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37

# Youth unemployment and youth labour market policies in Germany and Canada

*Action Programme on Youth Unemployment*

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## **Foreword**

This paper represents a contribution to the ILO's Action Programme on Youth Unemployment being undertaken in the 1996-97 biennium. The Action Programme is intended to: (i) raise awareness amongst constituents concerning the problems associated with the labour market entry of young people; (ii) to improve their understanding of the advantages and disadvantages of the principal policy and programme options for tackling the problem of youth unemployment; and thus, (iii) enhance the capacity of member States to design and implement policies and programmes for promoting youth employment. The Action Programme includes country case studies as well as policy reviews concentrating on specific topics within the ambit of youth employment. The case studies will be used as the basis for preparing the major output of the Programme, a comparative report on youth unemployment and youth employment policy.

This paper is a comparative analysis of the youth labour markets in Canada and Germany. The experience of young Germans with the labour market has shown to be much more favourable than the experience of young Canadians. Since the late 1970s, youth unemployment in Germany has been systematically below the adult rate while in Canada it has been about twice the adult rate. In fact, the relative labour market performance of young Germans compared with that of their Canadian counterparts has been far better in times when unemployment has been persistently high in both countries.

This paper is an attempt to identify some of the reasons for this evolution by addressing the role of institutional factors, such as the education system, training policies, minimum wage provisions, on the transition from school to work. It appears that the highly structured and targeted education environment in Germany eases the transition from school to work for teenagers and young adults. The Canadian approach, based on a more general system of education with an important market mechanism component, leads to an overall less skilled young labour force and one with frequent and sometimes long spells of unemployment.

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## **1. Introduction**

This paper is a comparative analysis of the youth labour markets in Canada and Germany.<sup>1</sup> The experience of young Germans with the labour market has shown to be much more favourable than the experience of young Canadians. Since the late 1970s, youth unemployment in Germany has been systematically below the adult rate while in Canada it has been about twice the adult rate. In fact, the relative labour market performance of young Germans compared with that of their Canadian counterparts has been far better in times when unemployment has been persistently high in both countries. This paper is an attempt to identify some of the reasons for this historical evolution by addressing the role of institutional factors, such as the education system, training policies, minimum wage provisions, on the transition from school to work. It appears that the highly structured and targeted education environment in Germany eases the transition from school to work for teenagers and young adults. The Canadian approach, based on a more general system of education with an important market mechanism component, leads to an overall less skilled young labour force and one with frequent and sometimes long spells of unemployment.

Section 2 of this paper offers a brief look at the aggregate labour market features that characterize both economies. Section 3 provides a detailed statistical comparative analysis of the youth labour market in both countries. The education systems and evidence on the transition from school to work are described in Section 4. Section 5 gives a description of other institutional features that affect young people's incentives on the labour market such as wage-setting mechanisms and social programmes. Section 6 provides an evaluation of the overall problem of youth unemployment in Canada and Germany on the basis of the arguments put forward in the preceding sections. Finally, the Conclusion compares the two countries' systems, assessing the shortcomings and advantages of each for youth performance on the labour market.

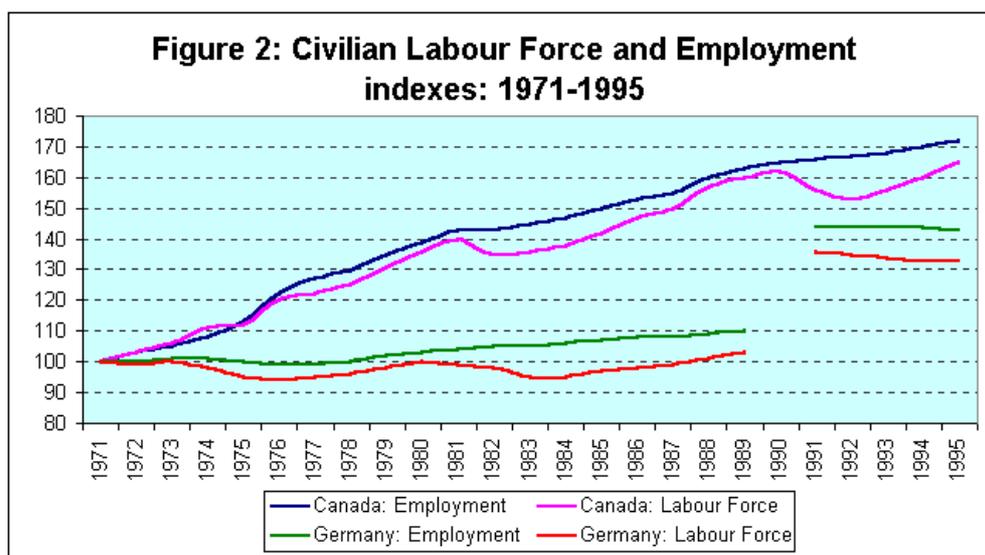
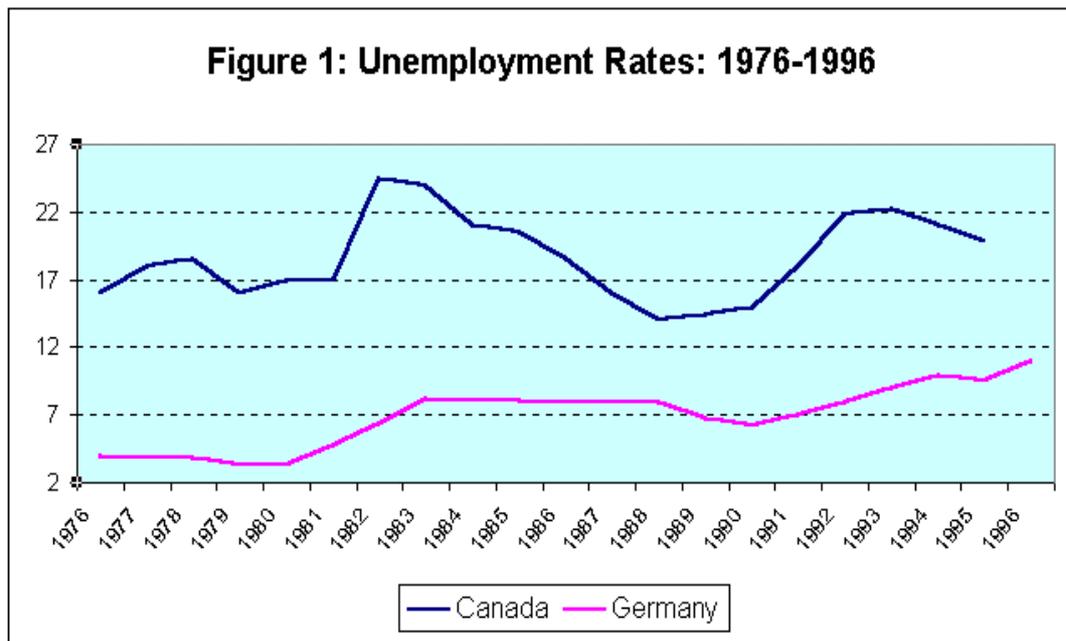
## **2. The aggregate labour market**

One of the difficulties in analysing the German labour market over time is assessing the large changes brought to it by the reunification since 1989. One possibility would be to stop the analysis at the beginning of the 1990s. This choice, however, would not be accurate since it would ignore observations for half a decade and miss the profound impact of the reunification on Germany's labour market. Hence, whenever possible, comparisons are carried over to the mid-1990s, using West German statistics only or showing clearly the break in the series following the reunification and its implication for each particular case.

Persistently high unemployment, while a relatively recent experience in Canada, is a well-known phenomenon in Germany since the first oil shock in the early 1970s (see Figure 1). Since the mid-1980s, the response of Canadian unemployment to upturns and downturns

<sup>1</sup> Unless otherwise specified, Germany is defined as West Germany only until 1991 and as unified Germany after 1991.

in the business cycle has not been symmetric. In particular, the downward adjustment has occurred at a much slower pace than in the past. Although this paper does not attempt to analyse the factors that may be responsible for this persistence in each country,<sup>2</sup> it is instructive to look at the ability of each economy to create jobs relative to changes in the labour force. This is particularly useful since unemployment is the residual of the evolution of the labour force (i.e., people who want to work) and employment (people who have jobs). The civilian labour force and civilian employment for both countries are pictured in Figure 2. To allow for a direct comparison between the two countries, particularly in the long-run, the series have been standardized and are measured as indexes, with 1971 as the base year (i.e., 1971= 100).<sup>3</sup>



<sup>2</sup> See for examples, Fortin (1989) Card and Riddell (1993), for Canada, and Franz (1987), Gross (1993), for Germany.

