

# **Latin American Youth in Transition: A Policy Paper on Youth Unemployment in Latin America and the Caribbean**

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## Executive Summary

*The school-to-work transition* provides the central context in understanding youth unemployment in Latin America. Youth unemployment is not a transitory state to employment, rather it is a very lengthy process where youth move from unemployment, schooling, unpaid unemployment, and low-wage unskilled employment—all of which have low opportunity costs. The youth transition process, including that of youth unemployment, largely reflects that of larger labor market trends—the large informality of the labor market, the growing skills-wage gap between workers in the formal-informal sector; and falling incomes of informal workers, moving precariously toward the income poverty line.

This policy analysis looks at the economic relationships between sectors: where formal and informal sectors are intimately linked in terms of youth and adult workers, where skilled workers and their shortages exist throughout all sectors of the economy, and where downsizing and technical change shed large numbers of unskilled labor to the informal sector. Youth unemployment lives in the shadows of the broader labor market demand and wage dynamics, whereby youth unemployment is simply a fractured reflection of larger labor market issues. Moreover, the impact of labor market policies and programs for youth is largely tied to broader labor market dynamics.

The conclusions of the paper point to eight main recommendations:

- ✓ The school-to-work transition--“distance too far”. The lengthy school-to-work transition evokes enormous uncertainty and continuous change. Policies and programs must address all aspects of the transition, as these activities are highly interwoven in the behavior of youth.
- ✓ Focusing on long-term goals. Given the length and nature of the school-to-work transition, long-term employability and productivity of youth should be a key consideration of policy and programs, and not short-term job placement. Factors that influence the transition are fundamental to determining “how” youth will move toward these long-term goals.
- ✓ Priority to youth with incomplete secondary education in most countries. Policy priority should be given to the “youth majority” within any specific country; in most countries of the Region, this is incomplete secondary education or below.
- ✓ Greater market incentives to stay in school. There is a need to better understand the market structures to promote education. Labor market policies and programs should promote skills standards attached to youth-entry wages.
- ✓ The informal dimension to youth policy and programs. The informal sector is the pathway to employment for most youth in Latin America. Incentives must be promoted to encourage human capital formation in the informal sector, alongside specific standards for youth’s employment in the informal sector.
- ✓ Linking the formal and informal sectors. New policies through standards and training should encourage generic skills standards relevant for both formal and informal sectors.
- ✓ No recipe card for policies and programs. The policy evaluations demonstrate that large-scale programs do not fit the needs of rural youth, low-income, the youngest participants, the least educated, and often times women participants. New designs and innovations are needed in targeting to these specific groups, incorporating local labor market characteristics.
- ✓ Linking education and labor policies and programs. The complementarity of policy and program actions would ensure more effective and long-term impact. Research, policy dialogue and pilot projects should be encouraged between labor market projects and education reform programs.

# Understanding Youth Unemployment in Latin America

## *A Labor Market Perspective of Youth Unemployment*

“But I fear that when the economic theorist turns to the general problem of wage determination and labor economics, his voice becomes muted and his speech halting. If he is honest with himself, he must confess to a tremendous amount of uncertainty and self-doubt concerning even the most basic and elementary parts of the subject”<sup>1</sup>

The study of labor markets and in particular, youth in the labor market, has confounded economists, sociologists, educators, and policy-makers for quite some time. The literature on youth employment and unemployment is large and comprehensive, with considerable analysis and information on youth unemployment in Latin America. Throughout this research and policy analysis, basic assumptions are made regarding the youth labor market: the standard supply-demand approach to youth labor market; the path of school-to-work transition; and the continuity of human capital returns for all levels of schooling. The Latin American experience challenges these assumptions, and demands new and creative ways to capture traditional models of analysis. Simply put, youth in the Latin America are not so predictable. The uncertainty and risk of the daily existences of youth strongly influence their decisions regarding school, work and home, creating conditions of constant change and movement.

This policy paper captures these youth dynamics, and their impact on the determinants and policies of youth unemployment. *The school-to-work transition is the main point of departure* and provides the context to understand the youth unemployment. Youth unemployment is not a transitory state to employment, rather it is a very lengthy process where youth move from unemployment, schooling, unpaid unemployment, and low-wage unskilled employment—all of which have low opportunity costs. Adding another dimension to this process, is that Latin American youth are often simultaneously in school and in work. The highly complex and multi-faceted transition process results in constant change for youth in Latin America.

The youth transition process, including that of youth unemployment, largely reflects that of larger labor market trends—the large informality of the labor market, the growing skills-wage gap between workers in the formal-informal sector; and falling incomes of informal workers, moving precariously toward the income poverty line. The paper examines youth unemployment with this *labor market perspective*. The measurement and tools of labor market economics are used to characterize these recent trends in Latin American labor markets, and then examine how these changing dynamics affect youth. As part of this analysis, specific characteristics of the market are used to link youth to the larger market: specific sectors of employment, specific educational attributes, and specific wage movements. In so doing, the analysis looks at the relationships between sectors: where formal and informal sectors are intimately linked in terms of youth and adult workers, where skilled workers and their shortages exist throughout all sectors of the economy, and where downsizing and technical change shed large numbers of unskilled labor to the informal sector. Youth unemployment lives in the shadows of the broader labor market demand and wage dynamics.

Brighter news has emerged regarding the labor supply. Youth as a percentage of working population has declined in all countries in the Region, with the exception of Argentina, Bolivia and Uruguay. Youth labor participation follows this trend: the percent of youth in the active labor market also is declining in most Latin American countries. Alongside this supply-side tightening of the market, the youth are better educated, with rates of higher education increasing in almost all countries in the Region. The stock of human capital has improved, yet large gaps remain between educational levels of youth. High concentrations of youth with incomplete secondary education exists in most of the countries; around 75-

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<sup>1</sup> Excerpt from Paul Samuelson, cited in (Card and Krueger 1995).

80 percent of the young adult population has incomplete secondary education. (Duryea and Szekely, 1998). As this paper explores, age and educational characteristics are key in explaining the discontinuities and segmentation of the Latin American labor market.

Similarly, the sectoral, skills and age effects are best seen in the context of specific policies and programs. Four prototype policies are examined in the paper: employment generation, minimum wage policy, training and subsidized employment, and labor market services. In each of these policy areas, evidence is given to the importance of sectoral characteristics, educational attributes and age effects. Based on the lessons learned, future policy and programs require greater analysis and attention to targeting beneficiaries, and *avoiding unintended consequences*. The unintended consequences of projects and policies are a dangerous reality of labor market intervention.

Understanding youth unemployment is much more than simply examining the specific characteristics of unemployed youth in Latin America. It requires placing youth into a labor market process, where they move from school to work (any maybe back again), and finally, through a lengthy process, find a place in the labor market. It requires an understanding of labor market issues in Latin America, and how youth unemployment is simply a fractured reflection of larger labor market issues. And it requires that public policy incorporate this complexity in the design, implementation and evaluation of policies and programs. This paper examines youth unemployment under this broader framework, in order to better explain and understand the labor market forces shaping youth employment policies in Latin America.

### ***Familiar Facts on Youth Employment and Unemployment***

A first step is to examine the familiar facts on youth employment and unemployment. The characteristics of youth employment and unemployment have been carefully examined over the last decade. These surveys offer a snapshot of a country's labor force, including youth, for that year; over time, the data contribute to our understanding of trends in the youth labor market.<sup>2</sup> Several key characteristics emerge and highlight the main factors underlying youth employment issues in the Region.

Table 1-1 provides summary characteristics of youth urban employment and unemployment for the different countries in the Region. (Please look to Appendix II for additional information on the characteristics). From the survey data, nine main characteristics emerge in youth employment and unemployment in Latin America.

- ✓ *Declining labor force participation rates among youth.* The decade of the 1990s pushed labor market participation of youth to all-time highs, but these rates are now declining since the 1995 in most of the countries in the Region, with the exception of Honduras, Mexico, Paraguay and Venezuela. Alongside this fact is the decline in youth as a percent of the economically active population (EAP) in many of the countries. Female youth labor market participation rates are also slowing in many countries, such as Argentina, Colombia, and Panama. Other countries find a new surge of female youth workers, such as Brazil, Costa Rica, Ecuador, Mexico and Paraguay.
- ✓ *Persistently high youth unemployment rates continue, yet youth share of total unemployment falls.* Youth unemployment in Latin America moved from single digit to double digit-levels in the 1990s. However, the share of unemployed youth to total unemployment has declined, largely due to the decline of youth in the working population. The net impact of these two effects is mixed: Argentina, Bolivia, Ecuador, Paraguay, Dominican Republic, and Uruguay have youth unemployment rates as a smaller share of the total unemployment rates. The remaining countries, Brazil, Chile, Colombia,

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<sup>2</sup> The large body of survey work has been undertaken with ECLAC (CEPAL) and ILO Regional/Lima. Look to **Panorama Laboral** (ILO) for annual statistics. IDB and other multilateral institutions have worked in concert with CEPAL/ILO on these surveys and analysis.

Costa Rica, El Salvador, Honduras, Mexico, Panama, and Venezuela find an increasing net impact of youth unemployment in their economies.

**Table 1-1. Latin America (16 countries): Urban Labor Force Participation and Unemployment Rates for People Between the Ages of 15 and 24 a/**

Country	Year	Labour force participation rate		Unemployment rate		Percentage of young people in total FAP	Percentage of unemployed young people in total unemployed	Youth unemployment rate / total unemployment rate (ratio)
		Total	Youth	Total	Youth			
Argentina b/	1990	56	52	5.9	13.0	19.2	42.1	2.20
	1994	57	54	13.0	22.8	21.8	38.1	1.75
	1997	59	53	14.3	24.2	20.6	35.0	1.69
Bolivia	1989	58	41	9.4	17.4	23.1	43.0	1.85
	1994	62	43	11.2	5.8	24.2	44.0	1.81
	1997	62	41	11.7	6.4	21.9	38.3	1.73
Brazil	1990	63	62	4.5	8.3	28.2	52.7	1.84
	1993	66	64	7.4	14.3	27.1	52.4	1.93
	1996	64	61	8.0	15.1	26.3	49.3	1.89
Chile	1990	52	38	8.7	17.9	19.5	40.1	2.01
	1994	55	40	6.8	16.1	18.2	43.1	2.37
	1996	56	37	6.0	13.2	16.3	36.1	2.20
Colombia	1990	61	49	10.3	20.1	23.8	45.5	1.95
	1994	62	50	8.0	16.2	22.8	46.0	2.03
	1997	63	48	11.8	24.3	21.8	44.8	2.06
Costa Rica	1990	57	51	5.3	10.5	25.3	49.8	1.98
	1994	57	47	4.2	9.7	22.0	50.6	2.31
	1997	58	47	5.8	13.0	21.9	49.1	2.24
Ecuador	1990	61	44	6.1	13.5	23.8	53.0	2.21
	1994	63	49	7.1	14.9	24.3	51.3	2.10
	1997	64	48	9.2	18.9	23.3	48.2	2.05
El Salvador	1990	64	51	9.9	19.3	25.1	51.0	1.95
	1995	62	48	6.8	14.0	25.1	51.6	2.06
	1997	68	43	7.3	14.6	21.9	43.8	2.00
Honduras	1990	60	48	6.9	11.2	28.9	46.7	1.62
	1994	60	48	4.1	7.1	29.4	51.7	1.73
	1997	65	55	5.2	8.9	29.4	50.1	1.71
Mexico	1989	53	43	3.3	8.1	27.8	60.0	2.45
	1994	57	47	4.5	9.4	25.9	55.8	2.09
	1996	59	47	5.1	12.5	25.2	61.6	2.45
Nicaragua	1997	61	45	13.1	20.9	25.8	41.1	1.60
Panama	1990	65	47	21.0	37.1	22.7	31.2	1.37
	1994	62	51	15.7	31.0	23.7	47.0	1.92
	1997	63	50	15.4	31.5	22.8	45.1	2.05
Paraguay d/	1990	65	59	6.3	15.5	25.6	65.6	2.46
	1994	69	64	4.4	8.3	27.3	51.5	1.89
	1996	71	65	8.4	17.8	27.6	58.3	2.12
Dominican Republic	1992	69	66	19.3	34.3	33.8	58.6	1.73
	1995	60	51	17.0	30.6	28.8	51.8	1.80
	1997	64	56	17.0	27.8	36.5	50.0	1.64
Uruguay	1990	58	57	8.9	24.4	19.5	53.5	2.74
	1994	60	62	9.7	24.7	21.5	54.5	2.55
	1997	59	61	11.4	26.3	21.6	49.8	2.31
Venezuela d/	1990	57	41	9.6	13.8	22.9	42.5	1.85
	1994	59	44	8.4	15.0	22.7	42.2	1.86
	1997	64	50	10.6	10.8	23.3	43.4	1.87

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the relevant countries.

a/ Includes live-in domestic employees.

b/ Greater Buenos Aires.

c/ Asunción.

d/ Nationwide total.

