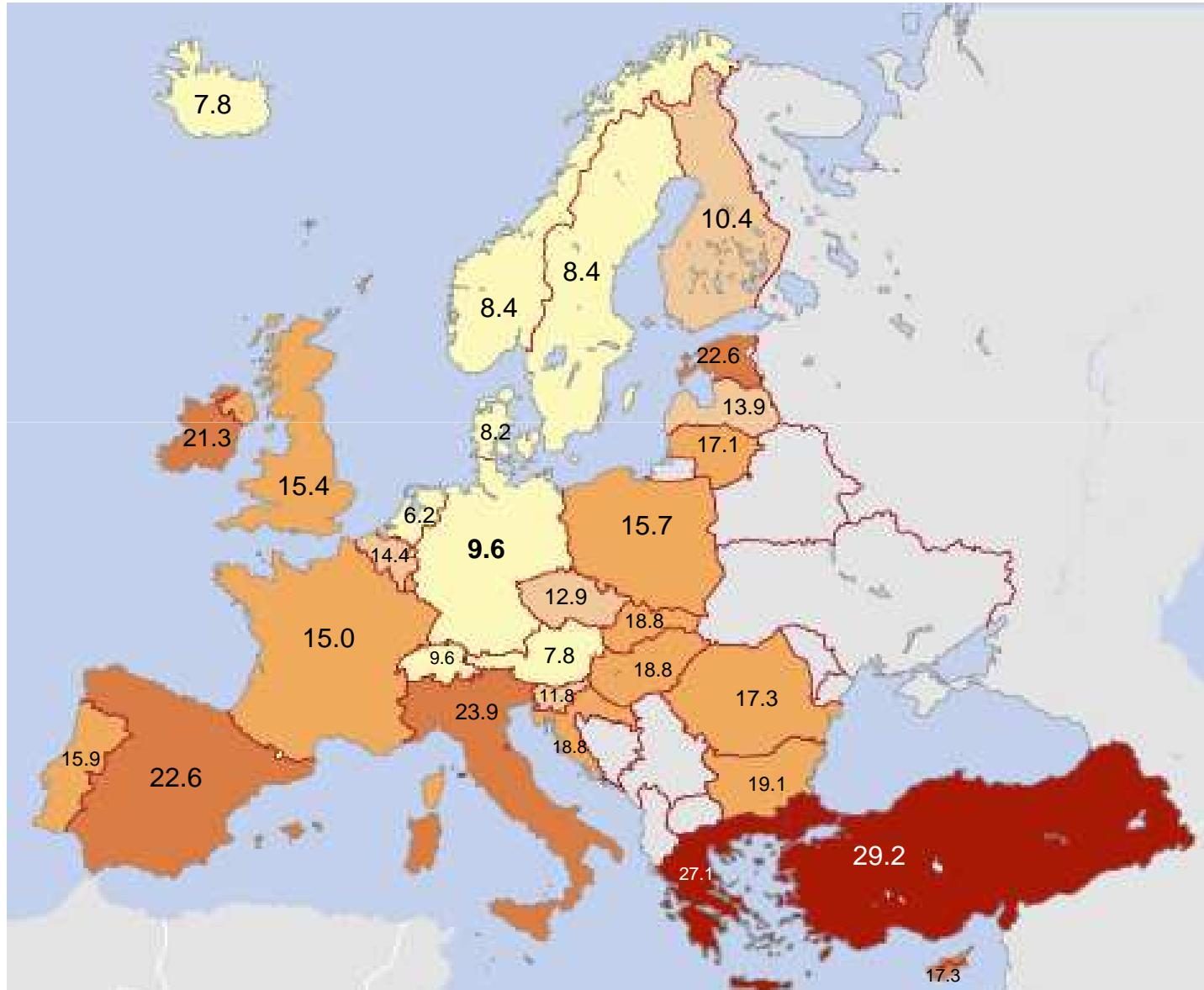
INDIA:  $\approx 11\%$

EUROPE: 23.4%



# It's statistics, stupid!

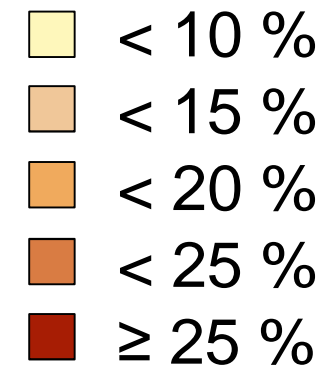
Through the 'looking-glass' you can simply turn things around