<sup>3</sup> Note that computing an index for each series with the same base year makes it impossible to interpret the gap between the labour force and employment as unemployment.

Figure 2 shows a sharp upward trend for labour force and employment in Canada and almost no trend in the corresponding series in Germany. In fact, between 1971 and 1990 (thus excluding the period after the German reunification), the labour force grew by 62.9% in Canada and by 12.4% in Germany. Growth in employment in Canada was 59.5% and in Germany, 6.25%. Over the 20-year period, Canadian employment grew almost 10 times faster than its German counterpart. The Canadian economy was able to create jobs at a much faster rate than the German economy. Canada's labour force, however, also grew much faster.

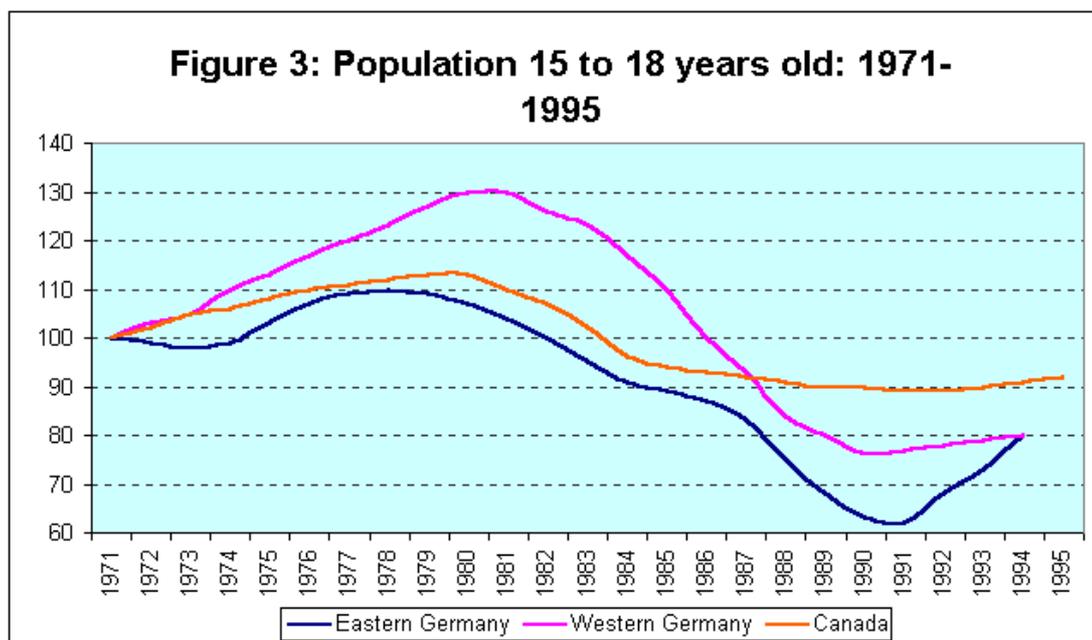
Figure 2 also shows more short-term variations in employment in Canada than in Germany and employment shows more variations than the labour force in both countries. The differences in trends and in short-term variations between the series can be attributed to various factors that deserve some attention.

### 2.1. Trend in labour force and employment

Three factors can sustain long-term growth in the labour force: Natural population growth, greater participation in the labour market, and immigration. These factors are briefly reviewed below for each country.

#### Germany

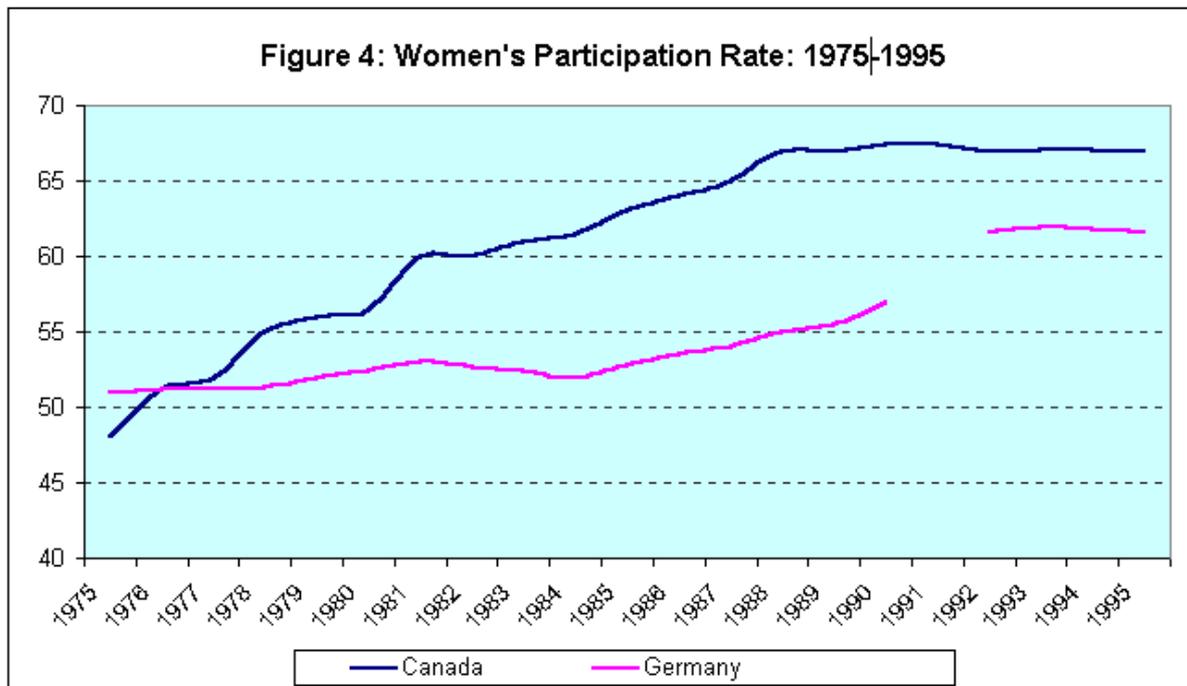
The main change in population distribution in the Western world in the past 20 years was the arrival on the market of the baby-boom generation. In Germany, the baby boomer began to reach the 15- to-18 age group in the 1970s (see Figure 3).



From 1971 to 1980, the number of 15- to 18-year-olds in the West German population increased by 29.1%. By 1986, the number of teens was back to the level in 1971 and by 1990 there were 40.8% fewer teenagers than in the peak year. Eastern Germany is interesting in that

the baby-boom bubble was much less important there than in Western Germany although it experienced a similar fall in the youth population in the 1980s.

The second factor contributing to an increase in the labour force is an increased participation rate in the labour market. The group for which that rate may have changed the most is women (Figure 4).



In Germany, women's participation rate grew only slightly, increasing from 50.4% to 57%, between 1975 and 1990. But during the same period, total participation in the labour force increased only from 68.3% to 69.1%.<sup>4</sup> This suggests that the participation rates of other population subgroups have dropped as women's participation rate increased. One likely candidate is the rate of older men because early retirement schemes were introduced in the face of high persistent unemployment. In effect, the participation rate of men aged 55 to 64 dropped from 68.1% to 57.7% between 1976 and 1990.<sup>5</sup>

Finally, immigration may have been a factor in growth in the labour force. Until reunification, a large majority of immigrants to Germany were guest-workers who could settle in the country only temporarily and only providing they had a job contract. So statistics are for foreigners in employment rather than foreigners in the labour force. The share of foreigners in employment dropped from 10.2% in 1975 to 7.5% in 1985 and remained stable until 1990. This drop is directly related to the poor state of the labour market throughout the 1980s.

<sup>4</sup> All statistics on participation are from OECD, *Employment Outlook*, 1996.

<sup>5</sup> The average retirement age in Germany dropped from 65.2 to 62 between 1960 and 1983/84. When people with disability pension are included, the age fell to 59 for blue-collar workers and 60 for white-collar workers. (OECD, *Employment Outlook*, 1992, Chapter 5).

In short, the labour force stagnated from the mid-1980s on because of a sharp decline in the number of teenagers, the very slow growth in women's participation in the labour force offset partly by a decline in older men's participation rate, and restrictions on immigration.

### **Canada**

In Canada, the natural growth in population is also responsible for some of the expansion of the labour force as the baby-boom bubble moved into the labour force. Between 1971 and the peak year, 1979, the number of 15- to 19-year-olds grew by 12.3%; by 1983, the level of teens was back to the 1971 level. In 1991, when it reached the bottom-level, there were 22.7% fewer teens than in the peak year. Baby boomers therefore did contribute to the growth in the labour force observed in the 1970s but the baby-boom bubble is much smaller in Canada than in Germany (Figure 5). So other factors must have contributed to steady growth in the labour force.