From "Recent Trends in the Labour Market", CEPAL, 2000.

- ✓ *The rate of youth unemployment is around twice that of the total unemployment population.* This ratio is high when compared to other developing countries (1.5 on average) and in developed countries (1.8). Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Panama, Paraguay, and Uruguay all have ratios higher than two (200%). This characteristic reminds the reader that youth unemployment is a global issue, one where developed and developing countries face similar challenges, yet for different reasons.
- ✓ *Increasingly, the younger the worker, the greater the levels of unemployment.* In the last ten years, unemployment rates are becoming more sensitive to the age of the youth. Table II-1 of Appendix II distinguishes unemployment rates by age and gender. This finding is particularly pronounced in Argentina, Brazil, Chile, Colombia, Costa Rica, and Uruguay. In many of these countries, unemployment of youth aged 15-19 is double that of young people aged 20-24, who in turn have significantly higher rates of unemployment than workers over 24. IDB research shows that the effect of age continues for youth up until age 29. Gender effects further accentuate this trend in many countries.
- ✓ *Female youth unemployment rates are sharply higher than men's rates in a number of countries.* Argentina, Brazil, Chile, Costa Rica, Ecuador, Uruguay and Venezuela all witness greater rates of women unemployment than that of men. This trend though is not the norm in other countries, such as Guatemala, Honduras, Mexico, Panama, and Paraguay. Various reasons explain this marked contrasts between countries, including maquila employment, lower labor market participation rates, and domestic service employment in the countries.
- ✓ *The preponderance of youth urban employment in commerce and service sectors—the informal sector.* Approximately 60 percent of all employed youth are in the commercial and services sector. Country exceptions are Honduras (48%) and Bolivia (52%). (See Table II-2 of Appendix II). Other countries faced significant rises in youth informal sector employment, such as Chile. Youth employment in manufacturing sector declined in many countries, with exceptions being Bolivia, Honduras, Mexico, and the Dominican Republic.
- ✓ *Educational level of Latin American youth is slightly rising for most countries.* The average number of years of schooling of youth has increased by several educational measures. The average years of schooling of the youth labor force are slightly higher for most countries. (Table II-3 of Appendix II). Educational achievement mirrors this finding. Overall, Latin American countries have made significant progress with basic education, and now face the educational challenge of “competitive workforces” with the requirement of complete secondary education.
- ✓ *The higher the educational level, the lower the relative rate of youth unemployment within a country.* The effect of educational level on youth unemployment has remained a key characteristic during the 1990s. (See Table II-4 of Appendix II). A simple fact emerges: the higher the educational level of youth, the lower the relative level of unemployment. Most extreme in this trend is Brazil, yet youth from Colombia, Costa Rica, and Venezuela that are highly educated only represent around 10% of the total youth unemployed. In these countries, the lucky few that make it to university find a path to job security and employment. Bolivia, Chile, Ecuador, El Salvador, and Panama appear to place less of a premium on educational credentials, as educated youth represent around 40 percent (or higher) of total unemployed youth.
- ✓ *Low-income youth increasingly bear the burden of youth unemployment in Latin America.* The last ten years has witnessed a sharp incline in the unemployment rates of low-income youth in Latin America. (See Table II-5 of Appendix II). Argentina, Brazil, Colombia, Costa Rica, Ecuador, Mexico, and Uruguay all experienced this increased burden of unemployment for low-income youth. Of the twelve countries measured, only Bolivia, Honduras and Venezuela reversed that trend. In

only a couple of the countries, this trend is correlated with higher youth participation rates—Argentina, Colombia, and Ecuador.

These characteristics offer a panorama of the youth labor market in Latin America. Such an analysis provides a basic understanding of the main factors influencing youth employment and unemployment in the Region. Yet this descriptive analysis does not explain the dynamic nature of the process—the school-to-work transition, the determinants nor the impact of these factors on Latin American youth’s entry into the labor market. This report looks at the following key questions:

1. What is the impact of the school-to-work transition on youth unemployment? How do policies and projects need to address this process?
2. How has the last decade of structural adjustment, and its impact on labor demand, shaped the scope, duration and specifics of youth unemployment in Latin America? To what extent do specific policies and programs directly integrate these characteristics? How?
3. What is the impact of widening wages of skilled-unskilled workers on youth unemployment? What are the sectoral distinctions regarding this impact? What are the skills and background of youth most affected by these differentials?
4. What countries have benefited from slower growth in labor market participation? What is the impact of this growth in terms of youth unemployment today and in the future?
5. Even though training programs have proven to be successful in promoting “employability” of youth in Latin America, should the main objective of the programs be simply creating youth employment, when the tenure of youth jobs is less than one year? What other effects should be examined in youth policies and programs?
6. What is the purpose of minimum wage, if it is not binding? How is the country promoting a “living wage” with sub-minimal wages, substantially below the poverty line?
7. What are some of the unintended effects of labor market policies? How can projects/policies address these issues?

These research questions address the broad context of youth unemployment issues—as they relate to the school-to-work transition, employment and wages in a country. Based on the analysis of these, specific recommendations are made and presented in the final section of the report.

## **The School-to-Work Transition in Latin America**

The transition for youth from school to the workplace is the beginning of the youth employment process. Traditionally in the economic literature, this school-to-work transition is depicted as a "choice" where students have the ability to weigh the difference between the benefits of school vis-à-vis employment. Under this model, the student chooses between work or school, and the benefits of current income versus future income. Often it is assumed that the student moves directly from the world of the textbooks to world of the workplace.<sup>3</sup> Such a characterization does not adequately reflect the school-to-work process in Latin America, a process where youth may leave school, go to unpaid work or informal salaried

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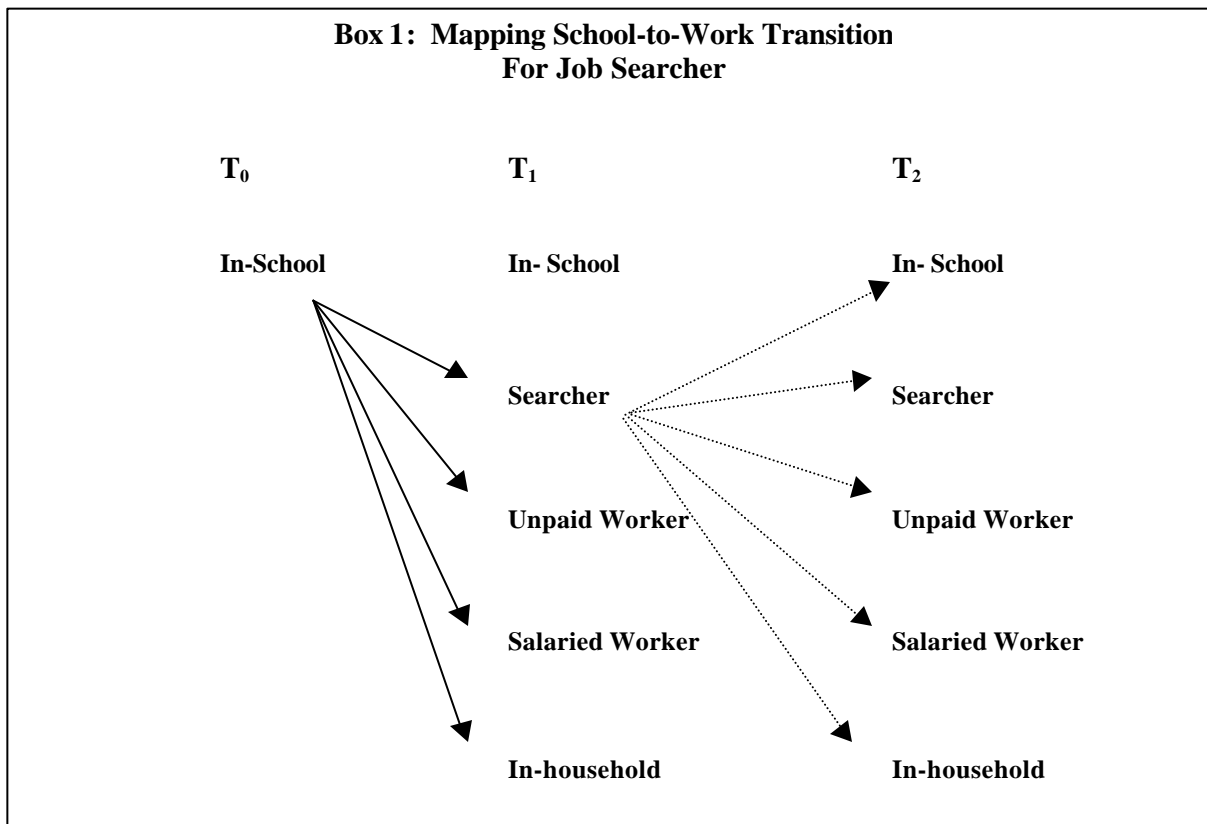
<sup>3</sup> For example in the U.S., for every three out of every four students, school-to-work transition represents a rough road and painful transition. Once young people enter the job market after dropping out or completing high school, they face an extended period of labor market adjustment, characterized by years of alternating spells of casual work and unemployment (Osterman, 1980).

employment, become unemployed and in turn, within a short period, face a whole new transition into unemployment. School-to-work transition in Latin America is an elusive and highly changing process, as youth may leave school, be unemployed, move onto salaried informal work, and then return to school. It is a state of limbo, where many Latin American youth are neither in school, nor in work for any significant amount of time.

### Mapping the School-to-Work Transition

The dynamic of this transition process in Latin America can best be captured through a *mapping of the school-to-work transition*, distinguishing the various school or work possibilities for youth. Box 1 highlights the main possibilities: either in school, searching for employment, employed salaried worker or unpaid worker, or simply in the household (neither in school or work). Let us start out with all students in school at  $T_0$  which acts as the time point of reference. The next time period,  $T_1$ , begins the transition from school to work. Students can decide to stay in school, or drop-out of school, entering into the transition process, from school-to-work.

The youth has many possibilities: 1) move into job search, actively looking for a job; 2) receive a unpaid job, such as an apprenticeship or informal learning experience in a firm; 3) accept an offer for salaried employment; or 4) remain in the household, assisting a family member or taking care of children without remuneration. The school-to-work transition offers an array of activities for the youth, and it is important to remember that each activity supports specific concerns and constraints for the youth, as well as for the family and households. The pattern of school-to-work transition is that the youth is in continuous change, moving from one activity to another, and over time, creating a cycle between school and work. Latin American students often move into job search, then unpaid work, then salaried informal sector employment, and throughout this process, youth return to school for specific courses.





Box 1 illustrates this scramble of possibilities, where a job searcher in  $T_1$  can remain in job search, return to school, stay at home, or move into employment, either unpaid or salaried. The youth school-to-work transition is one of extreme fragmentation, where youth is constantly changing activities and experiencing high rates of turnover of human capital activities--be it in school or on-the-job learning activities in the workplace. Alongside this rapid turnover of activities, there is concern on the duration of the transition, where youth do not obtain the knowledge or experience required for more productive employment. What explains this vicious cycle within the transition? How does it differ between countries? Who bears these costs of transition? How does it ultimately influence youth employment process in the Region?

### *Characteristics of the transition process*

In the past decade, a large body of research has been developed to better understand the youth in school-to-work transition.<sup>4</sup> Using household survey data from 10 countries, key characteristics can be distinguished of first-time unemployed job seekers: lower income youth, lower levels of schooling and larger numbers of women than male searchers. Table 2-1 details some of these characteristics for 10 countries in Latin America.

**Table 2-1.**

LATIN AMERICA (10 COUNTRIES): CHARACTERISTICS OF FIRST-TIME JOB SEEKERS BETWEEN THE AGES OF 15 AND 24, URBAN AREAS, 1997													
Country	Total	Percentage of youth unemployment corresponding to first-time job seekers	Sex		Per capita household income quintile				Years of schooling			Education	
			Male	Female	1	2	3	4	0-6	7-12	12+	Attending school	Not attending school
Argentina <sup>a/</sup>	100.0	29.0	41.1	58.9	42.2	29.5	19.8	8.6	2.6	80.0	17.3	26.6	73.4
Bolivia	100.0	45.7	58.8	41.2	40.5	33.5	23.5	2.5	14.7	67.1	18.2	56.6	43.4
Chile <sup>b/</sup>	100.0	25.1	44.6	55.4	54.9	27.2	9.0	8.9	8.1	72.1	19.9	10.3	89.7
Colombia	100.0	39.4	42.6	57.4	44.7	25.7	17.9	11.7	14.7	76.1	9.2	26.4	73.6
Costa Rica	100.0	26.6	37.7	62.3	44.1	8.5	27.3	20.1	16.0	67.7	16.3	41.9	58.1
Ecuador	100.0	50.5	43.5	56.5	43.7	25.8	23.1	7.5	14.1	72.3	13.5	29.3	70.7
Honduras	100.0	25.1	51.4	48.6	42.4	25.4	29.2	2.9	56.9	38.0	5.1	20.8	79.2
Panama	100.0	43.0	50.4	49.6	35.3	34.6	21.0	8.9	15.9	71.1	13.0	27.3	72.7
Uruguay	100.0	36.7	45.6	54.4	49.3	28.8	14.0	7.9	18.2	73.0	8.2	46.2	53.8
Venezuela	100.0	37.1	44.7	55.3	32.8	27.2	24.2	15.7	24.1	61.5	14.4	64.5	35.5

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the relevant countries.