NEET-Rates  
Age 15-29  
Nov. 2013

INDIA:  $\approx 28\%$

EUROPE: 15.2%



# Differences that really matter:

## India compared to Europe and Germany

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

## A simple causal framework – Strategies for solution

**Youth needs more and better jobs**

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

**Youth needs the right skills**

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

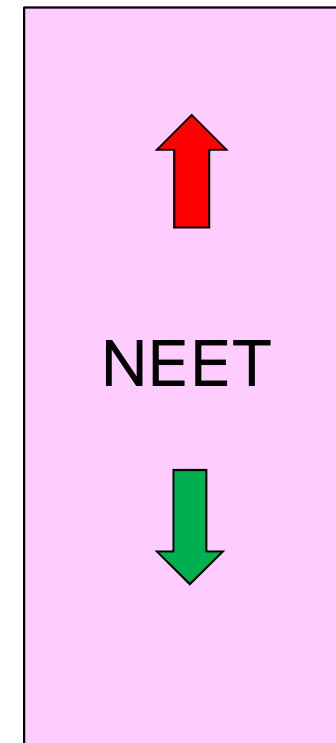
**Youth needs good governance**

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

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

Some evidence from econometric research in Europe

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



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



# I. Youth needs more and better jobs

## Main reasons for the lack of jobs:

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

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

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

## 2. Youth needs the right skills

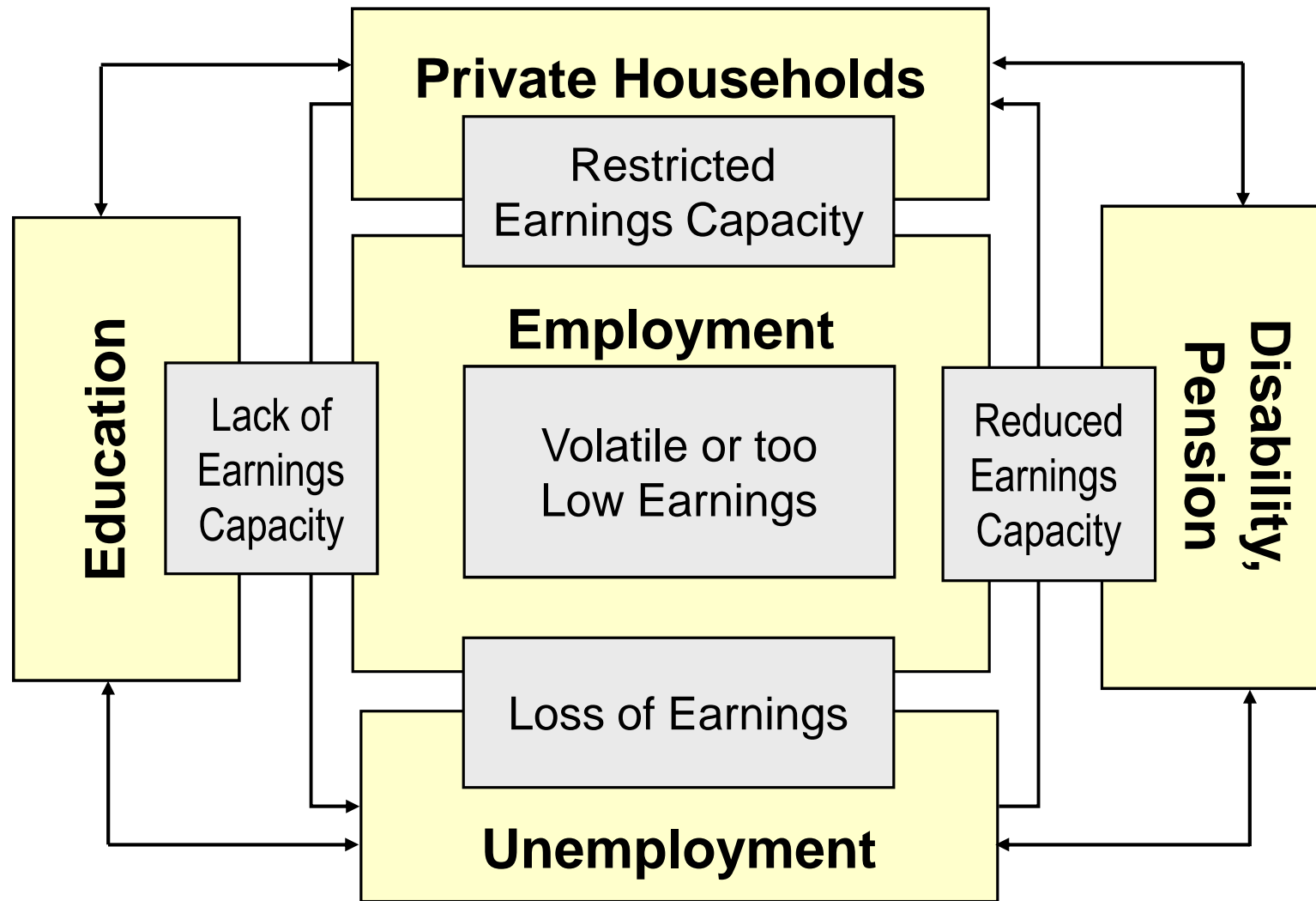
### Main reasons for the lack of skills or misguided skills:

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

### What are the promising policy strategies?

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

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



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

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

### 3. Youth needs good governance

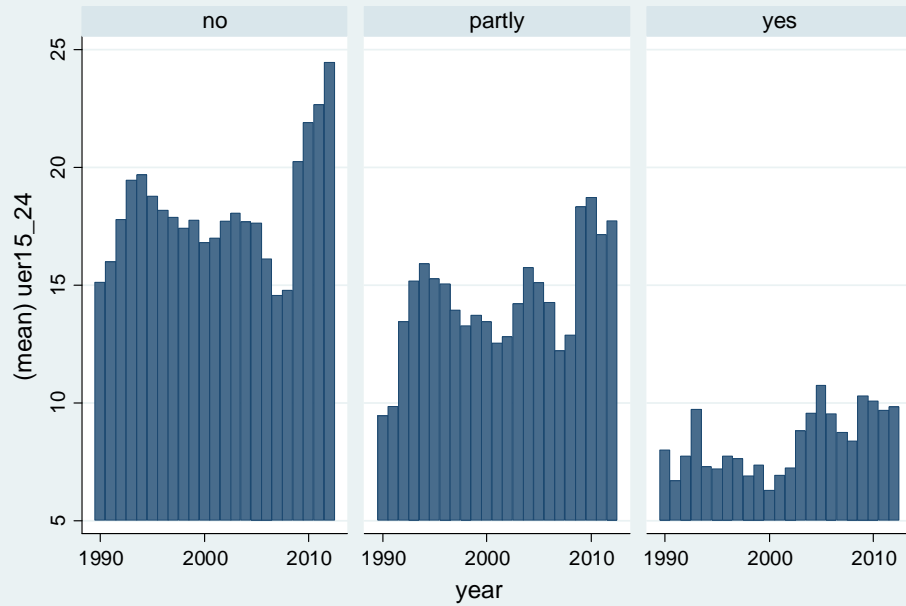
#### Main reasons for bad governance:

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

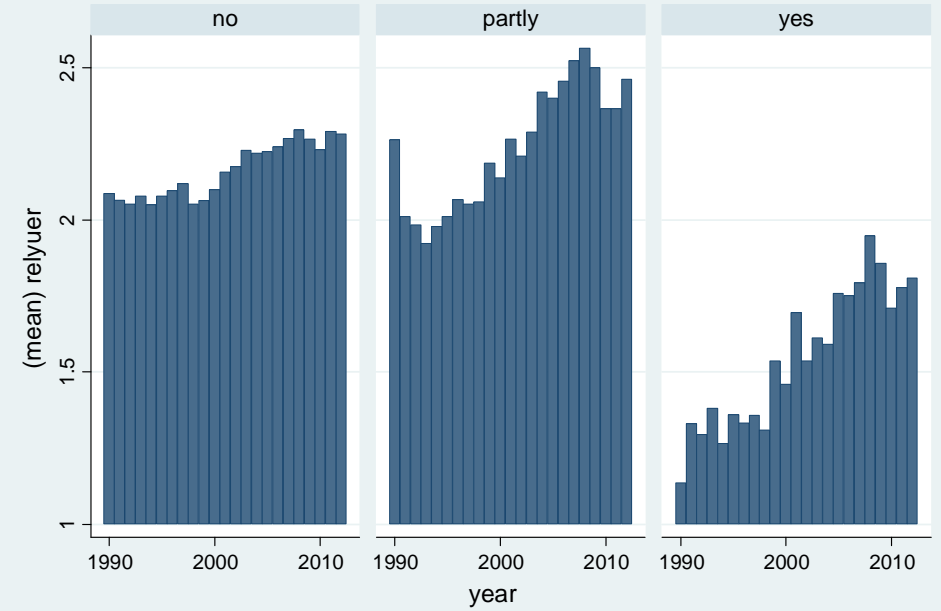
#### What are the promising policy strategies of good governance?