In Canada, the main force behind the expansion of the labour force was the drastic increase in women's participation rate. It rose from 51.2% in 1976 to 67.7% in 1990. The impact of women entering the labour market en masse was partly offset by a drop in older men's participation rate, similar to the one that occurred in Germany (in Canada, that rate dropped from 76.7% in 1976 to 64.9% in 1990). As a result, the total participation rate increased from 64.8% in 1976 to 77.6% in 1990.

Finally, legal immigration was unlikely to be a growth factor in the labour force in the 1970s and 1980s because Canada during that period decreased drastically the number of applicants it accepted. From a peak of 218,465 in 1974 that number fell to 86,313 in 1978; only in 1990 did it pass the 200,000 mark again. Until 1990, Canada's immigration policy was linked to the state of the business cycle.<sup>6</sup> On average, however, the annual inflow of immigrants represented between 0.3% and 1% of the population. Approximately half of the new immigrants declare their intention to work upon arrival so, immigration is unlikely to have contributed significantly to the growth in the labour force.

In both countries, growth in the labour force until 1980 was linked mostly to the arrival of the baby boomers in the labour market. From then on, a large increase in women's participation in labour market activity supported steady growth in Canada's labour force. Nothing comparable happened in Germany.

## **2.2. Labour force, employment, and the business cycle**

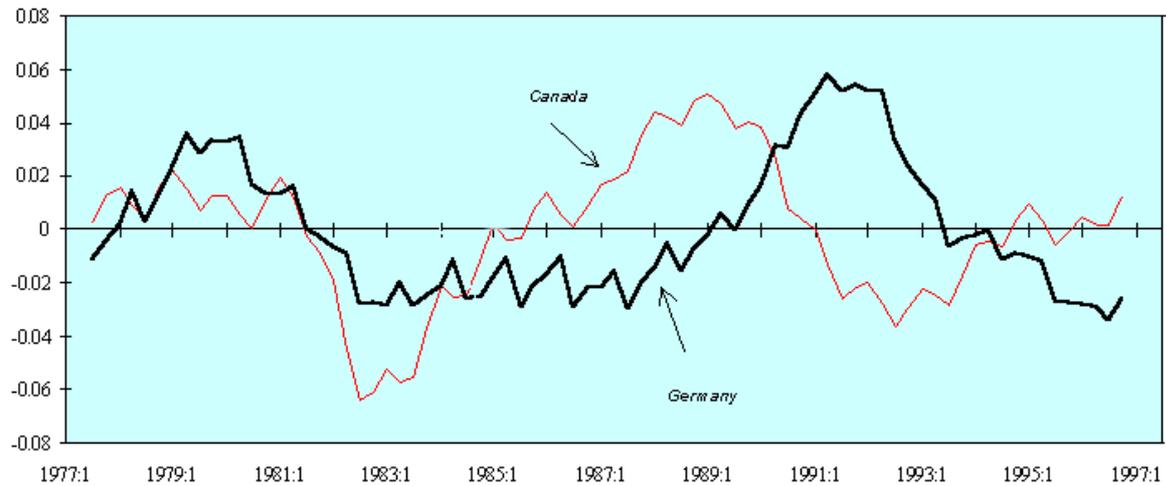
One commonly used measure of business cycle variations is detrended real Gross Domestic Product (GDP), as shown in Figure 5.<sup>7</sup> Over the past twenty years, the dynamics of the business cycle in the two countries has shown two noticeable differences. First, after the recession in the early 1980s, low levels of output lasted much longer in Germany than in Canada, despite the fact that the recession had been much deeper in Canada. By mid-1985, Canadian output was moving above its secular trend. German output increased above its trend only in 1989. Second, the latest slowdown in economic activity started several years earlier in Canada than in Germany. The turnaround in real GDP occurred in the middle of 1989 in Canada, and only 4 years later in Germany. There is evidence that the late downturn in output

<sup>6</sup> See Green and Green (1996) for a detailed account of Canada's immigration policy since its beginning.

<sup>7</sup> See Appendix A for a description of the variables and the computation of the business cycle measures.

is specific to Germany and cannot be generalized to Europe.<sup>8</sup> Thus, one can speculate that the delay was attributable partly to the reunification of the two Germanies, which prolonged rapid growth in the Western part of the country. As a result of the discrepancy in the timing of business cycles, the simple correlation coefficient between the two series is only 0.283.

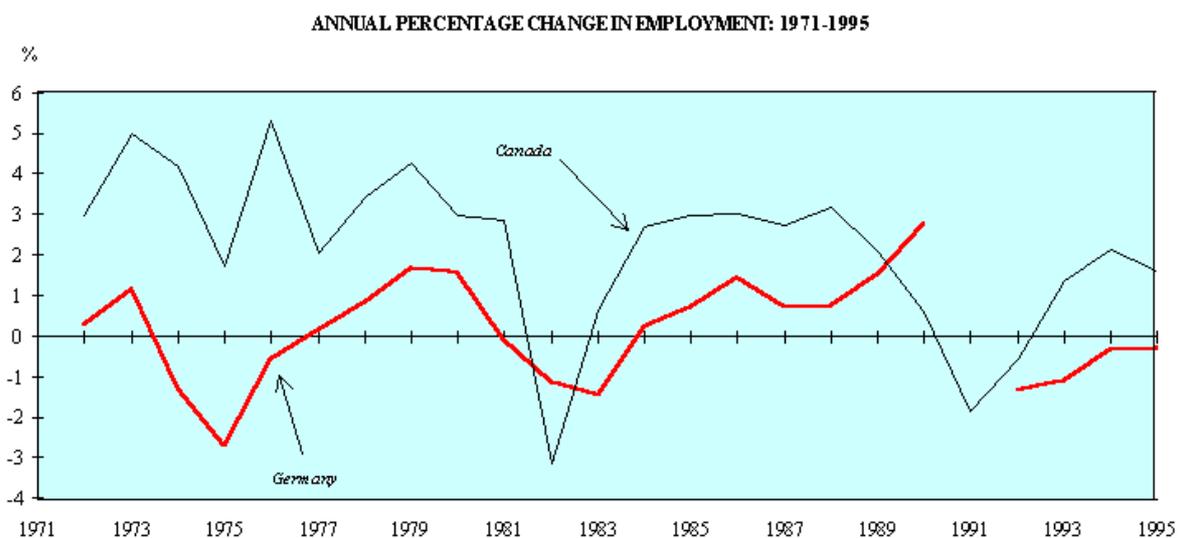
**Figure 5:**



Source: See Appendix A.2. For a description of the variables.

To show the impact of the business cycle on employment and the labour force, annual rates of change for both are pictured in Figure 6.

**Figure 6: Annual Percentage Change in Employment: 1971-1995**



<sup>8</sup> In France and Italy as in Canada, the recession started in 1989 (IMF, 1997, p. 16).

Not surprisingly, there is some symmetry in employment, labour force and output variations in each country. However, the labour force and employment growth rates show greater variability in Canada than in Germany. Between 1976 and 1989, the annual rate of change in the Canadian labour force rose to a maximum of 5.6% and fell to a minimum of 0.5% . The upper limit in Germany's case was 1.6% and the lower limit -0.8%.<sup>9</sup> Employment growth rates also showed a much wider spread in Canada (5.3% and -3.2% ) than in Germany (1.7% and -2.7%). Thus, growth in employment and the labour force were both more volatile in Canada than in Germany which is consistent with the view that North American labour markets are more flexible (with less protection against dismissal and lower hiring costs). However, volatility, particularly in employment, is likely to be under represented in the German series because of a statistical peculiarity: People on temporary layoff (who work short hours or are unemployed because of a temporary slack in demand and will almost certainly be recalled) are considered employed in Germany (*Kurzarbeiter*) unlike Canada. So, the effects of the business cycle on employment may be under represented in the German series.

To summarize, the timing of variations in the business cycle for the two countries was different, particularly in recent years, so, one must be cautious in comparing labour market indicators for any given year. Also, growth rates for the labour force and employment were much more variable in Canada than in Germany.

**Main points about the aggregate labour market:**

- C Canadian and German business cycles are no longer synchronized.
- C Employment and the labour force have been growing much faster in Canada than in Germany.
- C In both countries the baby-boom bubble was the major factor contributing to growth in the labour force in the 1970s and 1980s.
- C Only in Canada did increased women's participation further stimulate growth in the labour force throughout the 1980s.
- C Employment and the size of the labour force are more sensitive to variations in the business cycle in Canada than in Germany. Differences in employment are partly attributable to institutional differences that affect the cost of hiring and firing workers as well as differences in measurements.