<sup>a/</sup> Greater Buenos Aires.

There are four main characteristics to be noted from the table. Foremost, first-time job seekers represent half (50%) or less of total youth unemployment for all the countries. Such a result points to the complex transition process: where youth may enter the job market, then return to school, and then enter again. For countries with higher national education levels, this trend seems to be more pronounced: Argentina, Chile, and Costa Rica all have first-type job seekers as less than 30 percent of the total unemployment, indicating an enormous turnover within the transition process. Other Latin American countries with lower

<sup>4</sup> CEPAL has undertaken comprehensive research on labor markets, alongside the International Labor Organization, Inter-American Development Bank and the World Bank. For a summary of this research, turn to Economic Survey of Latin America and the Caribbean, 1999-2000 CEPAL.

nationwide educational levels find that first-time seekers represent a greater percentage of unemployed youth: Bolivia, Ecuador and Panama who find that first-time job seekers are more than 40 percent of total unemployment. Such results suggest that countries with higher levels of education may have greater transition, as greater years of schooling simply stretch out the duration of the transition process.

Education is a key characteristic, both in explaining who searches, as well as those that do not search. The largest percentage of new entrants comes from secondary education. (See Table 2-1). All countries, with the exception of Honduras, have over sixty percent (60%) of new entrants having 7-12 years of schooling. Even though the range between countries is considerable, with Argentina at 80% and Venezuela at 61.5%, these education rates reflect the main target audience for school-to-work transition. Secondly, many job seekers study simultaneously with work. These rates range from 10.3 percent of new entrants simultaneously studying, as in the case of Chile, to 64.5 percent in Venezuela. Bolivia, Costa Rica and Uruguay have a high degree of simultaneous studying and searching. These practices indicate a large and significant amount of transition turnover, where students change directions between school, search and employment throughout their youth, and often are both studying and searching simultaneously.

The exception to this path is Chile. With low rates of simultaneous school and work of new entrants, new entrants would appear to have a smoother transition in Chile. These numbers, however, mask the Chilean transition—first time job seekers only represent 25% of total youth unemployment in Chile and these youth come from the lowest income households. The Chile experience demonstrates that in many cases, youth are pushed into transition through household income constraints. Table 2-1 presents the per capita household income distributions of the new job seekers. In all of the 10 countries, the lowest income quartile has the largest percentage of new job entrants.

Even more startling is the impact of income distribution on the school-to-work transition. The percent distribution of household income has a substantial impact on countries in the Region, particularly in the high-income countries of Chile and Costa Rica. In Chile, the average possibility of being a new job seeker from a poor household is twice that of a lower middle-income household. In Costa Rica, a new job seeker is five times more likely to come from a poor household than from a lower middle-income household. Low-income youth are pushed into the job market, and then become stuck in the state of limbo of school-to-work transition, thus explaining the low level of new entrant unemployment to total youth unemployment in these countries.

The new entrant characteristics of Bolivia, Ecuador and Honduras are quite distinct. New entrants represent a higher level of youth unemployment. Even though more youth from poor households join the transition process, it is not proportionately significant from the next income quartile. In Bolivia 45.7 % of unemployed youth are new job seekers, 40.5 % come from the poorest households, 33.5 % from the lower middle-income households, and 23.5 % from the upper middle-income households. Alongside this fact, about half of these new job seekers also are studying in an academic program. Such results suggest that most new entrants in Bolivia are being pushed into job search and work transition, regardless of income bracket. In contrast, Ecuador and Honduras have similar income characteristics of new entrants, yet possess limited incentives to keep studying.

Gender issues come in to play in the school-to-work transition. The gender statistics show differences between the countries in women participation in the school-to-work transition. In Argentina, Chile, Colombia, Costa Rica, Ecuador, Uruguay and Venezuela, women are more likely to be new job seekers than men. In some countries, the percent differences are significant. In Argentina and Costa Rica, women are 17 % and 25%, respectively, more likely to be a new entrant. In turn, gender differences in the school-to-work transition lengthen the process, and ultimately lead to significantly higher female unemployment rates in most countries of the Region.

## *Duration and Patterns of Job Search and Transition*

Table 2-2 presents some preliminary statistics on duration of youth unemployment for five Latin American countries for 1990 and 1997. As the table indicates, a single job search is reasonably short in Latin America with the largest number of unemployed youths (35-43% of total) being unemployed for a 1-6 month period. Few youth are unemployed for more than 12 months. And only in Honduras, does one find large numbers of youth (48.9 % of unemployed youth) being unemployed for a month or less. Even though these countries have undergone tremendous economic change during this 1990-1997 period, one sees very limited change in these statistics, with the exception of Honduras.

**Table 2-2.**

LATIN AMERICA (5 COUNTRIES): DURATION OF YOUTH UNEMPLOYMENT IN URBAN AREAS						
Country	Year	Total a/	One month or less	1 month & 1 day-6 months	6 months & 1 day-12 months	More than 12 months
Argentina b/	1990	100.0	16.2	48.4	24.1	-
	1997	100.0	14.6	38.3	21.0	8.9
Colombia	1990	100.0	24.8	41.1	25.1	8.9
	1997	100.0	21.7	42.1	28.7	7.5
Ecuador	1990	100.0	13.2	34.8	19.9	8.6
	1997	100.0	12.4	35.0	21.7	12.5
Honduras	1990	100.0	36.4	36.8	14.7	9.6
	1997	100.0	48.9	41.2	8.4	1.5
Uruguay	1990	100.0	21.9	39.7	25.2	9.0
	1997	100.0	21.0	43.1	26.7	8.5

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the relevant countries.

a/ The entries may not add up to 100 due to the existence of responses "do not know".

b/ Greater Buenos Aires.

The complex maze of school-to-work transition challenges the conventional wisdom of a simple measure of the duration of a one-time job search. Youth unemployment and school-to-work transition is made up of multiple job searches. The job turnover and multiple activities of work-and-school, make the single measure of job search as slightly inadequate as a measure of the transition. The transition is made up of many single job searches. Alongside this, there are any number of questions on how to measure the alternative activities of the transition process. What happens when the work is unpaid? Does casual contract labor of a one-day duration count as an end to the search process, or rather a way station in the transition? What about simultaneously studying and working activities? Do they indicate a successful match? And it is not clear that the shorter the duration of job search means a shorter duration of the transition. As seen in both developed and developing countries, when youth moves back and forth through jobs, search and schooling, the shorter the duration of search may indicate the shorter the duration of employment (or the alternative activity), and thus a lengthening of the school-to-work transition process.

Panel data research of new entrants to the labor market support these conclusions. (See Box 2) The recent labor market research in Mexico using the National Urban Employment Survey (NUES) found high mobility between school, unpaid work and unemployment. On average, unpaid workers move disproportionately into the informal unsalaried sector. The median tenure for young workers (16 to 24 years of age) is 1.4 years as compared to 3.4 years for workers aged 25-34. The indifference of youth to the various opportunities—schooling, unpaid work, and salaried informal employment-- suggest extremely low opportunity costs for leaving either school or work. For poor and uneducated youth, the school-to-work transition is marked by constant change, moving from one activity to another, none of

which offer much in turn of income remuneration nor long-term employment. For the higher-educated students, the probability of salaried employment in formal sector firms is higher, and opportunity costs are greater in leaving the firm. These higher-educated youth are less indifferent, and do not move into salaried informal employment. They also have a greater probability of moving into the formal sector of employment.

### Box 2: Mapping Mexican Youth in School-to-Work Transition

The National Urban Employment Survey in Mexico (NUES) alongside the Micro Enterprises Survey (MES) are two labor market surveys measuring the work, education, age and real wages of urban workers in Mexico. From these surveys, specific time periods can be constructed which trace workers through various points in time. Six panels were constructed using the NUES/MES data. This rich data source has become a benchmark to understanding how all workers move in the labor market throughout Mexico, as well as young and unemployed workers.

The labor market path was measured as the probability of the students, the unemployed and all workers to move from an initial sector to a final sector. The following matrix maps this path from initial to final sectors, thus measuring the mobility. For purposes of our discussion, the main movement to note is between those in-school, unemployed and unpaid workers.

**Matrix 1: Worker Transitions Among Sectors of the Labor Market Across Five Quarters**  
**Informal Defined as Unprotected**  
 Mexico National Urban Employment Survey, 1991-1992

Probability of moving from initial to final sector,  $P_{ij}$ , in percent

Initial Sector	Final Sector									Total
	OLF	School	Unemp	Unpaid	SE	IS	FS	Contract	Other	
Out of Labor Force (OLF)	72	1	7	1	9	2	5	1	2	100
School	2	53	5	6	2	9	17	3	4	100
Unemployed	14	4	20	2	11	11	26	5	7	100
Unpaid	3	12	6	27	15	17	10	6	4	100
Self Employed (SE)	2	0	2	1	66	7	9	5	6	100
Informal Salaried (IS)	1	2	4	3	16	38	23	7	5	100
Formal Salaried (FS)	2	1	3	0	5	76	76	4	4	100
Contract	1	0	2	0	14	12	20	45	5	100
Other	3	2	5	1	21	11	34	7	16	100
Total ( $P_{.j}$ )	6	4	4	2	21	11	40	8	5	100

For those in school, the probability of remaining in school is 53%; yet for those that leave school, there is a wide dispersion of final sector of labor market activity. Of those school leavers, there is a high probability of leaving school and finding formal sector work—around 26%. Yet further research shows that the higher the education of the worker, the higher the probability of formal sector employment and of staying in the formal sector. Quite surprising are the number of workers whose initial position is outside of school, then return to school. Unpaid workers have a 12% probability to move back to the school sector by the final quarter.

The results of youth workers mirror the results of adult workers. The above matrix shows a large amount of labor movement between the self-employed sector (SE), the salaried informal sector (IS) and the salaried formal sector (FS). And while 76% of formal sector workers stay in formal sector work, there are still those that voluntarily leave the formal sector for self-employed and informal sectors.

Source: William Maloney. "Are LDC Labor Markets Dualistic?" World Bank Working Paper. February 11, 1998.

The highly changing nature of school-to-work provides the backdrop for understanding Latin American youth as "always doing something" (translated as "siempre haciendo algo"). The short duration of work, study, unpaid employment, and job search makes for constant change within this transition process.

Such a process means that unpaid work for short periods of time, will be followed by schooling, salaried employment or search unemployment. Under this dynamic, a young person is not stuck necessarily in a state of “unemployment”, rather in a movement between activities—none of which have much benefit in terms of income, education or employability. And at any moment in time, there will be a large percentage of youth that is unpaid living at home. This condition—“of neither being in school or in work”—represents a significant amount of Latin American youth.

This condition—“of neither being in school or in work”—represents a significant amount of Latin American youth. (See Table II-6 of Appendix II). For most of the countries presented, unpaid youth represents around 20% of all Latin American young people. More surprisingly, these percentages have been relatively stable throughout the 1990s, an era of high youth unemployment rates for most of the countries included. The only exception regarding this unpaid youth home employment is in Bolivia, where only 10% of youth is unpaid in the home. Driving these figures is the gender factor—the high proportion of women in unpaid employment. For every man in an unpaid position in Latin America, there are two or more women in unpaid employment—largely in childcare and other home-based activities. And while this trend varies between countries, a disturbing trend persists where young women in these unpaid positions may not have the same opportunity for movement within the school-to-work transition process as men.<sup>5</sup>

## **Determinants of youth unemployment**

Youth unemployment is one outcome of the school-to-work transition, a process where schooling and working intersect in the lives of Latin American youth. The transition points to a process that is dictated by the short-term, where students constant reassess their opportunities, incentives and constraints of the labor market. Youth unemployment and the school-to-work transition largely reflect the larger trends in the labor market. The determinants of youth unemployment are ultimately reflections of this larger labor market dynamic. Three main groups of determinants can be identified in this dynamic process: 1) changes in aggregate demand or sector-based demand for labor; 2) relative wages of skilled/educated labor; and 3) fluctuations in labor supply. In examining these determinants,

"Rather than ask whether aggregate demand influences youth unemployment, to which the reply is an unequivocal "yes", a more interesting and relevant question is: Why do fluctuations ... affect young people disproportionately?" (O'Higgins 2001)

The fluctuations of the determinants--labor demand, relative wages and labor supply—are the dynamics within the larger labor market that explain the ever-changing landscape of opportunities and constraints of youth employment. In so doing, the paper highlights the main trends, and offers country cases that provide evidence of these labor market dynamics.