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

Average youth unemployment rates by dual system

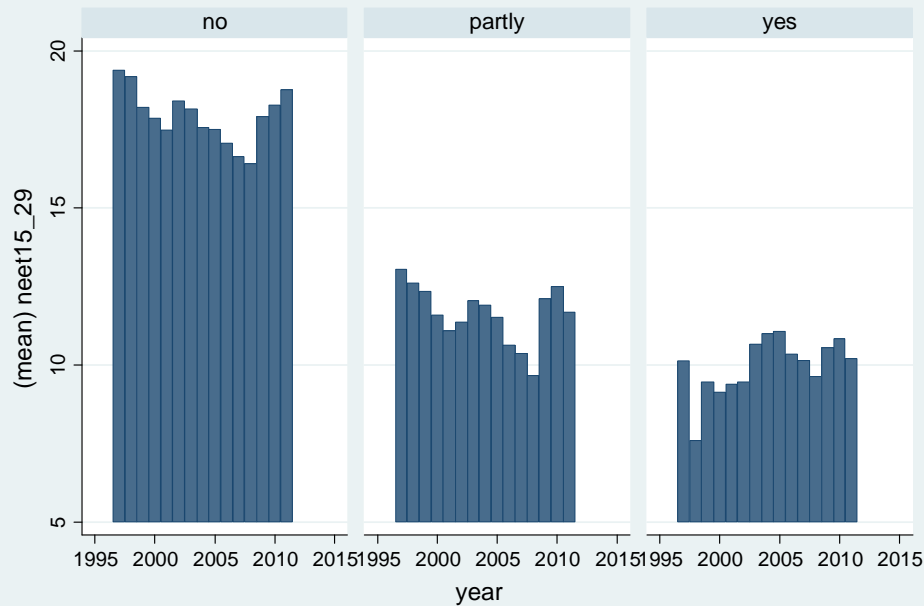


Average relative youth unemployment rates by dual system

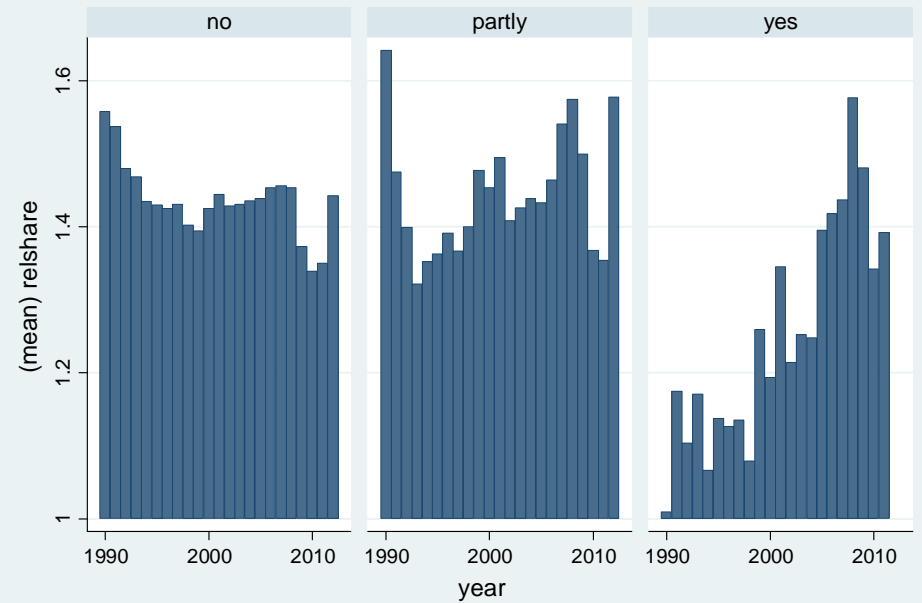


Source: C. Brzinsky and C. Ebner, September 2013

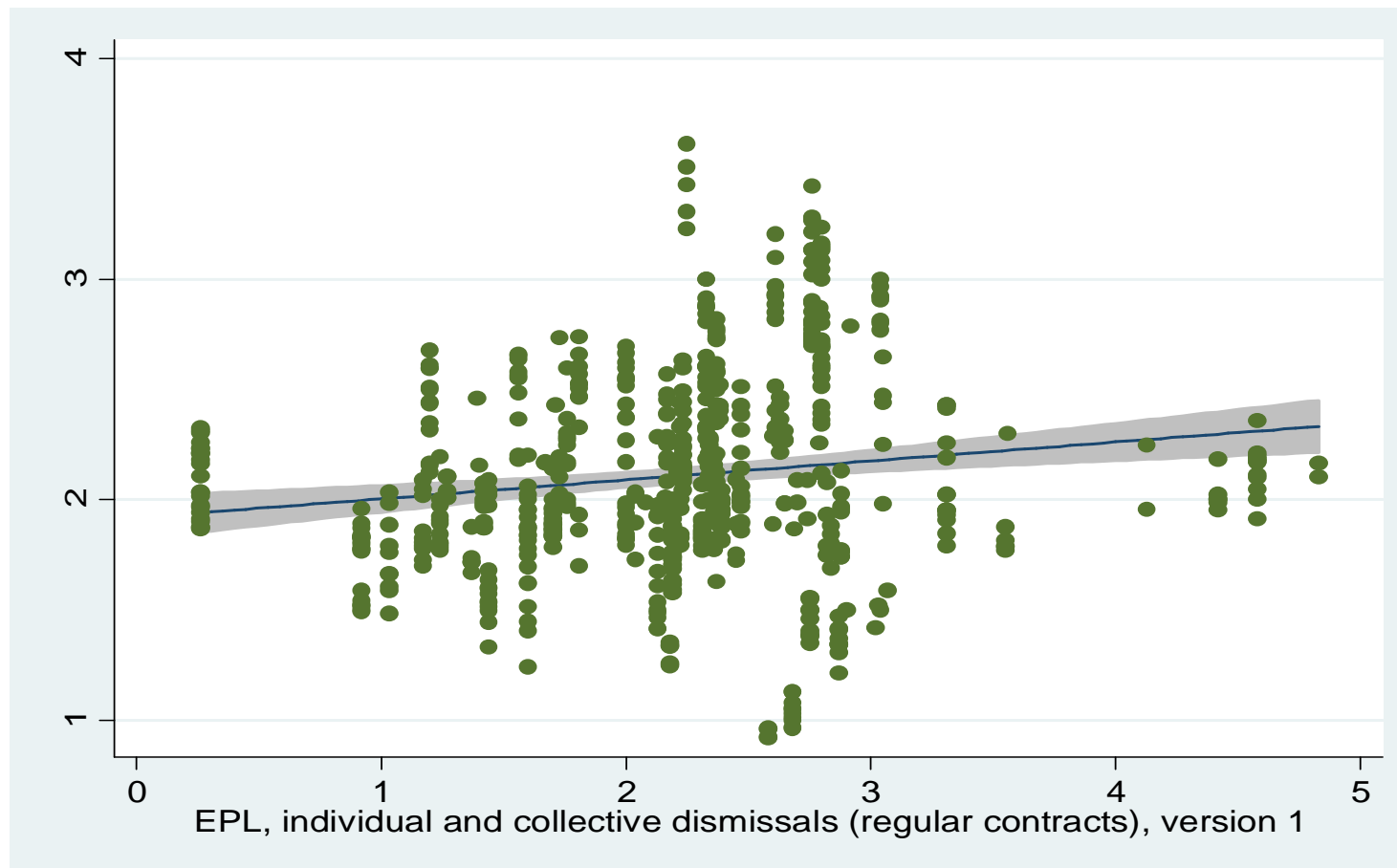
Average yearly NEET rates by dual system