<sup>9</sup> The 1990-value was excluded in computing the maximum growth rates for Germany. The rate for 1990 was clearly an outlier because of the fall of the Berlin Wall the preceding year. Throughout this part of the discussion we shall consider only the period 1976 to 1989 in Germany because of the large population movements toward Western Germany that started in 1990.

### 3. The youth labour market

During the 1970s and 1980s the German labour market was more stagnant than its Canadian counterpart with little long-term growth in employment. It is tempting to infer that Canada's expanding labour market favoured new entrants, especially young people. Despite its remarkable ability to create jobs, the Canadian economy has been unable to shelter the young from above average unemployment. The main features of the youth labour markets in both countries are described below.

#### 3.1. Young people's unemployment

The first insight into the evolution of the youth labour market is a comparison of young people's unemployment performance relative to adults' for selective years starting in the late 1970s. The ratios of teenagers (young people aged 15 to 19) to adults (25 to 54) and of young adults (20 to 24) to adults in Canada and Germany are shown in Table 1 for selective years.

**Table 1: Relative youth unemployment in Canada and Germany**

	1979 <sup>a</sup>		1983 <sup>a</sup>		1989 <sup>a</sup>		1993		1995	
	Can.	Ger.	Can.	Ger.	Can.	Ger.	Can.	Ger.	Can.	Ger.
Teenagers/adults <sup>b</sup>	2.8	1.3	2.3	1.4	1.9	0.9	2.0	0.5	2.2	0.8
Young adults/adults <sup>c</sup>	1.9	1.6	1.9	1.6	1.5	1.1	1.9	0.8	1.7	0.9

<sup>a</sup> West Germany only.

<sup>b</sup> Young people 15 to 19/Adults 25 to 54.

<sup>c</sup> Young people 20 to 24/Adults 25 to 54.

Source: OECD. *Employment Outlook*. Various years. Tables B and P.

Since the late 1970s, Canadian teenagers and young adults have experienced unemployment rates twice those of adults. Moreover, their performance in the 1990s was worse than it had been in the 1980s. During the same period, Germany's youth unemployment rate was barely 1.5 times the adult rate and in the 1990s youth rates were *below* adult rates. So, not only was the relative performance of young Canadians much worse than that of young Germans but it began deteriorating.

The complete time-series on unemployment by gender and age-group since the mid-1970s, in Figure 7, provides additional information.

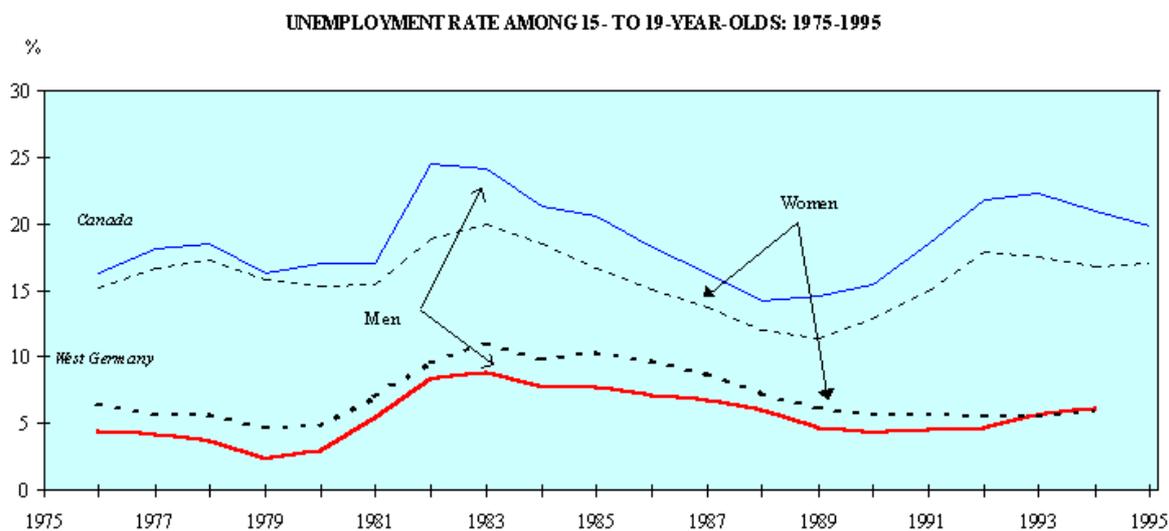
In the top panel, the unemployment rate for German teenagers has been consistently in single digit<sup>10</sup> averaging 5.5% for males and 7.1% for females for the period 1976-1990. The

<sup>10</sup> With one exception: The unemployment rate for female teenagers in 1983 was 10.3%.

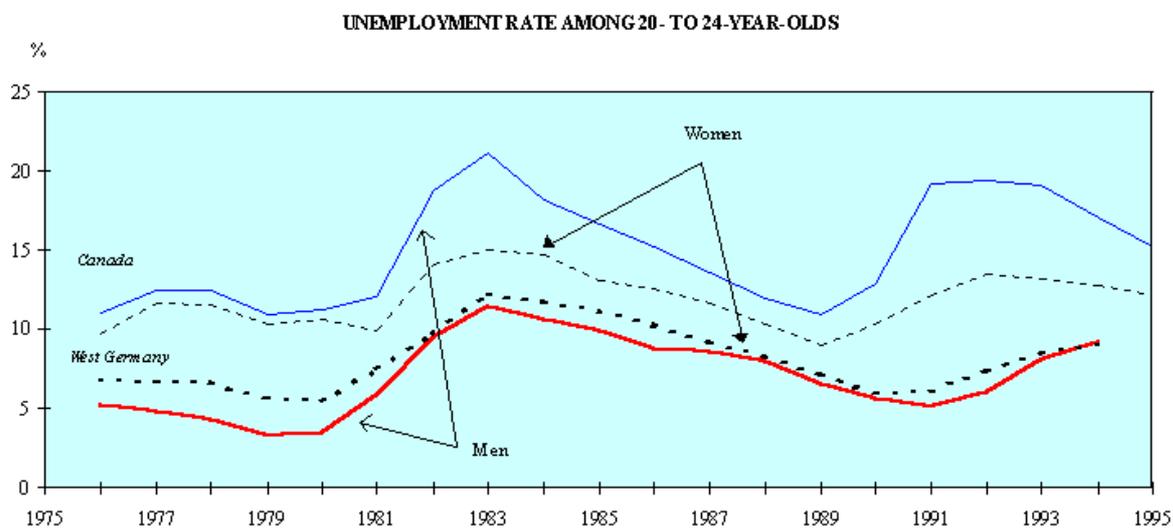
bottom panel shows the performance of young adults as only slightly worse, with average unemployment at 7.1% for men and 8.1% for women.

**Figure 7:**

### Unemployment rate among 15- to 19-year-olds: 1975-1995



### Unemployment rate among 20- to 24-year-olds



Sources: CANSIM, OECD, Labour Force Statistics, Various years.

Clearly, the dismal performance of Canadian teens on the labour market is not a recent phenomenon (top panel). Except for small variations consistent with the state of the business cycle, their unemployment rate has been steadily near or above 15% since 1976, with women performing slightly better than men. The average rates has been 18.7% for men and 15.9% for women. Unemployment is somewhat less extreme for young adults in Canada for whom the average unemployment rate is 14.9% for men and 11.9% for women.

For all age and gender groups, Canadian rates are much higher than German rates -- sometimes two to three times higher. Since aggregate unemployment is higher in Canada than in Germany, this may not be so surprising. However, when relative rates are computed, allowing for differences between levels, Canadian youth are much worse off than German youth. Moreover, there is no sign of improvement, as Canadian series show very little trend.

Abstracting from cyclical variations, unemployment among young people of both genders is higher and more persistent than among adults in Canada and it is about the same as it is for adults in Germany.

### **3.2. Young people's participation rate in the labour market**

Baby boomers entered the labour market in large numbers from the 1970s through the early 1980s but the actual impact of their entry can be evaluated only by considering also the evolution of their *participation rate* in labour market activities. The labour force participation rates for teens and young adults are shown in the top and bottom panels of Figure 8.

#### **Germany**

In Germany, the participation rate of teenagers shows a distinct downward trend from 1985 on, with an acceleration in the 1990s, after reunification. Note that, statistically speaking, young people in apprenticeship training are considered employed and therefore part of the labour force. So, the downward trend in participation rate is consistent with the observation that young Germans increasingly favour full-time schooling over the dual system of vocational training (see Schmidt and Zimmerman, 1996). As the bottom panel shows the labour force participation rate for young adults, 20 to 24, started declining only in the early 1990s (especially for men). This suggests not only that young people are more inclined toward academic schooling but they are also going to school longer. The fact that young adults in Germany react later than teens suggests that it is a cohort effect, providing young people in both parts of Germany exhibit similar preferences.