### ***Fluctuations in Aggregate Demand***

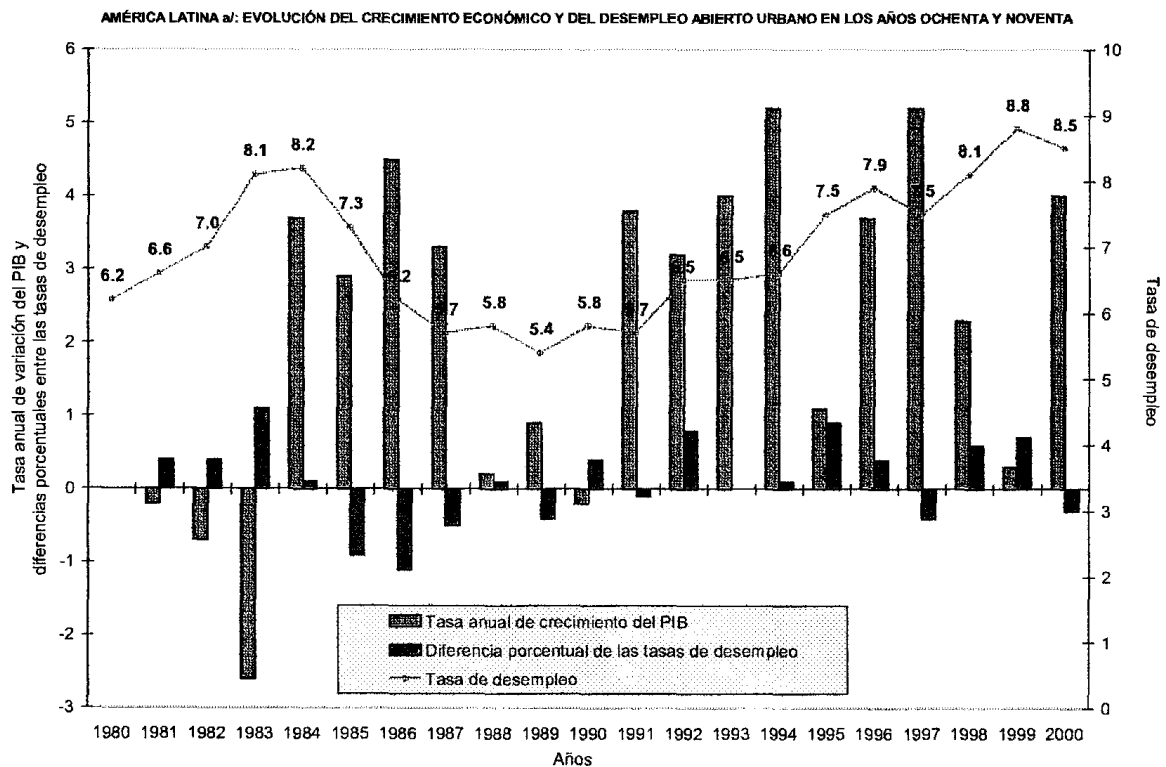
For most economists, aggregate labor demand for labor largely reflects the health of the economy. This growth is captured through various economic measures, most commonly the gross domestic product (GDP). There has been a large body of literature measuring the impact of GDP on labor demand, and unemployment. Figure 3-1 presents movements of unemployment to GDP throughout the Region from

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<sup>5</sup> See Ruiz de Medina (2001) for characteristics. Additional research that supports this trend is IDB statistics on job tenure patterns. Around 50-70 percent of all youth aged 15-20 have job tenure of less than one year throughout the Region. For older youth of 21-25 years (jovenes adultos) job tenure increases, where youth with less than one year of job tenure represents only 30-40 percent of total cohort group. These trends become more pronounced when distinguishing between education and firm size characteristics (See Marquez and Pages, 1998).

1980-2000. The 1980s presented a classic picture—GDP growth for the Region of 3-5% generated a decline in unemployment of around 2-3%.<sup>6</sup> The 1990s introduced a new dynamic—whereby GDP growth of around 4% for the Region was accompanied by increasing levels of unemployment. This disturbing trend of growth with higher unemployment had specific effects on the age and gender structure of unemployment.

**Figure 3-1. Evolution of Economic Growth and Open Urban Unemployment in Latin America During the 1980s and 1990s**



Fuente: CEPAL, sobre la base de cifras oficiales de los países.

a) Las cifras de crecimiento económico corresponden al promedio ponderado de 19 países de la región, y las de desempleo a 22 países.

Found in CEPAL (2000)

To more carefully examine the effects of age and gender on unemployment, the Country Case Study of Jamaica is offered in Appendix I. The Jamaican experience demonstrates that for youth and women, the level and range of unemployment is much higher and longer than for adult workers during cyclical demand fluctuations. Well-documented are the significant fluctuations of youth unemployment in the Southern Cone countries who underwent structural adjustment from 1990-1995. One example is Argentina, where record high rates of youth unemployment soared to 40-50% in 1995, in response to the economic restructuring. Unemployment rates for young adults (age 20-34) were half of those for youth—yet had tripled during 1984, going from 4.2% (men) and 7.3% (women) in 1987 to 15.3% (men) and 25.2% (women) in 1995. Across the Region, from the Caribbean to the Southern Cone, cyclical fluctuations have had a substantial impact on youth unemployment and transition process. (Pessino, 1997).

<sup>6</sup> In estimating the responsiveness of unemployment to changes in GDP, the IDB Research Department found the following: where a 1% change of aggregate demand leads to a change in the adult unemployment rate 0.25 percent. GDP increase of 4% would generate a reduction of unemployment by around 1%. See Marquez and Pages (1998).

These unemployment patterns for youth and women workers suggest that demand fluctuations, particularly on the downward fluctuations, are biased against youth and women. Youth and women workers pay the price in terms of higher cyclical and long-term unemployment. Three main trends in the structure of labor demand can be distinguished to explain why: sectoral shifts in labor demand, growth in informal and temporary work, and high demand for skilled labor.<sup>7</sup>

*Sectoral Shifts in Labor Demand.* The sector of employment differs between youth/female and adult workers. Youth workers largely are employed in three sectors: manufacturing, commercial services, and social services. For almost all countries in Latin America, 80-90% of youth employed is in services. Jobs in the construction sector represents only around 10-15 percent of total youth employment. The preponderance of youth in the service sector is a well-known characteristic of Latin American employment. Of these, Argentina underwent a most profound transformation, as explained in Country Case Study 2 of Appendix. 1. The Argentinean experience is perhaps the most extreme example in the Region. Brazil, Costa Rica, Chile, Ecuador, Guatemala, Paraguay, Uruguay and Venezuela, are all countries that have witnessed a similar trend. In contrast, Mexico, Honduras, Bolivia, and Panama have not experienced a decline in youth employment share in the manufacturing sector.<sup>8</sup>

*Growth in Informal and Temporary Work* The second trend of labor demand relates to the increase in the informal and temporary nature of work throughout the Region. (See Table 3-1/CEPAL 2001).

**Table 3-1. Formal/Informal Employment in Latin America**

	1990	1994	1997	1999
<b>Número de ocupados (miles)</b>				
<b>Total</b>	107 581	120 886	130 996	136 626
Sector formal	61 318	65 668	68 810	70 462
Sector informal	46 264	55 218	62 185	66 164
<b>Estructura porcentual</b>				
Sector formal	57.0	54.3	52.5	51.6
Sector informal	43.0	45.7	47.5	48.4
<b>Inserción de los nuevos empleos (porcentajes)</b>				
	1990-1994	1994-1997	1997-1999	1990-1999
Sector formal	32.7	31.1	29.3	31.5
Sector informal	67.3	68.9	70.7	68.5

Fuente: CEPAL, sobre la base de tabulaciones especiales de las encuestas de hogares de los respectivos países.

<sup>a)</sup> El empleo informal o de baja productividad incluye a las personas que trabajan en microempresas (establecimientos de hasta cinco personas), al empleo doméstico, a los trabajadores por cuenta propia no calificados y a los trabajadores familiares no remunerados.

Largely associated with the increase in the service sector, informal and temporary contracts have substantially increased throughout the Region. CEPAL estimates show that informal sector employment in urban areas increased from 43% in 1990 to 48.4% in 1999. New entrants have higher informal sector participation, moving from 67.3% to 70.7 through 1997. For most youth in Latin America, the informal sector of short-term, temporary work is the labor market opportunity. And as we have seen, it is the low opportunity cost of this job market placement that makes for the rapid turnover throughout the school-to-work transition process.

*Higher Demand for Skilled, More Experienced and Educated Worker.* The third trend in the structure of labor demand is the increased demand for skilled workers. The last decade has witnessed a technological transformation of the manufacturing sector and increasing pressures for competitiveness in all sectors of the economy for all countries in the Region. In turn, demand for skilled workers has increased throughout all sectors of the economy. Research from the IDB statistically confirms this trend for six countries in the Region—Argentina, Bolivia, Costa Rica, Mexico, Peru and Venezuela. (Lora and

<sup>7</sup> These three trends have been well-documented in Lora and Olivera, Macro Policy and Employment Problems in Latin America. IDB Working Paper Series 372. March 1998.

<sup>8</sup> Statistics on employment sector for youth workers can be found in Diez de Medina, Rafael Jóvenes y empleo en los noventa. Cinterfor/ILO. 2001.

Olivera (1998). The demand bias for skilled workers vis-à-vis unskilled workers is shown to persist across all sectors of the economy-- tradeables, non-tradeables, and government—and for all countries.<sup>9</sup>

### *Fluctuations of Relative Wages*

Real wage flexibility is often cited as a means to alleviate the unemployment consequences of demand shocks. Labor economists pose the following question: what is the reduction/increase in real wages necessary to maintain a stable rate of employment? Under this line of reasoning, the reduced wage will absorb the demand shock, and thus reduce the level of unemployment in the country. Chile experienced this classic response of flexible wages and unemployment during its structural adjustment period (1974-1994). Country Case Study 3 (Appendix I) illustrates the responsiveness of employment to wages under this classic case.

In the context of youth unemployment, the relevant questions are: what is the change in the relative wage (youth wage compared to adult wage) which influences the rate of youth unemployment. What wage best measures youth wages-- informal, minimum, or sub-minimal (training) wage? To what extent are relative wage fluctuations a function of price effects? What are the consequences of specific demand characteristics on these relative wage differences? Relative wages of youth-to-adult reflect the trends in real wages in Latin America over the last two decades. Real wages in Latin America experienced large fluctuations in the last twenty years, driven by fluctuating prices in the Region and specific wage-setting policies and practices. Country differences abound, and for that reason, specific analysis is needed on specific countries. To a considerable extent, these wage trends reflect two time periods: the wage compression of the 1980s; and the widening of relative wages for some workers in the 1990s.

*Wage Compression in the 1980s.* To understand these movements, one must return to the economic context of Latin America prior to structural adjustment. Inflationary pressures reduced the value of all other wages, leading to *wage compression*. Only in special cases were wages protected through such policies as wage indexation (See Country Case Study of Brazil of Appendix I). For youth employment, this is the worst of all worlds. The increase in unemployment in the formal sector of the economy, leads to greater numbers of workers looking for a job in the informal sector—thus reducing the probability of a young person finding employment. Second, the narrowing relative wage makes the cost of unskilled workers on par with those of skilled workers. Given these relative wage costs, both formal and informal firms prefer skilled experienced workers, crowding out youth in the labor market. Thirdly, the narrowing of wages between sectors and types of workers diminishes the benefit in acquiring skills, and ultimately the benefits to education. The lesser the wage differential, the lesser the benefits due to human capital accumulation. In many of the countries of the Region, wage and income compression continues at the lower ends of the education-income levels—with the consequence of continually generating a low skills-low wage job trap.<sup>10</sup>

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<sup>9</sup> This increase in demand for “trainable-educated” labor can be seen in a many countries. In Argentina, Brazil, Mexico, Honduras and Venezuela, youth with only primary school education—and thus a low level of “trainability”—represents more than 50% of the total unemployed in the specific cohort group. As the Region moves to a higher technology, the youth left behind will find it increasingly difficult to find employment, and thus, experience higher levels of unemployment.

<sup>10</sup> This concept of the low-skill, low-wage job trap was first presented by Denis Snower with regards to information externalities in private sector training decision. The above argument rests on the discontinuous nature of benefits between sectors given relative wage differentials based on education, age/experience and sector of employment.