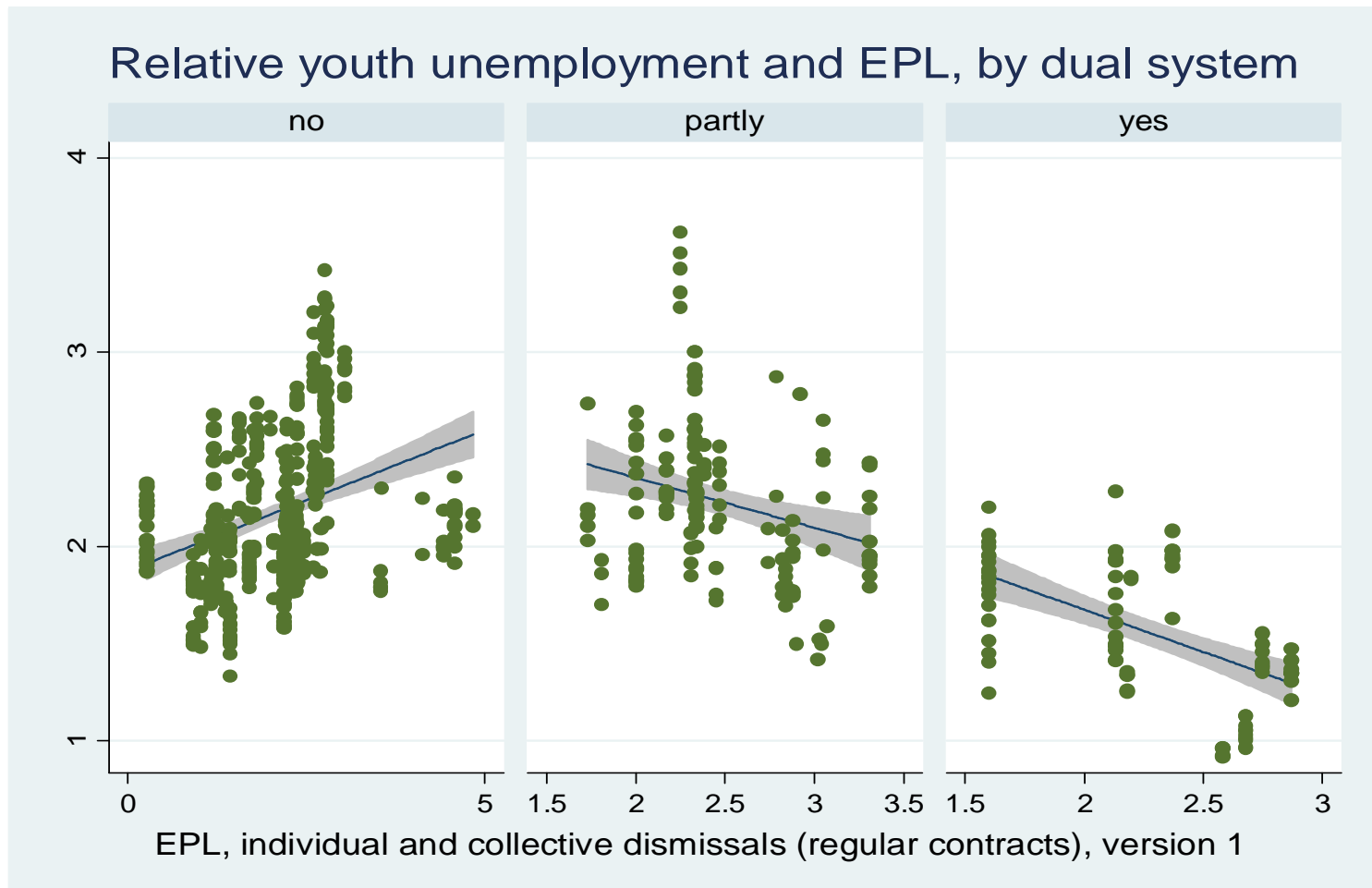
Average relative share of unemployment by dual system