#### **Canada**

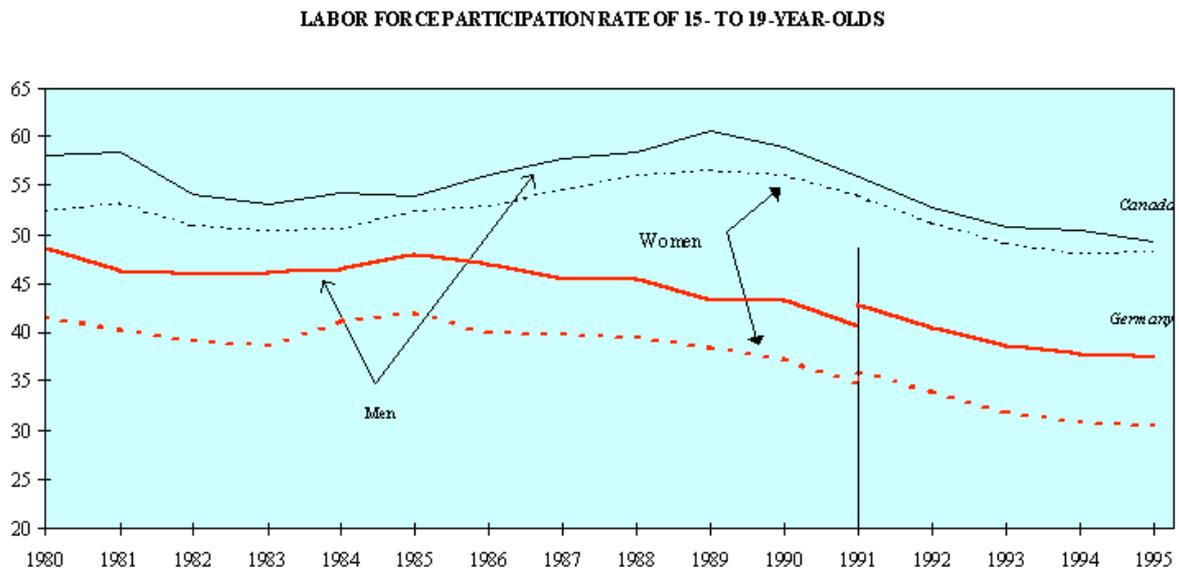
In Canada, the teenagers' participation rate rose steadily throughout the 1980s despite high unemployment. However, in 1989, there was a sudden turnaround and the rates for men and women fell drastically. While the share of male (female) teens in the labour market was 60.6% (56.7%) in 1989, it was only 50.5% (48.1%) in 1994. The bottom panel shows that the participation rate of young adults also starts declining in 1989. The identical timing for the two groups suggests that an exogenous shock is likely to have triggered the fall in Canada and one possible candidate is the beginning of a new recession after years of relatively high unemployment.

Overall, young people's participation in the labour market has decreased in both countries over the past 10 years. In both countries, the gap between men and women is much larger for

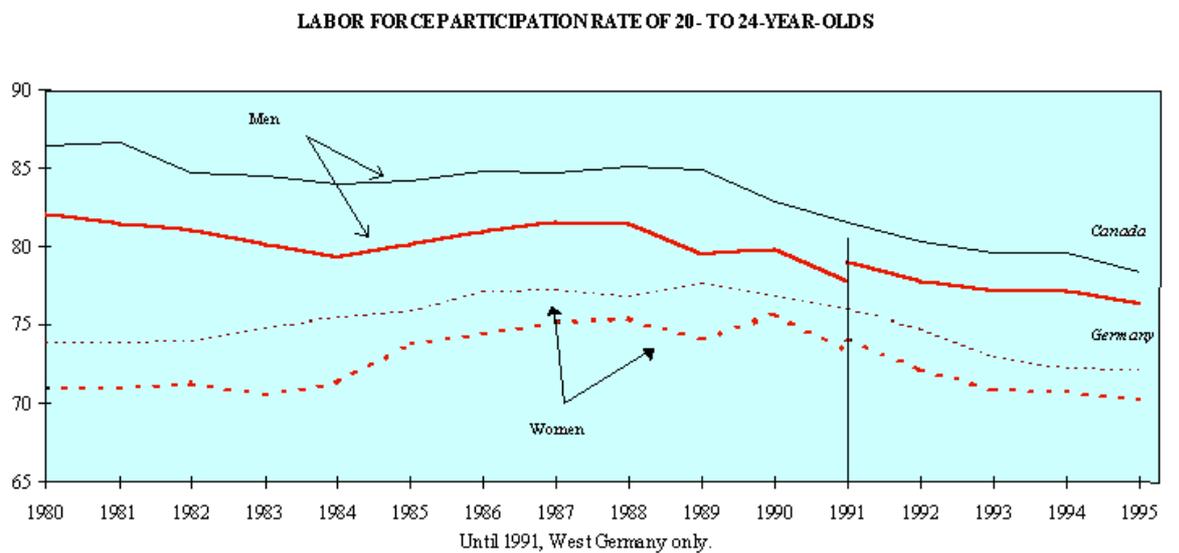
young adults than for teens. This is likely to result from non economic factors (for examples, people are more likely to build a family in their early twenties than in their late teens).

**Figure 8:**

**Labour force participation rate of 15- to 19-year-olds**



**Labour force participation rate of 20- to 24-year-olds**



The distribution of young people in employment across industries also exhibits some interesting features. When the relative allocation of youth and adult employment across industries are compared, different results emerge in Germany and Canada.<sup>11</sup> Germany's young people have a much more similar distribution of employment to adults across industries than Canada's. Moreover, existing discrepancies have been shrinking in Germany but increasing in Canada and there appears to be an increasing trend toward youth intensive industries in Canada but not in Germany. As it will be seen in section 4 this may result directly from the vastly different structures of education in the two countries.

### 3.3. Duration of unemployment

High aggregate levels of unemployment do not necessarily reflect individual experiences which can differ greatly. Some insight into the individual experiences, using aggregate data, can be gained by defining unemployment in terms of flows. The stock of unemployment is the result of continuous movements into and out of unemployment and varies with the relative size of the flows. From this perspective, the level of unemployment is the product of flow into unemployment and average duration of unemployment.

In North America the inflow is large compared to Western Europe and, for a given level of unemployment, a larger inflow implies lower duration. Canada has been identified as a high flow, low duration market while Germany is a low flow and high duration market.<sup>12</sup> Economy wide, flow rates into and out of unemployment in Canada are approximately six times larger than in Germany.<sup>13</sup> There is also evidence that young people have a much less strong attachment to the labour market than adults. In December 1996, for example, the average tenure on the job for people aged 15 to 24 was four times shorter than for adults.<sup>14</sup> Duration of unemployment also differs for unemployed youth as shown in Table 2. In the mid-1980s, the share of long-term unemployed among young people, where long-term is defined as one year or more, was greater in Germany than in Canada. However, those shares have evolved in opposite directions in the two countries. In Germany, the shares of both young men and young women have decreased sharply (by approximately 40%) while in Canada, they have risen in a similar proportion. Moreover, for statistical reasons, Canadian shares are probably underestimated. In particular, young people are more likely than adults to interrupt their unemployment spell by dropping out of the labour force, in which case they are not considered unemployed any more according to labour force survey definitions.<sup>15</sup> Also, shares in Canada rose despite the fact that the economy was at similar positions in the business cycle in 1985 and 1994.

<sup>11</sup> For all 15 to 24-year-olds, the index of "structural dissimilarity" between the two distributions takes the value 0.46 in 1984 versus 0.66 in 1994, in Canada, and 0.29 versus 0.19, in Germany. The results are very similar for young men and women. Note that a zero value indicates the distributions of employment for young people and adults are identical (See OECD, *Employment Outlook*, 1996, Table 4.13).

<sup>12</sup> See Lanyard et al. (1991), Chapter 5, Table 1.

<sup>13</sup> The monthly unemployment inflow in 1988 as a percentage of the source population was 1.9% for Canada and 0.3% for West Germany. The outflow rates were 31% and 6% respectively (Statistics Canada, 1992, p. 45).

<sup>14</sup> The tenure was 21 months for men aged 15 to 24 against 84 for adults and it was 20 months against 75 months for women (Statistics Canada, 1996a, Table 26).

<sup>15</sup> A negative answer to the question "Have you been looking for a job in the past ten days" implies automatically that the person is out of the labour force. Germany uses statistics from administrative sources which are less dependent on active search.