*The 1990s--Widening Relative Wages for Some, but not for All.* These results are quite distinct from the industrial and manufacturing trends, particularly in the post reform period. The rapid increase in skilled labor demand vis-à-vis unskilled labor, has increased the wage differential between skilled and unskilled labor throughout the Region. The tightening of the labor market, particularly as it relates to skilled workers, increases relative wage rates between skilled and unskilled workers, and creates a greater incentive for schooling and training for premium jobs in the formal and industrial sector. What does this mean for youth and relative wage differentials between youth and adults? Here the evidence is mixed. IDB research shows that all productive sectors, with the exception of financial services, experienced a widening of wages between unskilled and skilled workers, largely as a function of the skills composition of demand. Such a finding infers relative wage differences, where unskilled youth is cheaper than skilled adults, creates an incentive for hiring youth in the economy. Also, such a structure creates incentives for human capital, where youth can aspire to skilled worker positions, regardless of the productive sector of employment. Yet these findings are not supported by dynamic research. (Maloney, 1998). This research suggests that the declining real minimum wage and contractual wage narrows relative wages in the other sectors particularly the informal service sector of the economy. The narrowing of relative wages makes for little incentive to hire youth over unskilled (or semi-skilled) adults in the service and informal sectors of the economy.

There is no doubt that skilled wages provide an incentive for education, but at what level of education? For many unskilled youth of Latin America, the distance between the average schooling level and the “needs of the market” is too far. There is no job pathway, which continually rewards a student in school, and keeps the students in school. The structure of youth employment creates disincentives for schooling, as there are no continuous returns to education at the incomplete secondary education level. Within the informal and small firm sector, there is no education premium for those students that stay in school, and those that go to the informal sector. This is the tragic consequence of the narrowing of wages in the small firm and informal sector—where neither the employees nor the wages that they receive vary by educational level.

### **Changing Dynamics of Youth Labor Supply:**

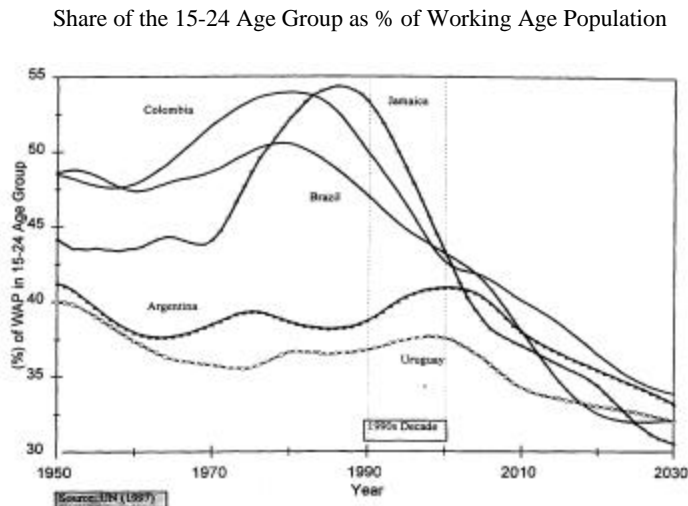
Demographic and education trends of the labor supply have eased pressures on youth unemployment in the Region. Slowing rates of labor market participation and higher levels of education are offsetting the negative impact of demand determinants. Increases in labor market participation, largely driven by a push for youth and women to enter the labor market in the late 1980s and early 1990s, have slowed, reducing the pool of new entrants into the workforce. Higher levels of education in many of the Latin American countries have proven to have higher income for select educational level.

#### *Slowing of Youth Labor Supply.*

Changes in the size of the labor supply depends on two key determinants: the changes in the size of the potential workforce due to fluctuations in the age structure of the population, and changes in the labor market participation rates. For most countries in the Region, the size of the labor supply is slowing for both reasons: the shrinking of the potential labor force due to changes in the age structure and the decline in the growth rate of labor market participation. The dynamics of these determinants largely affect how the size of labor supply influences unemployment in the respective countries. (Duryea and Szekely, 1998).

Age Structure of Population largely determines the size of the working age population. During the last two decades, most Latin American countries have experienced a slowing rate of growth of this population, where the new entrants to the labor market are becoming a smaller percent of the total working age population. Figure 3-2 traces these trends for select countries in the Region.

Figure 3-2. Trends in the Growth Rate of Working Age Population, Latin America

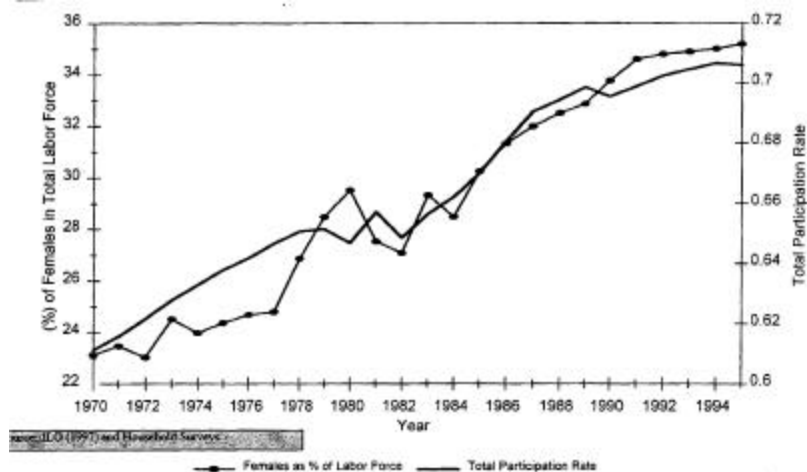


From Duryea and Szekely (1998).

Additionally, declining rates of labor supply in most countries, contribute to a decline in long-term unemployment in the countries. Several countries have witnessed significant slowdowns in their rate of new entrants to the labor market, which in turn, translates into lower “natural” rates of unemployment. Chile, Honduras, and Panama have witnessed significant changes in the age structure, which in turn, are estimated to a decline at the “natural rate of unemployment” in the countries. Conversely, the changing age structure in other countries, Argentina, Brazil and Uruguay, can be blamed for the higher natural rate of unemployment in these countries. Finally, several countries--Mexico, Colombia, Costa Rica and Venezuela-- experienced both a decline in the natural rate of unemployment AND increased levels of unemployment, a somewhat perverse behavior. Future trends largely predict declining labor supply with a negative impact on unemployment.

Labor Market Participation is the second trend influencing the size of labor supply. The dramatic change in labor market participation throughout Latin America is best revealed through Figure 3-3.

Figure 3-3. Participation Rates and Male-Female, 1970-1994



From Duryea and Szekely (1998).

Colombia, Jamaica and Brazil are just some of the Latin American countries that have experienced a slowdown of new entrants. Other countries include Bahamas, Barbados, Chile, Costa Rica, Ecuador, Honduras, Paraguay and Venezuela. Most notably are the countries that did not, such as Argentina and Uruguay, where the “baby boom” effects of the 1967-1975 period added new entrants to the market. For Argentina, the rapid rate of increase of new entrants caused a sharp increase in the share, from 37% to 41% of the total working population.

Here, participation increased from 64% in 1970 to 70% by 1990. There is one main reason for this substantial increase in participation rates, the substantial shift in participation rates of women in the Region. As Figure 3-3 demonstrates, women’s participation in the labor force increased from 23% share in 1970 to 36% share in 1996.

This general trend is even more pronounced for younger female workers in Latin America. In examining cohort data on women, younger women workers have greater participation rates. In countries with aging populations with high female labor force participation—such as Uruguay—unemployment is extremely sensitive to gender issues.

One final note relates to the country differences in labor market participation of women in the 1990s. All countries have increased their share of women's participation in workforce during the 1990s (with the exception of Colombia). Yet differences emerge in terms of younger women in the workforce. For women aged 15-19 years in Argentina, Colombia, and Panama, the share in the workforce (vis-à-vis other activities) has declined. This trend appears to be correlated to higher participation of women in secondary and higher education. All three countries experienced similar upturns in women participation in higher levels of schooling. As we will see in the next section, in the long-run, women with higher education are more likely to work than those without higher education. (Ruiz de Medina 2001)

### *Higher Quality of Labor Supply through Education*

Alongside these demographic changes is the enhanced educational profile of the new entrants to the labor market throughout Latin America. For most countries in the Region, schooling has increased both in terms of the level of schooling and distribution of schooling among the population. As an average throughout the Region, the ratio of adults with secondary education to primary education increased from .2 to .25, indicating a slight increase in the educational profile of the Region. What does this number mean in terms of youth in Latin America today? To understand the implications for the new entrants to the market, one must distinguish schooling by various age cohorts, thus eliminating effects of age structure on the working population.

Appendix III-1 traces schooling levels for various ages and cohorts for sixteen countries in the Region. Using household data, Duryea and Szekely estimate these gains for the countries. As stated in their report:

“in the early 1980s, the typical 15 year old Latin American complete 5.3 years of schooling, and by the mid 1990s that average had increased only to 5.5. A 15 year old who begins school at a normal age and proceeds through school without dropping out or repeating a grade should have completed nine years of education. Therefore, a very large gap between the expected and the attained level of schooling remains.”<sup>11</sup>

There are significant country differences within the Region with the largest lags in attainment being Brazil and Honduras. These trends point to the very cost of the school-to-work transition, where students are in and out of school, with alternative employment in informal low-wage, low-skills jobs. The low opportunity cost of leaving either school or work translates into high drop-out rates and job turnover rates for youth, ultimately leading to sluggish human capital accumulation.

These gains in education—slight yet positive—do influence the size of the labor supply. Labor market participation rates are substantially higher for greater levels of the educated workforce in all countries in the Region, with the exception of Ecuador, Peru and Paraguay, all countries with a significant rural population. This trend is most marked by gender, where women with only primary education have about one-half of the labor market participation of their male counterparts. As education increases for Latin American women, so does their labor force participation—a result that holds for all countries in the Region.

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<sup>11</sup> Duryea and Szekely (1998) page. 11.

The labor market determinants point to fundamental considerations in the formulation of labor market policy and programs. The unique characteristics of the labor market—its lengthy school-to-work transition, its informality, the narrow wage differentials, and its labor supply characteristics—influence the effectiveness and impact of possible policy and programs. How do public policies and programs address these issues? What are some successful models? Are they replicable between countries? How do they relate to the determinants of youth unemployment?

## ***Labor Market Policies and Programs for Youth***

### ***Policy Perspectives on the Latin American Labor Market***

Most policy discussions in Latin America rests on the assumption--“if only” the economy grows at 8 percent, generating the natural rate of employment in a country, thus resolving unemployment in the country. The magical target whereby economic growth generates sufficient employment has long been the goal of country policies throughout Latin America. In so doing, it is assumed that the economic market will generate a growth-employment solution, “if only”. Alongside this argument, classical economists point to institutional barriers--high payroll taxes and minimum wages-- as the reasons that the market will not clear.

These arguments contrast with a second perspective: that for any number of reasons, the demand market will find it impossible to create the structure of jobs to resolve unemployment, particularly that of youth unemployment. The large degree of uncertainty and risk in the labor markets of Latin America: uncertainty regarding your future employment and expected wage; the highly volatile nature of demand fluctuations and its effects on real wages; high job turnover and poaching of employees; and the credit constraints in financing your education or your self-employment. To a considerable extent, uncertainty breeds labor market structures that are inefficient and short-term in nature, never moving countries to higher development levels. (Booth and Snower 1997).

These two perspectives on labor markets largely frame specific policies and programs. Flexible wage and workforce policies address the market barriers, and thus encourage employment. Training programs, labor market services, and self-employment programs are government programs to reduce the uncertainty in the market, and increase skills matching in the market. The purpose of this section is to explore the policies/programs that emerge from these two perspectives. In so doing, one must acknowledge the trade-offs of specific policies and programs, largely arising from the primary and secondary effects of specific policies and programs. Youth, with their large informal sector presence and lengthy and inefficient school-to-work process, present challenges, in that the secondary effects often outweigh primary effects on the formal sector. With these special needs in mind, let us turn to the main objectives of labor market policies and programs.

### ***Policy and Program Objectives***

Labor market policies and programs are government interventions to promote productive employment and reduce labor market uncertainty. In turn, youth policies and programs address specific aspects of this general policy. Given that youth unemployment and school-to-work transition spans a significant period of a person life in Latin America, a wide range of unemployment programs and activities are relevant to the youth audience. Just as important are adult labor market policies that have important implications for relative employment impact on youth. For that reason, the policy discussion examines broad categories of programs, each based on specific objectives.