# Employment protection and relative youth unemployment rates – a first glance



# Employment protection and relative youth unemployment rates – a second glance





# **The lesson from this exercise:**

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

For more lessons and details see my paper

# The Need for Immediate Measures against Youth Unemployment

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

# Promising channels for immediate policies - 1

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

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

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

## ➤ **Reintegrate early school leavers**

**EU:** Special preparatory schools

**INDIA:** Targeted educational assistance, especially in early phases

## ➤ **Facilitate transition from school to work**

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

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

# Promising channels for immediate policies - 2

## ➤ **Foster employability**

**EU:** Training companies

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

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

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

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

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

**INDIA:** ditto

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

# Lessons to be learned from Europe

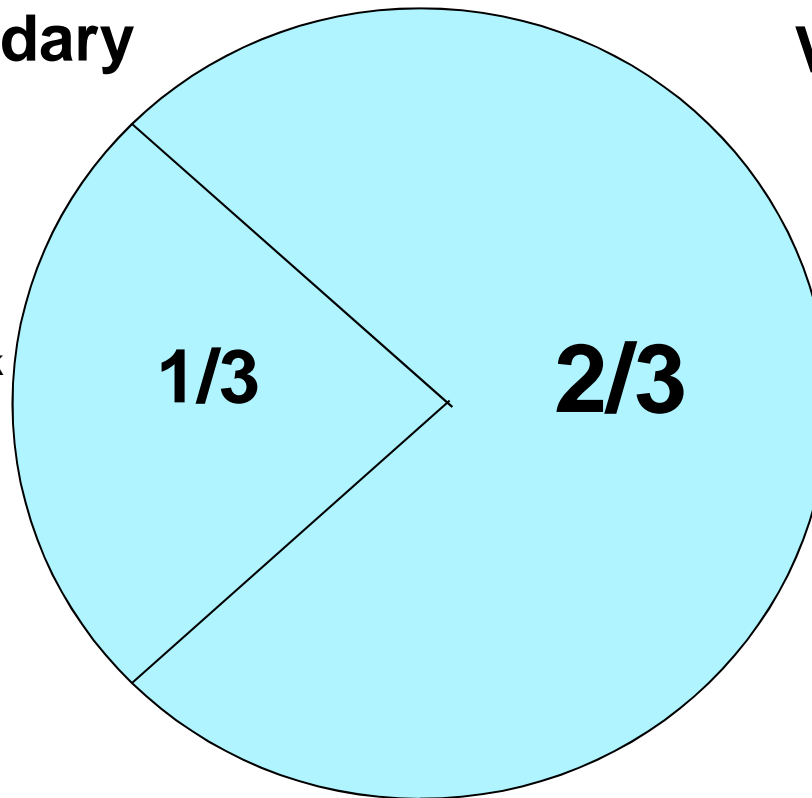
- **Mind the high economic and social costs of YU**  
Ø 1.3 % (<0.6-4.3) of GDP in EU; erosion of trust: **invest more!**
- **Mind over-education = waste of investment and injustice**  
Unemployment and skill shortages at the same time: **invest right!**
- **Mind the potential of dual learning systems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

# The German Vocational Training System

at about age 16, young people enter:

## Upper Secondary Track:

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



## Vocational Track:

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

# The Future of Youth Unemployment

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

## The demographic challenge:

- EU:** probably easing, but increasing challenge of skill deficits  
**INDIA:** probably worsening, but chance of demographic dividend

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

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

- EU:** Over-qualification a serious problem: costly and unjust  
**INDIA:** Paradox of Indian education system  
Over-qualification as an insurance motive?!

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

- Mind:** Open doors for decent general education to all children  
**Mind:** Extend dual learning systems at middle and higher level  
**Mind:** Tighten social security net for risks beyond unemployment

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

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