**Table 2: Youth unemployment by duration****Germany**

	1985		1994	
	< 24 year old		< 24 year old	
	Men	Women	Men	Women
Total	262,652	300,893	180,206	145,389
< 1 mo.	22.3	23.5	22.8	22.2
1-3 mo.	27.0	27.5	34.6	35.3
3-6 mo.	19.1	18.3	18.0	18.1
6-12 mo.	17.0	16.6	16.4	15.3
12 mo. +	14.7	15.5	8.4	9.1

Source: Adapted from Wolfinger (1996), Table 2.

**Canada**

	1985		1994	
	15-24 year old		15-24 year old	
	Men	Women	Men	Women
Total	78,071	96,319	37,727	38,130
< 4 weeks.	24.8	28.1	22.8	25.6
5-13 weeks	25.7	26.7	24.2	25.3-
14-26 weeks	20.0	19.2	19.0	18.8
27-52 weeks	15.7	15.4	15.3	15.4
53 weeks +	11.9	7.7	16.8	12.2

Source: Statistics Canada. *Labour Force Annual Averages*. Various years.

**3.4. Regional pattern of youth unemployment**

The regional distributions of youth unemployment for both countries are shown in Table 3. In both countries, in the past 10 years the group of regions performing worse than average has not changed. Also, the dispersion between maximum and minimum rates of unemployment across regions has been rather stable. The ratio of maximum to minimum rates stands at about 3 over time. In Germany, the regions with higher unemployment are in the northern part of the country. In Canada, for the past 10 years, higher unemployment rates have prevailed in the eastern part of the country, with a relatively less stable distribution than in

Germany.<sup>16</sup> In both countries, the regional distribution of unemployed youth reflects the general distribution of unemployment. From these casual observations, no factor specific to youth seem to play a role in the regional distribution of unemployment.

**Table 3(a): Youth unemployment rates by region: Germany**

	Dec. 1986		Dec. 1993		Dec. 1996	
	< 20	20-25	< 20	20-25	< 20	20-25
<b>Western Germany</b>	<b>7.1</b>	<b>10.6</b>	<b>6.6</b>	<b>8.4</b>	<b>8.9</b>	<b>11.1</b>
Nord (Schleswig-Holstein-Hamburg)	10.4	16.5	8.0	9.0	11.0	13.0
Niedersachsen-Bremen	9.6	15.6	6.4	10.1	9.4	13.0
Nordrhein-Westfalen	9.8	12.3	8.7	9.3	11.8	12.3
Hessen	5.8	8.7	6.4	7.9	8.6	10.7
Rheinland-Pfalz-Saarland	8.5	11.9	6.9	9.0	9.1	11.7
Baden-Württemberg	4.0	5.6	5.7	7.0	7.0	8.8
Nordbayern	5.0	7.7	5.0	7.0	7.0	9.1
Südbayern	3.7	6.8	4.1	5.9	5.5	7.1
Berlin (West)	9.4	12.4	14.0	13.8	17.7	20.6
Ratio (max/min)	2.8	2.9	3.4	2.3	3.2	2.9
<b>Eastern Germany</b>	-	-	<b>6.3</b>	<b>14.9</b>	<b>8.6</b>	<b>15.4</b>
Nord (Mecklenburg-Vorpommern)	-	-	7.2	17.2	8.6	17.6
Sachsen-Anhalt-Thüringen	-	-	6.6	16.3	9.1	16.2
Sachsen	-	-	5.6	13.4	7.5	13.5
Berlin-Brandenburg	-	-	6.2	13.4	9.4	15.4
Ratio (max/min).	-	-	1.3	1.3	1.3	1.3

Source: BA. *Amtliche Nachrichten der Bundesantalt für Arbeit*. Various years

<sup>16</sup> The remarkable recovery of Alberta between 1993 and 1996 is mostly attributable to the very favourable evolution of energy prices.

**Table 3(b): Youth unemployment rates by region: Canada**

	Dec. 1986		Dec. 1993		Dec. 1996	
	< 20	20-25	< 20	20-25	< 20	20-25
<b>Canada</b>	<b>14.6</b>		<b>20.7</b>	<b>15.6</b>	<b>19.2</b>	<b>12.9</b>
Newfoundland	30.5		28.0		27.6	
Nova Scotia	21.1		23.0	23.0	19.5	16.3
New Brunswick	20.5		16.8		18.9	20.2
Quebec	14.2		22.7	15.4	25.5	16.0
Ontario	10.5		22.2	16.6	19.4	12.6
Manitoba	12.8		22.2	13.9	14.1	10.4
Saskatchewan	12.3		13.4	10.6	11.8	9.7
Alberta	15.0		16.7	12.5	11.9	5.3
British Columbia	21.8		17.8	12.5	19.1	11.7
Ratio (max/min).	2.9		2.1	2.6	2.3	5.2

<sup>a</sup> There are no data for the province of Prince-Edward Island and the two territories, Yukon and Northwest Territories.  
Source: Statistics Canada. *Monthly Labour Force Data*. Various years.

### 3.5. Unemployment and level of education

For several years now, technological changes and the globalization of markets have been blamed for high unemployment in Western economies. In particular, it is often argued that the mismatch between skills demanded and supplied on the market has increased (see Padoa Schioppa, 1991). Such structural changes are expected to be reflected in the skill distribution among the unemployed. Tables 4 and Table 5 show the distribution of unemployed youth and of youth in the labour force by level of education, for selective years.

The burden of unemployment is unevenly distributed among young people with different levels of education. In both countries, the higher the level of education or training, the lower the probability of being unemployed. The fundamentally different approaches to education taken by Canada and Germany make direct comparisons difficult, but some broad conclusions can be drawn for each country.

#### Germany

In Germany, three quarters of unemployed teenagers (74.2%) have no training and among them, one in two has not completed the secondary certificate (top panel, Table 4). As uneducated, untrained teenagers represent approximately 19.4% of the labour force (bottom panel, Table 4), they clearly bear a disproportionate share of unemployment.<sup>17</sup> Unfortunately, little information is available about unemployed teenagers with training as most certification is not completed before people reach their early 20s. Among young adults, proportionately

<sup>17</sup> Unemployment rates by educational level are unavailable for Germany.

more of whom have completed training, unskilled people still bear more than their share of unemployment. They represent close to 50% of the unemployed and only 23.6% of the labour force. Young adults with vocational training have a distinctly lower probability of being unemployed representing 25.2% of the unemployed and 59.5% of the labour force. In short, young people who choose to enter the labour force without training are very likely to be unemployed and their difficulties do not end when they become adults. These proportions are also representative of the experience of the total population where unskilled workers are much more likely to be unemployed throughout their life.

### **Canada**

In Canada, the unemployment rate for young people who drop out of secondary school before getting their certificate is twice the average rate (top panel, Table 5). Completing secondary school significantly raises the probability of finding a job but unemployment is still more likely than on average. Only those who gain some post-secondary education (with or without certification) or a university degree have a lower-than-average probability of being unemployed. Throughout the period, their unemployment rate was about half that of unskilled young adults.

Direct cross-country comparisons between individual categories cannot be made without arbitrary decisions about equivalence between completely different types of education. Nevertheless, one particular striking element of Tables 4 and 5 is that, in Canada, more than half of young individuals are unskilled while in Germany fewer than 1 in 4 is. This is especially disturbing in light of the consistently higher unemployment of young people in Canada than in Germany. As it will be shown, government programmes and the education system are not neutral to young people's incentive to invest in education. One conclusion common to both countries is that young people who acquire only secondary education (including graduation from high school in Canada) register an unemployment rate which is double the average for all young people.<sup>18</sup>

<sup>18</sup> For the sake of comparison, an approximation for the unemployment rate of unskilled young adults can be computed using the following definition:  $u_i/lf_i = [(u_i/U)/(lf_i/LF)] * (U/LF)$  where  $i$  represents unskilled young adults,  $U$ , unemployment and  $LF$ , the labour force. The terms in the squared brackets are available from Table 3 and  $(U/LF)$  is the unemployment rate for young adults. The computed unemployment rate for unskilled young adults in Germany is then 13.8%.

**Table 4(a): Germany: Youth unemployment by type of training**

	1980			1985			1994		
	Tot.	Men	Wom.	Tot.	Men	Wom.	Tot.	Men	Wom.
< 20	81,055	31,346	49,709	174,390	78,071	96,319	75,857	37,727	38,130
Without training	74.2	76.5	72.7	71.8	73.0	70.9	78.3	83.3	73.4
of which without secondary certificate	30.6	36.8	26.7	27.1	33.1	22.2	23.8	29.7	18.0
Vocational training	22.8	22.6	23.0	25.2	26.1	24.4	19.2	15.9	22.4
With full-time school training	3.0	0.8	4.3	3.0	1.0	4.7	2.8	0.8	4.2
20-25	143,526	57,340	86,186	389,155	184,581	204,574	249,738	142,479	107,259
Without training	48.2	54.1	44.2	45.3	49.9	41.2	49.5	52.2	45.0
of which without secondary certificate	14.8	19.1	12.0	16.6	21.6	12.2	13.0	15.4	9.7
Vocational training	41.3	40.8	41.7	47.1	47.1	47.2	45.7	45.3	46.3
With full-time school training	8.1	2.9	11.7	6.3	2.6	10.9	4.1	2.2	6.7

Source: Wolfinger (1996). Table 2.