Four objectives distinguish labor market policies and programs:

- Generating employment through public works and social investment programs. The history of employment creation and promotion programs is long and voluminous in Latin America. Jobs creation programs in the spirit of Keynes address employment creation during cyclical downturns of the economy. Many guises of this program exist throughout the history of Latin America. From the public works programs in roads and transportation infrastructure development, to the social investment funds of building community centers, schools and health care facilities, jobs creation through public and social investment projects is a well-known tool to create employment opportunities during economic downturns. Youth in Latin America are unintended beneficiaries of these programs, often representing around 30-40% of the target beneficiaries.
- Promoting employment through wage and job security policies. Research has shown the cost of inflexible labor markets due to wage protections and job security policies. There are many consequences related to labor reform, and considerable impact on youth.<sup>12</sup> Alongside this debate is the traditional debate on the consequences of minimum wage legislation on youth unemployment, a topic that has been carefully evaluated in a number of countries in Latin America. Minimum wages in many Latin American countries are no longer binding, in that informal wages are below minimum wage. The lack of effective minimum wage policy has serious consequences in terms of the value of the job attachment and the opportunity cost of leaving work activity.
- Promoting employability through skills matching and training. Unemployment is often explained as the skills mismatch between the demand and supply of labor. Policies and programs only need to close the skills gap whereby workers will be more productive and more employable. There is no doubt that a skills gap exists in Latin America, yet the impact of skills training to close this gap is much more difficult to assess. There are a myriad of policies and programs to support skills acquisition—training, technical education, self-employment and workplace education.
- Reducing labor market uncertainty by providing information and workplace education. Firms and youth workers, alike, make economic decisions in an unsure environment, where high job turnover, cyclical volatility, and short-term contracts make for high risks in the labor market. To reduce these risks, and to generate a better understanding of the long-term needs of firms, various information and counseling programs have been established—labor market services to youth. These labor market services are most often included in a package of services, alongside training or practical orientation to the labor market. Policy evaluation shows that stand-alone information services as being ineffectual in Latin America, yet have proven to be an important link to the design, implementation, and evaluation of successful training programs.

Youth unemployment policies and programs can be grouped into four prototypes: direct employment creation, wage policy, training and workplace education and labor market services. Table 4-1 highlights the primary objectives of these different government interventions, as well as discusses the direct and secondary effects of these policies and programs. For purposes of analysis, three specific effects are distinguished: employment, relative wages and human capital. The analysis clearly connects the labor markets between these two sectors, and hence the demand for skilled-unskilled workers. Additionally, the youth coverage of specific policies and programs is another essential factor—as the ability to replicate and massify projects is an important characteristic on the total coverage for unemployed youth.

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<sup>12</sup> Heckman and Pages (2000)

**Table 4-1. Labor Market Policies and Programs in Latin America**

<b>Policies/ Programs</b>	<b>Primary Objective</b>	<b>Employment effects</b>	<b>Wage Effects</b>	<b>Human Capital Effects</b>	<b>Country Cases</b>
Public Works- Employment Programs	Generation of short-term employment primarily in the construction sector.	Employment concentrated in the construction sector; youth impact depends on participation in the sector. Employment for short-term transitory period.	Wage support for unskilled workers, possibly stabilizing wages in the informal sector.	Narrowing wage gap with no incentives for skills nor human capital accumulation.	Argentina Peru
Minimum Wage/ Training Wage Reduction	Lower/higher wage generates more/less employment.	Youth employment depends on structure of wages in the various sectors of the economy. Most Latin American countries have sub-minimal youth wages in practice, which in turn may cause perverse effects on youth employment in informal sector.	Wage differential increases between skilled-unskilled, particularly in formal sector. Informal sector may have decline in wage differential between minimal and sub-minimal wages.	Widening wage gap creates short-term wage incentives for human capital accumulation in the formal sector and with higher educated workers. The informal sector has mixed impact, depending on wage differential between unskilled adult and youth workers.	Brazil Mexico
Training and Education	Higher skills of labor supply meet firms demands for skills, improves job matching and reduces search time and turnover.	Employment impact depends on the types of skills acquired in the training. For technical skills, youth employment increases in formal sector. Unclear impact on informal sector employment, as formal sector increases skilled workers, squeezing unskilled to informal sector. For basic skills, youth should reduce search time and turnover	Skill shortages should be alleviated, due to the increased supply of skilled workers. Mixed results in wage differentials between skilled-unskilled workers throughout economy.	Greater employment of skilled youth in the formal sector increases expected wage of youth, particularly those with higher education. Unclear impact in informal sector, as more unskilled labor reduces adult-youth wage differential with no incentive for human capital accumulation.	Argentina Uruguay Chile
Labor market information services	Greater information reduces uncertainty, improves job search, reduces search time and turnover.	Employment impact is linked to the youth educational profile; unskilled workers with low education have limited amounts of “information”; higher educated youth have more “information” .	Greatest gains to higher educated youth workforce in formal sector. Reduces search time (opportunity cost) to entrant and hiring cost to employer.	Reduction in uncertainty leads to less turnover and search for youth, translating into higher expected benefit from education, and thus human capital accumulation.	Uruguay

Let us now turn to analyzing these prototype policies within specific country contexts, in order to gain a better understanding of the outcomes and lessons learned from youth policy and programs.

*Employment Creation Programs.* Employment creation programs are the most widely adopted government intervention to support cyclical unemployment throughout Latin America. There are enormous types and variations of jobs creation programs. Almost every country in the Region has adopted some type of direct employment creation program to respond to economic downturn. The massive employment creation program adopted by Chile in the early 1970s to the 1980, covered from 4-19 percent of the labor force, and represented 1.4% of GDP. From Mexico to Argentina, temporary direct employment programs have been the most familiar and politically favored government response to cyclical and transitory unemployment. The programs are targeted to unskilled workers, primarily in the informal and construction sectors of the economies of the countries. Two country cases are examined: Argentina and its various employment creation programs of the 1990s; and Social Investment Funds throughout the Region.

Argentina and Trabajar. To respond to the dramatic rise in unemployment, the Argentine government adopted several employment creation programs during the early 1990s. *The Programa Intensivo de Trabajo*, PIT, was first established in 1993 to fund unskilled and skilled long-term unemployed workers in response to the worker displacement in both private and public sectors of the economy. Between 1993 and 1996, six short-term programs were enacted, being modified to contend with the rapidly changing landscape of unemployment in the country. By 1997, Trabajar (temporary jobs in community infrastructure projects, preferably for low-income households) and Servicios Comunitarios (community services). These projects are largely targeted to unskilled unemployed workers, reaching approximately 2.5% percent of the urban unemployed workers and .03 % of GDP. Alongside these programs were subsidized employment programs, whereby training and internships led to short-term employment for Argentinean youth (please look to Training section). Total labor market programs in Argentina during this time period represented .14% of GDP. Such levels of expenditure are considerably smaller than industrialized countries, which on average spend .79% of GDP.<sup>13</sup>

The impact on youth unemployment is more difficult to measure. It is estimated that approximately 3.3 percent of unemployed urban youth under the population of 25 are beneficiaries of some type of training and employment program. Yet coverage can be misleading. For example, total labor market programs in Argentina represented around 1% of the total working population, an OECD average. Yet unemployment rates were at an all-time high. In such case, coverage statistics on all unemployed workers, delineating by age structure, would be a more appropriate measure. As discussed in Marshall (1997), the coverage of public sector expenditures to specific groups of unemployed is not possible, due to the lack of comparable data. For example, what is the age structure of participants in the Trabajar and other non-targeted programs? What is the impact of Trabajar on the informal sector employment-wages in the specific communities? Did the youth participants in Trabajar have similar post-project school-to-work transitions to those of more targeted project interventions? These questions focus on the very fact, that it is often the unintended consequences of the project may be of relevant to unemployed youth. Basic measures need to be set up to capture this information.

Social Investment Funds and Youth. There is more than a decade of experience in implementing social investment funds throughout Latin America. As a vehicle for short-term poverty alleviation, these funds have many features similar to employment creation programs, local construction projects in social and economic infrastructure generates short-term employment in poor communities. Expanding the employment to social assistance, production support, technical assistance and training and environmental

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<sup>13</sup> Information on this section is drawn from Marshall, Adriana. State labour market intervention in Argentina, Chile and Uruguay. ILO. Employment and Training Papers 10.

improvement has been the most recent adaptations of the program. Employment creation in social investment funds varied, from the all-time high in Bolivia and Peru of around 20,000 workers annually, to more limited programs in Ecuador and Guatemala, at around 6,000 youths. The Andean experience clearly provides a wealth of information and insight into the employment benefits of social investment funds.

Two main observations can be made regarding this experience, as it relates to youth unemployment. First, youth participants were a significant portion of workers employed by the projects. In Peru with FONCODES project, approximately 40 percent of the participants were under the age of 30. Most of these young workers had basic education, and were considered unskilled workers. The second observation is that the employment impact on these participants was deemed as marginal. “The main impact of the funds did not come from employment creation or by raising the income of the poor. Rather, what they did was deliver government services to the poor who had rarely if ever received such services or such attention before” (Goodman, et. al (1997). The highly transitory effects as well as the very limited coverage led to minimal impact in terms of employment in many countries. The nature of the employment—being unskilled and of short-duration—suggests limited employment effects, nor incentives for human capital accumulation. (See Table 4-2).

**Table 4-2. Employment Creation in Social Investment Funds**

Country	Employment Created Per Year (in person-years)	Fund employment as a fraction of labor force
Bolivia (FES)	21,000 per year over 1988-1989 (Jorgensen et. Al, pg.3)	1.0
Bolivia (FIS)	About 2,400 posts per year of which around 1,700 were for unskilled labor (de Castillo, p. 36)	.1
Chile (FOSIS)	Negligible at national level (Raczynski, 1996, p.68)	Negligible
Dom. Republic PROCOMUNIDAD	N/A	N/A
Ecuador (FISE)	Around 5,000 person years of unskilled plus 850 person years of skilled from 1993-1995 (FISE, 1995 Report, p.24)	.2
El Salvador	5,500 person years over period of 1991-1995 (Gonzalez-Polio, p. 15)	.3
Guatemala	7,500 person years of employment, primarily unskilled labor in 1995 (FIS, Memoria de Labores 1995) p. 27)	.3
Haiti (FAES)	In 1995, the 200 completed projects created approx. 8,000 person years of employment (Draper, p. 13)	.3
Honduras (FHIS)	About 14,000 per year from 1990-1994 (World Bank, SAR 1995, 2.14)	.8
Nicaragua (FISE)	13,000 person years over 1991-1995, 5,600 of these in 1995 (Blum, 1996 3.23)	.6
Peru (FONCODES)	19,000 per year from 1991-95 (Moncada, p. 32)	.2
Panama (FES)	About 1,500 per year from 1994 to mid-1996 (Webb, p. 11, 37)	.2
Uruguay (PRIS/FAS)	Not available. However, employment creation was never objective of the PRIS.	N/A

Note: Labor force figures from the 1990s are the average of 1990 and 1995 as reported in ECLAC Statistical Yearbook for Latin America and the Caribbean: 1995. Table 372. Employment creation is calculated as the total years of employment over the period indicated. Generally, employment is reported in man-months, which is converted to years by dividing by 12. From Goodman et.al (1997)



However, these jobs do support minimum wage jobs in the informal sector, thus holding constant real wages in the informal sector during cyclical downturns. New areas of activity are focused on training and technical assistance, productive activities. Traditional evaluations do not examine these labor market effects. What was the relationship of informal wages vis-à-vis the project wage? Do some areas of Fund activities—training and technical assistance, productive activities, social services—generate greater “employability” of participants, thus influencing the school-to-work transition of youth? Evidence from recent training impact evaluations suggest that such work experiences may have important secondary effects. Examining the labor market impact of social investment funds is much more than simply counting the number of permanent jobs created by the project. More careful and detailed analysis—examining the employment, wage and human capital effects of the jobs creation program—is essential to understanding the labor market impact of social investment funds.

*Minimum Wage Policy.* Minimum wage policy is the main public policy tool to encourage fair wage-setting practices and to encourage that all workers receive a living wage. Most countries in Latin America have minimum wage legislation, often times dating back to the 1940s. Minimum wage legislation varies significantly throughout the countries. Minimum wages can vary by coverage, criteria, institutional factors, and by treatment to specific-types of workers. Much of this legislation is a response to the various ILO Conventions.<sup>14</sup> A distinction must be made from these exceptional cases of youth sub-minimum wage to that of the youth training wage—legislated youth wages to cover the short-term costs of apprenticeship for youth. Once receiving training, trained young workers are to receive skilled worker wages, and not minimum wage of unskilled workers.

There are two main policy questions that emerge from the minimum wage literature: are minimum wages binding in Latin America? What is their impact? Such questions appear straight-forward, yet as proven to be the case, there is enormous range of perspectives and statistics, often showing contradictory evidence. Much of the confusion relates to enormous complexity and differences between countries in policies and practices. This discussion highlights the main issues related to minimum wages in Latin America, and its impact on youth unemployment.

Are minimum wages binding? Minimum wages throughout Latin America has declined in value since the 1980s. As discussed earlier in the paper, in the case of Brazil, minimum wage and informal sector wages have decreased, with only industrial and manufacturing wages showing flexibility. This decline in the real value of the minimum wage, largely reflect the price inflationary effects of the 1980 and the expansion of the informal sector in the 1990s. The resulting effect is that in many Latin American countries, minimum wage is no longer binding, in that it no longer has relevance in the wage-setting practices for workers. There are several ways to measure the “binding” nature of the minimum wage. IDB research examines the *impact on the distribution of employment*. For countries with little working population at the minimum wage level of employment, it is assumed that minimum wage is not binding. As Marquez and Pages estimate, Brazil, Colombia, Costa Rica and Venezuela, have 15-25 percent of their working populations receiving minimum wage.<sup>15</sup>

Alongside this measure is the trend in minimum wage to informal sector wages in the country—*the impact on the narrowing of wages between minimum wage and the informal sector*. Take the country case of Brazil (Appendix I). The declines in real minimum wage and real informal wages have led to a narrowing of the wage gap. In other countries, such as Mexico, sub-minimal wages have been a long-standing policy throughout the informal sector, where minimum wage is not enforceable, thereby not

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<sup>14</sup> It should be noted that the ILO Convention of Minimum Wage Fixing (1970) (no. 131) allows member States to submit any groups of wage earners which may have been covered, giving reasons for not covering them”.

<sup>15</sup> Marquez, Gustavo and Carmen Pages. **Ties that Bind: Employment Protection and Labor Market Outcomes in Latin America.** Working Paper Series 373. IDB. Marcy 1998.

binding. Under this dynamic, real wages of workers are going to cluster at the bottom end of the distribution, something that is predictable given the bounded nature of the fixed minimum wage. These trends suggest that the minimum wage is supporting the informal wage, which may float lower if minimum wages are decreased. Even more drastic is the consequence on the youth wage market. Youth at the bottom ring of the employment ladder often are receiving no compensation during the transition period, offering their services for practical workplace experience. Given the precipitously low levels of informal-minimum wages in the countries and the existence of unpaid employment, there may be little room to reduce minimum wages-informal sector wages and to maintain a “living wage” protection for workforces in Latin America.<sup>16</sup>

What is the impact of minimum wages? There is a large amount of research on the impact of minimum wage on youth unemployment, both at an international level and for Latin America in particular. Their results are particularly sensitive to the theoretical models used in the impact measurement, three of which will be considered in this discussion: the supply-demand model, the sector model, and the human capital and long-term growth model. These models capture the main factors that influence the determinants of youth unemployment, and help us understand how policy analysis is connected to these determinants.

The best-known model is of *supply-demand* under standard competitive assumptions, whereby minimum wage predicts an increase in youth unemployment. Country estimates vary in both degree and significance of the test. Time series estimates in Brazil from 1966-1976 demonstrate that an elasticity of employment-minimum wage of  $-4\%$  for industrial sectors. (Camargo, 1988). Thus, for a 10% increase in minimum wage, there is a decline in  $.4\%$ . Similar results hold for other countries—as it relates to the industrial sector. And as can be predicted, youth with the least amount of job security would be the first to be fired. Under this model, youth employed by the formal sector—which is youth with higher education—would bear the cost of the increase in minimum wage. These estimates are sensitive to the skilled-unskilled composition of labor in the formal sector. In fact, as the skill composition of demand increases, the minimum wage issues become less and less relevant to firms in the formal sector. Conversely, a decline in minimum wage would promote youth employment in the formal sector—with the benefit going to higher educated youth. Additionally, this impact on employment has been widely debated, with employment expansion only occurring during economic growth periods. (Morley 1995).

The policy issue of minimum wage in Latin America has faded as time as eroded the impact and the relevancy of minimum wage in the wage structures of the countries. Some economists hope that the silence will make the policy go away. Yet the urgency to address the needs of the labor issues of the informal sector—through living wage policy, human capital formation and unskilled workers, only begs for a reconsideration of minimum wage policy in the Latin American countries. In so doing, minimum wage policy must be examined in terms of employment, wage and human capital effects, in order to adequately address the long-term policy impact. For looking for ideas on how to approach reform, let us now turn to the training and subsidized employment policies/programs, which sheds light on how to approach labor market reform in the Region.

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<sup>16</sup> For these countries, such as Brazil, Colombia, Costa Rica and Venezuela, the income impact of a decline in minimum wages would be felt throughout the entire informal sector. Such a decline would accentuate income-based poverty, as discussed in Lustig and McLeod (1997).

### Impact of Job Security Policy on Youth Unemployment

In the last five years, there has been exhaustive research on the costs of job security policy throughout Latin America. To better understand the results of this country research, Heckman and Pages (2001) link the various countries to cross-panel estimates of the impact of job security on employment, including that of youth unemployment. Confirming earlier results of Montenegro and Pages (1999) youth bear the burden of job security in the formal sector. Yet what youth are most influenced by this policy. Formal sector employment is primarily biased to highly educated youth. Therefore, it is reasonable to assume that youth unemployment in the formal sector would be for largely educated youth.

For youth in the informal sector, the impact is not clear. Research shows that a loss of job security in formal sector results in negative employment in informal sector—a perverse result. Perhaps this is explained by the educational profile of the youth/adults employed in the two sectors. The increase demand for skilled workers in the formal sector, informal sector skilled workers move back to the formal sector—and result in minimal or negative informal sector employment impact. Alongside this effect is the substitution effect toward skilled labor replacing disproportionately unskilled labor, who then go to the informal sector, thus reducing the probability of employment in the informal sector for unskilled workers. There is still much to be analyzed in terms of wage policy impact on unemployment, both for youth and adults. Lessons learned from this research are the unintended consequences of wage and labor policy in Latin America, a labor market of sectors and skills gaps.

Source: Heckman and Pages (2000). **The Cost of Job Security Regulation: Evidence from Latin American Labor Markets**. NBER. Working Paper 7773.

*Training and Subsidized Employment Program.* Youth training programs have been the main policy tool to address youth unemployment in Latin America. The main objective of the programs is to improve the "employability" of the youth, through increased access to and skills for the labor market. Additionally, projects promote greater productivity, where skilled workers are more productive workers, which in turn rises conditions of Latin America: falling informal sector wages, greater levels of youth unemployment, highly cyclical and uncertain demand for labor. For those reason, evaluations of these training programs requires experimental design where the project beneficiaries can be compared to a random (quasi-random) sample.<sup>17</sup> The following discussion outlines these impact evaluations of these training programs, as well as a general discussion of the reform of training systems.

**The Jovenes Project and its Impact.** Best known throughout Latin America as Chile Joven, and modified in Argentina (Proyecto Joven) and Uruguay (ProJoven), this youth training program offered short-term training and in-firm subsidized employment for 6-12 months. Through a system of contracting out training services, training was offered to over 100,000 young people in the Southern Cone countries. Similar projects have been designed throughout Latin America. These programs offered a range of training and job market services targeted to low-income youth, primarily in the urban areas. Various program interventions included: training and work experience in firms, work training to become self-employed, training for young workers and a short-term apprenticeship program. Experimental design evaluation has been conducted on these various programs, whereby control groups have been set up to evaluate the program outcomes. In the case of the Chile Joven project and Opcion Joven project, statistical analysis allowed for comparable results.<sup>18</sup> Table 4-3 outlines these main findings of these evaluations, in terms of employment impact, wage impact, human capital impact and targeting. This

<sup>17</sup> Look to O'Higgins (2001) Chapter 5.3 for an excellent synopsis of experimental designs for the evaluation of labor market training programs.

<sup>18</sup> This review of the impact evaluations draws from: Bravo, David and Cante Contreras. **The Impact of Financial Incentives to Training Provides: The Case of Chile Joven**, Inter-American Conference, 2000; and Bucheli, Maris Bucheli, Marisa and Martin Gonzalez Rozada, **Evaluacion Final del Programa de Capacitacion y Desarrollo Empresarial de los Jovenes: Sub-Programa de Capacitacion para la Insercion Laboral**. MIF/IDB. 1997.

discussion points to the wide range of project benefits, intended and unintended. In fact, the small project in Uruguay--Opcion Joven, allowed the greatest flexibility in distinguishing the benefits of various project activities, from training to labor market services options.

**Table 4-3. Impact Evaluation Results: Chile Joven and Opcion Joven.**

Project	Employment Effects	Wage/Income Effects	Human Capital Effects	Targeting
Chile Joven (Chile)	Probability of employment increased by 8-13 percent. Higher probability for those trained in-firm. 50% of trained youth found jobs after project.	N/A	Lower the educational level/ age, the lower the probability of labor market insertion. No measurement of "return to school".	Highly concentrated with 70 percent of participants in 18-24 age group, 63% from low-income households. 40% with complete secondary education.
Opcion Joven (Uruguay)	Probability of employment increased by 60 percent, varying by type of intervention. Reduction of search time by 8.5 months, with strong gender impact. Quality of new employment is higher.	Increase in salary depends on type of training: 20% increase in salary with training and no stipends, 23% increase with stipends, and 18% with technical training (both stipends/ no stipends).	Marginal and insignificant schooling effects, where program did not contribute to school desertion, nor to returning to school. Lower levels of education, the lower education/ age level.	Completely targeted with all but .3% between ages of 15-24; 79% from secondary education; 13% from technical education No evidence of income levels of participants.

The evaluations highlight the main lessons learned:

- ✓ *Higher employability due to training and subsidized employment.* Both projects increase the probability of employment for its beneficiaries, with the greater impact measured by the Uruguay initial test. First, it must be emphasized the stringency of the empirical tests—for this analysis isolates other factors—such as education, age, and other variables that influence the search process. These test results are very impressive given the stringency of the test. The differences in the results can be explained for any number of reasons: 1) neither test controlled for GDP, where the probabilities may be affected—particularly in the Uruguay case; 2) the Uruguay evaluation distinguished the three project options: training with stipends, training without stipends, and technical training. The Uruguayan case points to high impact in all three types of intervention. Such results demonstrate that positive results may not need to include financial incentives in the workplace, an expensive component of the training programs.
- ✓ *Highly targeted programs to youth aged 15-24 of secondary education.* The Chile Joven project adequately targeted to low-income youth with 63% of youth at low-income levels. The Uruguay project did not evaluate this important question. The data suggest that the self-selectivity mechanism within the project—that of education and region coverage—was only marginally successful. The younger, less educated, and rural participants in the program had lower employability rates. New and more targeted designs are needed for this lower age/educational/income group.

- ✓ *Gender targeting led to large participation of women in the program, yet impact on women is 17-25% less than men.* The targeting of project benefits to women is an integral part of the design of the projects, and project had approximately 50% or over of women participants. And while the projects did have a significant gender impact, it was less than men. All of the evaluations controlled for education and other variables affecting women's participation in the program.
- ✓ *The higher the employability of the participant, the higher the salary of the job attachment.* Uruguay measures the salary impact of the job attachment by project intervention. The highest salaries were received by youth participating in the training/stipend program; the lowest for youth in the technical education program. Also, the attributes of the attachment were classified. Participants received a higher "quality" job than the control, ranking jobs by their permanence. Specific economic sectors were found to be of considerable importance, including the non-profit sector.
- ✓ *Unclear impact on schooling.* The Chilean evaluation did not measure the impact of the project on the transition process. In the case of Uruguay, the impact on the transition process was unclear. Unemployment rates for project participants dramatically decreased, around 40% of the Uruguayan students moved out of the workplace, and returned to school. This process mirrors the school-to-work transition process, and needs to be more fully understood within the context of the project.

Each of these training programs used the contract-out model of training services, as well as providing job counseling and other labor market mediation services. Let us now turn to these two additional programs that have been traditionally tied to these youth training programs.

**Reform of Training Systems.** During the last decade, most Latin American countries have undertaken the institutional reform of the national training systems. In so doing, these reform efforts have undergone the reform of their highly centralized, public-sector provider models of training, in lieu of flexible and "just-in-time" training models. The following highlights the main elements of the reforms and specific lessons learned:

- ✓ *Contracting Out Model of Training Services.* In search of more flexibility in training service, national training agencies are responsible for establishing fair and open procedures for contract bidding. Various mechanisms have been established to encourage the following objectives: coverage and quality of training providers; institutional norms and skills standards to review these bids, and leverage where private sector firms contribute to the training of youth and workers. The countries continue to be challenged by rural and low-educated participants, in need of specific projects designed for these beneficiaries in agricultural and informal sectors.
- ✓ *Skill Standards integrated with Occupational Standards.* The main role of the national training organizations in the countries is to regulate and promote specific standards of training and human resource formation in the private sector. To encourage a broader, more general framework, generic skills standards have been established with coordination with industry, labor and training institutions. Mexico, Brazil and other countries have been important pilots of these experiences. Recent attention has emphasized the need to address skills standards for lower-level skills beneficiaries. Informalizing these skill standards, and linking them to the general system is an important area of research and pilot projects.
- ✓ *Reform of Financing Incentives.* Throughout the 1990s, governments throughout Latin America adopted any number of new financing schemes to the training system. In Mexico, a system of private sector leverage was put into place to encourage private sector financing. In Jamaica, the reserves

from the payroll tax system were placed into a permanent trust that leverages monies from private sector grant contributions and other foundations. In Argentina, the payroll-tax system of financing training was eliminated, where youth and worker training became financed through public-sector expenditure. For many countries, the reduction of the targeted payroll tax to ½% represented a negotiated settlement between the liberal economist calling for the end of this targeted tax, and the resistant trainers.