**Table 4(b): Germany: Youth labour force by type of training (1993<sup>a</sup>)**

	15-19 year old		20-25 year old		All age-classes	
	Number	Share	Number	Share	Number (000)	Share
Incomplete education	144,000	13.1%	291,000	9.4%	2,913	9.8%
No training	69,000	6.3%	437,000	14.2%	4,494	15.0%
Vocational training	152,000	13.8%	1,835,000	59.5%	15,386	51.5%
Technical school	-	-	61,000	2.0%	2,174	7.3%
Advanced technical school	-	-	23,000	0.7%	1,142	3.8%
Higher secondary school	-	-	21,000	0.7%	2,483	8.3%
Technical school in former GDR	-	-	10,000	0.3%	49	0.2%
Still in Vocational training	735,000	66.8%	404,000	13.1%	1,233	4.1%
Total	1,100,000	100%	3,082,000	100%	29,874	100%

<sup>a</sup> West Germany only.

Source: BA (1995). Übersicht 6.11.

## 4. Education systems and the transition from school to work

The preceding Section has shown that more than half of young Canadians and only 20% of young Germans enter the labour force during or after secondary school. This section will discuss the options available to young people still in the education system. It will analyse how binding (legally or psychologically) these options are and what incentives young people have to stay in the education system. The ability of the system to provide marketable skills and its influence on the transition from school to work in particular will also be analysed.

### 4.1 The building of human capital

The Canadian and the German educational systems are built on completely different premises. The Canadian system is based on broad academic schooling. The German system provides various streams, from fully academic studies to job-oriented training. Educational systems are complex; only the salient features of the systems in the two countries are reviewed here.

#### Germany

Germany has a very structured system, in which choices are made about whole streams, not specific topics.<sup>19</sup> (See Table 6) The first important decision is made at age 12 when pupils face three possible streams: Higher secondary school (*Gymnasium*), intermediate secondary school (*Realschule*) and lower secondary school (*Hauptschule*). The choice, partly limited by performance in primary school, determines the number and types of choices available at future crossroads. Four years later, at age 16, leaving the lower secondary school leads to a choice between entering the labour force or entering the dual system of vocational training (also DSVT hereafter or apprenticeship system). The intermediate secondary school opens one more possibility: Full-time vocational or technical schools. Finally, young people leaving higher secondary schools have the additional option of entering university after successfully completing seven years of education (*Abitur*). Note that, for a student graduating from higher secondary school, all options are available. For a student who contemplates quitting an apprenticeship, more academic options are not available without much additional schooling (see Franz et al., 1996).

Full-time schooling is compulsory until the age of 16, the end of Stage I in secondary education. At that time, young people have no obligation to enter an apprenticeship rather than the labour force, but those who enter the labour force (employed and unemployed) must still attend special vocational schools part-time (8 hours a week for 3 years). They also have the option of a solid block of vocational school work before looking for work.<sup>20</sup> In 1990, most students (87%) leaving lower secondary school, with or without a certificate engaged in further training (59% went into apprenticeship, 14%, pre-vocational school and 14%, special vocational school). Only 9% became unemployed, 2% became employed and 1% dropped out

<sup>19</sup> For details see Gross (1998), Franz et al. (1996) and OECD (1996).

<sup>20</sup> Behrens and Brown (1991b, p. 139) commenting their survey of young people in two German cities, write: "There were only a few examples of German respondents in full-time jobs that did not require any vocational qualifications. .... It was practically impossible to opt out of education and training completely in Germany before age 19."

of the labour force.<sup>21</sup> Students leaving intermediate secondary schools are even less likely to interrupt their human capital building: Only 4% became employed and only 2% unemployed. In 1990, about 12% of young people (about 77,200 people) did not make a successful transition from the three types of secondary school to the option of their choice (further schooling, vocational training, or work) and became unemployed.

**Table 6: German education system<sup>a</sup>**

Age	University (1,214,715)	Specialized higher education (612,514)	Specialized vocational qualifications (Master Crafts person) (154,362)	Labour Force
20		<i>Certificate of aptitude for specialized short program of higher education</i>	<i>Certificate of vocational qualification</i>	
19				
18 <sup>d</sup>		Full-time vocational/technical schools (469,514)	Dual system of vocational training Pre-vocational training year (1,816,469)	
17				
16				
15 <sup>c</sup>	Higher secondary school <i>Gymnasium</i> (1,864,360)	Intermediate secondary school <i>Realschule</i> (1,039,081)	Lower secondary school <i>Hauptschule</i> (1,446,205) <sup>b</sup>	
14				
13				
12				
11	Elementary School			
10				
9				
8				
7				
6				
<p><sup>a</sup> Enrollment numbers for 1991/1992 school year.</p> <p><sup>b</sup> Numbers for the secondary schools do not include special schools for disabled students, <i>Sonderschulen</i> (344,006), special programs still in place in the Eastern part of Germany, <i>Polytechnische Oberschulen 5-10 Klassenstufe</i> (356,573), transition programs, <i>Integrierte Klassen für Haupt- und Realschüler</i> (137,209).</p> <p><sup>c</sup> End of Stage I of secondary education.</p> <p><sup>d</sup> End of Stage II of secondary education.</p> <p>Sources: Adapted from Gross (1998), Figure 2. SB. <i>Statistisches Jahrbuch</i>. 1993. Section 16.</p>				

<sup>21</sup> All numbers are from Franz et al. (1996), Table 5, and 1990 is the latest year available for this kind of tabulation.

The option of choice for the students with the least formal education is the apprenticeship system (59%). It is also the choice of a majority of school-leavers from intermediate secondary school (57%). Surprisingly, as much as 15% of the students leaving higher secondary school decide to enter apprenticeship training when all options are open to them, including university studies.<sup>22</sup> Much has been written recently about how the German apprenticeship system functions so only a brief overview will be provided here.<sup>23</sup> Trainees enrolled in the DSVT must spend between one and two days a week in school and the rest of the time is spent in firms or training workshops. Approximately 360 occupations are covered by the system and training may last from three to four years depending on the trade. The curriculum is defined in the Vocational and Training Act. There is a common exam at the end of training and certification is recognized nationwide. During the apprenticeship years, a trainee is covered by social programmes and receives a small allowance. After a three-month probation period, the trainee cannot be laid off.

A company has no obligation to hire its apprentices after certification. However, the evidence points toward a high retention rate, especially in large firms. Firms with 500 employees or more have a retention rate above 80%; firms with fewer than 10 employees have a retention rate of 56% (Soskice, 1994, Table 1.4). Moreover, certified apprentices are less likely to become unemployed when they leave the firm that trained them than members of the employed labour force are. Certified apprentices have one chance in seven to become unemployed against one in six for all the employed (Gross, 1998, Section 3.2).

There is no obligation either for large or small firms to provide places for apprentices. The only measurable incentive to do so is that they can deduct training costs from the firm's taxable income. Overall, larger firms contribute disproportionately to the training of young people (see Soskice, 1994) and the supply of positions is highly variable through time. Young people who look for an apprenticeship position may be offered a contract directly or through the intermediary of the local agency of the labour office. Between 70% and 80% of matches are made through the labour offices (Schober-Brinkmann and Wadensjö, 1991). Figure 9 depicts the annual firms' supply of and candidates' demand for apprenticeship positions since the mid-1970s. A comparison of variations in the business cycle (Figure 5), with supply behaviour shows that firms do not feel compelled to provide a fixed number of training positions. They adjust the supply of positions quite substantially to reflect changes in the business cycle especially. The demand for positions strongly reflects changes in the teenage population (Figure 3).<sup>24</sup> As a result, during the first part of the 1980s, a lasting recession combined with the arrival of the baby boomers in the teenage brackets led to a large deficit in training places. In September 1984, for example, there were 58,426 unemployed candidates for 21,134 vacant apprenticeship positions. Pressures by the government, especially the threat of a levy on firms not offering positions (see Schmidt and Zimmermann, 1996) led to an increase in the supply of available positions. Over the ensuing years, a steady rise in the number of positions was fuelled by favourable conditions in the business cycle. By the early 1990s there was a large excess supply partly because of the success of the government's threat