- ✓ *Training Workers for the Informal Sector.* Working in concert with these financial reforms was the gradual adoption of policies to finance the training workers for the informal sector. The reduced number of workers in the industrial manufacturing sector and the swelling of workers in the informal sector generated a conflict in the national training system. The industrial private sector firms no longer employed a significant percentage of workers, yet continued to pay for a larger share of the payroll tax. Under the traditional system, industry both paid the taxes, and received the benefits. The transformation of the labor market—moving from formal to informal—challenged the traditional system. Through a number of reform efforts, such as Jamaica, Peru, Ecuador, the Dominican Republic and Guatemala, youth and informal sector workers now have access to these national training funds.

To a considerable extent, the specific training programs and policies of the Jovenes project represented concrete action in the reform of the national training systems in the countries. These are complementary events within the countries.

#### **Youth Self-Employment Programs : Swimming against the Stream**

Throughout the 1990s, there has been a large amount of attention to the effectiveness of youth self-employment programs as a means of employment creation for youth. There are many justifications for this interest: the high degree of employment creation in the informal sector, the learning of “entrepreneurship” through such programs; and the links to micro-credit programs in the countries. The international experience of Junior Achievement provides examples of select individuals that have benefited from such youth self-employment programs.

Many of these programs attempted to avoid the pitfalls of earlier projects. The Jamaican Solidarity Programme set up in 1985 provided credit to youth microenterprises, yet found that the survival rate of the business was only 30%. Such results make perfect sense when examining them in the context of school-to-work transition. The constant turnover and change of the youth transition process makes for little incentive to stay with a business. In fact, the one activity that does not characterize the youth transition process is that of self-employment. The low opportunity costs in leaving any activity gives little incentive for self-employment. Such projects are swimming against the stream, not working within the transition process. These programs need to be evaluated given an understanding of the transition process. How do they fit into it? What is the skill impact on participants—not the business impact? What is the employment-wage path of participants after the project?

See O’Higgins (2001).

*Labor Market Information and Service.* Most countries in Latin America support youth labor market services, with particular attention being given to job information, placement and counseling. Traditionally, these services have been linked to the training systems and the Ministries of Labor in the countries. For many of the countries, these services remain understaffed, and in some cases, never really existed. For example, in Uruguay, the National Employment Service became law in 1974, yet never really functioned. Other countries created agencies with little financing or institutional infrastructure in place. To address this issue, many countries adopted active labor market service programs throughout

the 1990s. These services, primarily targeted to urban population, are largely public-sector financed, with little sustainable financing in place.

What are the benefits of labor market services? Two main points must be made regarding labor market services. First, labor market services are effective, but significantly less than training. For example, Opcion Joven in Uruguay evaluated a treatment group of only labor market services compared to training with labor market services. The estimated impact of the stand-alone labor market services group on employability was around 20%. This compared to the much higher employability of the trained group, at around 50% (in non-profit employment) and 36% (in private sector employment). Such results are primarily oriented to an urban labor market. And in fact the coverage and financing issues have made labor market services particularly difficult as a nationwide policy, as the Chilean Municipal Placement Services has demonstrated.

Contributions to Policy and Program Formulation. Labor market information is the backbone of all labor market policies and programs, whatever the country, allowing planners to understand the scope, range and impact of projects. To set the goals of the project, labor market information is needed to:

- Establish the target number on the size of the target population and the target beneficiaries in each of the program's activities. The Jovenes projects required information on the target beneficiaries in order to plan the size of each activity.
- Design a project to address the needs of the target group. The educational level, age, gender, and region of the target group largely dictate the willingness and relevancy of specific components of the project: the content of the training, the sector of employment, and the opportunity cost for beneficiaries to participate in the project. The characteristics of the target group largely shape the design of project activities.
- Estimate the expected cost of the program. Using the target number of beneficiaries, the cost of the project can be estimated for specific activities. Total costs and cost participant can be used in the feasibility analysis of the project.
- Risks of project can be assessed. The target group attributes can be used to assess the possible risks in project impact, as specific target populations may pose higher risks than other groups, particularly if the project cannot address their specific needs. There are trade-offs between effectiveness of design, costs per participant, and overall impact on target audience.

#### **Evaluating Labor Market Programs : The Youth Perspective**

Youth in Latin America have been the forefront of labor market innovations, particularly in small, foundation-sponsored youth projects. Through a series of small projects highly targeted to low-income youth , new small projects have been implemented to address youth unemployment issues. In a recent conference, youth from the Southern Cone met to discuss the lessons learned from these projects. Here are some of their comments:

- ✓ Create a micro-context that relates to the specific needs of the youth.
- ✓ Highly targeted to local solutions.
- ✓ Beware of multiple objectives, as the project may not achieve none.
- ✓ Implementation flexibility through monitoring.
- ✓ The world of work is the world of adults,. Give youth security, protection, understanding, information and contacts to this world.
- ✓ Youth need to be part of the policy debate.

One vehicle to include youth in the planning and execution of labor market programs is to create specific youth policy in a country, as has been the case in Colombia.

Source: O'Higgins (2001) and CEPAL/UNESCO (2001).

Labor market information is the cornerstone in the planning, implementing and evaluating of labor market policies and programs. The assessment of policy and program impact, the design of the project, the sizing and budgeting of the project, and risk assessment all hinge on the quality and availability of labor market information. Targeting to specific needs of youth has proven to be the most effective method to reach the group, and labor market information is the foundation for this targeting. More importantly, heavy monitoring of projects has proven to be the most effective management tool. Using the labor market information systems, monitoring allows the project a dynamic character, providing flexibility to changing economic and social events.

## Conclusions and Recommendations

The conclusion section of this report highlights the main findings related to the workings of the youth labor market, and highlights how they influence and impact youth policies and programs. In so doing, eight recommendations are made to help guide the development of youth employment policy and programs in the Region.

*School-to-Work Transition: A Distance too Far.* The very nature of the school-to-work transition creates inefficiencies and uncertainty in the entrance of youth to the labor market. The main conclusions of this analysis are:

- ✓ Youth unemployment is only one aspect of the transition process—where the pattern of school-to-work is that the youth is in continuous change, moving from one activity to another. High job tenure, high youth turnover, and low opportunity costs in leaving jobs are all characteristics of the youth transition process.
- ✓ Youth faces any number of possible activities in the transition—job search, unpaid employment, low wage salaried employment, or school. In many instances, youth are in both work and school. The highly changing nature of school-to-work provides the backdrop for understanding Latin American youth as “always doing something” (translated as “siempre haciendo algo”).

Recommendation 1: Policies and programs must address all aspects of the youth’s school-to-work transition, as these activities are interwoven in the behavior of the youth. The value of working and studying must be raised, whereby youth increase their expectations of the reward of both school and work.

- ✓ The duration of a single job search is low (6-12 months), yet the school-to-work transition is filled with multiple job searches over a lengthy time period (5-10 years). For that reason, the duration of a single job search is not a good indicator of the duration of youth unemployment.
- ✓ The higher the education of the country, the longer the duration of school-to-work transition. There is no evidence that education reduces the search, even when higher educated youth ultimately move to formal sector, higher income jobs. Countries with higher education simply stretch out the transition process.

Recommendation 2: Long-term employability and productivity of youth should be a key consideration in the development of policy and programs and distinguished by education level. The benefit of short-term job placement should be examined in its impact on the transition path of youth.



*Priority to Youth with Incomplete Secondary Education in Most Countries.* Throughout the paper, there are key findings that point to address the needs of the “great majority”:

- ✓ The large majority of new entrants into school-to-work transition have some or complete secondary education. Variations between countries exist, and must be carefully examined before setting the target for school-to-work transition programs.
- ✓ The gains in education in Latin America indicate a major milestone for the Region: the achievement of basic education for much of the Region. The Region now must face another challenge, that of a “competitive workforce” with complete secondary education.

Recommendation 3: Policy priority should be given to youth with incomplete secondary education and below and to focus on “competitive workforce” issues. Additional research is needed to assess the factors that influence the behavior of this target group.

*Greater market incentives to stay in school.* The analysis points to various market forces that are lowering the probability of employment for youth throughout the Region.

- ✓ The narrowing of wage differentials between minimum wage and informal sector wages have reduced incentives to hire youth. This wage compression is due to two factors: the leftover inflationary price effects of the 1980s; and the preponderance of unskilled workers in the informal sector since 1990. The real wage declines in the minimum wage and informal wage puts downward pressure, with differentials flattening over time. This wage effect of the macro-economy creates no incentive to hiring youth, and reduces the incentives for human capital accumulation in the countries.
- ✓ Current labor market policies and programs for youth are at cross-purposes. The dramatic decline in the real minimum wage encourages the low opportunity costs of jobs in the informal sector; competitive workforce standards are primarily geared to the needs of the formal sector. The policy and program inconsistency makes for limited progress at addressing youth unemployment and human capital issues in the country.

Recommendation 4: Labor market policies and programs should be rationalized, with skills standards created and attached to a youth wage level. Long-term wage goals should be established with the intent of creating structural incentives for human capital and skills formation for youth.

*The Informal Dimension to Youth Policy and Programs.* The labor market analysis revealed the importance of the informal sector as the pathway for youth employment and skills acquisition.

- ✓ Ultimately, youth unemployment is about the secondary labor market effects, the effects on the informal sector of the economy. The lengthy and inefficient school-to-work process in Latin America, the increasing rates of youth unemployment in countries, and high concentrations of unemployed and unskilled low-income youth—all relate to the job search in the informal sector.
- ✓ For most young people in Latin America, a “demand-oriented” program is one that relates to the informal sector, the most likely place where youth will work in Latin America. There is very limited understanding of the skills requirements for the informal sector, or in-firm learning in the informal sector. Understanding of the technical, organizational and basic skills for youth to effectively work in

the informal sector is a priority. Understanding of the technical, organizational and basic skills for youth to effectively work in the informal sector is a priority.

Recommendation 5: The informal sector, as the pathway for youth in the school-to-work transition, must create incentives for human capital accumulation. These incentives must reflect the technological, organizational and basic skills required for the sector, and reward youth for achieving these skills. The study of educational incentives of the informal sector is an important area of future research.

*Linking the Formal and the Informal Sectors through Policies.* Throughout the analysis, there is attention to the very integrated nature of formal and informal sectors in terms of the labor market.

- ✓ Increased growth and competitiveness in the formal sector leads to inelastic employment generation—but creates jobs, nonetheless. Yet these fluctuations create shadows throughout the remaining sectors, particularly the informal sector. The demand for highly skilled workers in the formal sector shifts unskilled workers into the informal sector, whereby youth workers are squeezed out of the labor market.
- ✓ Country differences exist in Latin America, particularly for countries with a significant share of manufacturing employment. Mexico, Honduras, Guatemala, and Bolivia continue to maintain a significant amount of employment in manufacturing, and continue to employ a larger share of youth in the formal sector of the economy.
- ✓ In contrast, the current programs and policies are highly segregated between formal and informal sectors. Occupational standards reflect technologies of the formal sector, and are oriented for highly skilled workers.

Recommendation 6: Generic skill standards for the informal sector should be developed, placing attention on the distinct technological and organizational realities of the labor-intensive informal sector. Standards should be linked to the formal sector to enable credentialing of workers and greater mobility between sectors.

*No More Recipe Card Training Programs.* The policy analysis points to key findings questioning the value of large scale training programs for specific target groups.

- ✓ Targeting of program services to specific targets groups have not proven to be effective. Rural youth, low-income youth, the youngest participants, and the least educated, all find that projects are not attune to their needs. Even with contracting-out models of service delivery, training programs have not adjusted sufficiently for local characteristics and constraints.
- ✓ In last the two decades, women have entered the Latin American workforce in record numbers, primarily in the informal labor market. Policies and programs have played catch-up to the emergence of these women workers, and have just begun to craft specific interventions to address their needs.

Recommendation 7: New designs and innovations are needed in the targeting to the youngest, to rural youth, to women, to low-income youth, and to those with the least education. Local labor markets should be the point of departure for such targeting exercises.

*Linking Education and Labor Policy.* The paper examines the highly integrated process of school-to-work transition, which has enormous impact on the behavior of youth, and the effectiveness of education and labor policies.

- ✓ Secondary education and labor market programs address the same target audience, Latin American youth. Each of these policies is attempting to change the behavior and expectations of youth, and the youth's decision largely reflects the opportunity costs and benefits of these distinct activities.
- ✓ Labor market services, training, and other support activities have proven effective addressing short-term "employability" of youth. To a large extent, these activities address the "transition", the short-term pathway of youth to the labor market. Formal education addresses the long-term skills development, ultimately determining the productivity of the youth in the labor market.
- ✓ There is little evidence on how training effects the long-term outcomes of human capital accumulation. The low opportunity costs of the transition would suggest that it would be very cost-effective to simply subsidize youth to remain in school. However, results from training and labor market services question that such minimal interventions would have any impact on schooling or labor market decisions.

Recommendation 8: Policies and programs should be developed to ensure complementarity between labor market policies and secondary education reform. Through applied research and pilot projects, specific policies and programs should be tested to address the issues of cost-effectiveness and coverage in a country.

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