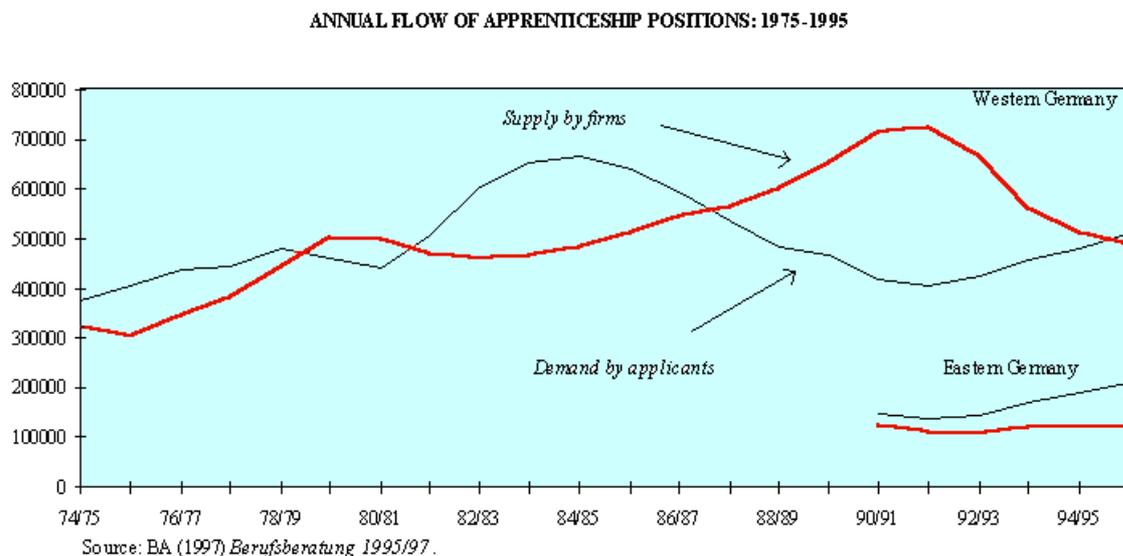
<sup>22</sup> There is evidence that young Germans have recently been acquiring more academic schooling before entering an apprenticeship. In 1970, 79.7% of the young people entering the DSVT had fulfilled only the minimum requirements (i.e., lower secondary school). In 1990, the share had dropped to 43.7%. (Tessaring, 1993, Table 3).

<sup>23</sup> See for examples, Gross (1998), Schmidt and Zimmermann (1996), OECD (1994), Steedman (1993) and Casey (1991, 1986).

<sup>24</sup> See Appendices B.1. and B.2. for formal support for these statements.

and partly because of the expansion of the German economy. In September 1993, there were 10 times more vacant positions (123,378) than there were unemployed applicants (11,756). This excess supply of positions prompted concerns about young people's lack of interest for apprenticeships in view of their increasing participation to academic studies. Schmidt and Zimmermann (1996) find no evidence that the relative rate of returns to training had changed in the preceding decade. They argue that the large excess supply of positions was the result of the system's slow adaptation to the worldwide restructuring and redistribution of skills rather than a decline in interest for apprenticeships. Moreover, a growing deficit in the supply of positions in Eastern Germany reflects a clear interest in apprenticeship training there.

**Figure 9: Annual flow of apprenticeship positions: 1975-1995**



Students in the intermediate or higher secondary streams have the additional option of entering full-time technical or vocational schools (*Fachhochschule*). These schools offer 2- to 3-year programmes of higher education in specific fields in business, engineering, and health. Attending the higher secondary school and getting the *Abitur* qualifies a student to enter the university. Note that students who choose academic streams are not completely cut off from the labour market. In 1986, 36% of university students and 33% of students in vocational school who did not live at home worked to finance their studies. And among those living at home, 48% of university students and 41% of vocational school students also worked. Finally, two thirds of graduate students worked while conducting their studies (Behrens and Brown, 1991a, Table 5.1).

To summarize, the German education system is very structured and less gifted students have little access to purely academic options. However, they can pursue advanced training in the apprenticeship programme and in vocational schools. As a result, the option least favoured by teenagers is to enter the labour market as an unskilled worker.

### Canada

The Canadian education system is grounded in a fundamentally different attitude toward the building of human capital. It is mostly academic in nature in the sense that the principle of dual training, (schooling combined with in-firm training) does not exist. Provinces have jurisdiction over education so the structure of schooling and the curriculum varies regionally. For example, the number of years spent in elementary and secondary school varies from one province to another. However, the general framework is similar and it is sketched in Table 7.

**Table 7: Canadian education system<sup>a</sup>**

Age	University (FT = 364,700; PT = 182,400) <sup>b</sup>	Community College (FT = 569,500; PT = 316,200) <sup>b</sup>			Labour Force
20		University transfer programs	Pre- university programs	Technical programs	
19					
18	Secondary School				
17					
16					
15					
14					
13	Elementary School				
12					
11					
10					
9					
8					
7					
6					
<sup>a</sup> Enrollment numbers for 1992 in brackets.					
<sup>b</sup> FT = Full Time; PT = Part Time.					
Sources: Adapted from OECD (1996), p.260. Statistics Canada (1996), Table 1.					

School is compulsory until age 16, when students can choose either to enter the labour force or to complete their secondary education. The normal age at which students complete secondary school is 18. Canadian secondary school do not have institutionalized streaming.<sup>25</sup>

<sup>25</sup> There is however a kind of *social* streaming. As Gaskell (1991, p. 64) writes: "Streaming of students at the secondary level is evident in the length of time young people stay in school. Schools in wealthier neighbourhoods retain their students in school for longer and send more of them on to university."

The curriculum, often characterized as like a "cafeteria menu", is comparable to that found in the United States.<sup>26</sup> Students can choose out of an extensive menu of courses with very few constraints although courses in English, mathematics, sciences and social studies are required. Most courses are not job-related, except courses such as carpentry, electronics and traditional 'business courses' (e.g., typing and accounting). Students who fail to get a secondary school certificate (i.e., a high school diploma) are destined for low-level jobs.

After graduating from secondary school, students can enter university if their grades are high enough. Otherwise they can attend preparatory programmes in the community colleges with a view to qualifying for the university. In some instances, after two years in community college, students can transfer to the university gaining credits toward the completion of their degree. Community colleges also offer a vast range of technical training for periods from six months to three years.

In recent years, about two-thirds of secondary students pursued schooling in post-secondary institutions. In 1990/1991, 18% of young Canadians dropped out of high school. Across provinces, the rates vary between 14% and 22% (Courchene, 1994, Table 20). In other words, one-third of students enter the labour force at some point between the age of 16 and 18 and more than half of them leave school without completing their degree. There is little possibility of getting vocational training outside of secondary- and post-secondary schools and in the past drop-outs benefited from two features peculiar to the Canadian economy: First, Canada was a resource-based economy (mines, forest, fisheries and some manufacturing industries) which needed a continuous flow of unskilled workers. Second, historically, it was easy to qualify for social programmes and young people could work on seasonal jobs and bridge the gap between jobs with a generous unemployment insurance scheme.<sup>27</sup>

The Canadian education system does not offer schooling coupled with in-firm training. A limited number of apprenticeship programmes are organized by the provinces but unlike their German counterparts, these have no link with the education system and do not offer nationally recognized certification. Also, they cover only a few trades (about 100 occupations). As a result, they are not very popular and register high drop-out rates (CLMPC, 1989). In 1987, apprentices represented only 0.95% of the labour force in Canada (6.1% in Germany) and the average age was 26 (Courchene, 1994, Table 27). Mostly, it is up to students to customize their educational identification through choices from the secondary school "cafeteria menu."

Canadian students who choose the academic option, like their German counterparts, tend to hold jobs during their post-secondary education. In 1994, 30% of the people studying were also working.<sup>28</sup> Holding one job after another allows students to build up work experience, which becomes crucial when they enter the labour market full-time. In hiring, employers favour graduates of post-secondary institutions. The private sector offers very few training programmes and the existing ones are conducted by large firms for middle management and professionals (Ashton and Lowe, 1991). Spending by the private sector on training represents

<sup>26</sup> See Gaskell (1991) for details on what follows.

<sup>27</sup> One of the many commissions set up to study the unemployment problem reports: "Little or no qualifications are required to become an inshore fisherman, a fish-plant worker or a construction worker, or to be employed on a short-term make-work project. It is as easy to get the 10 weeks' work to qualify for UI [Unemployment Insurance] with a grade 8 education as it is with a university degree - at least that is the local perception." Newfoundland Royal Commission on Employment and Unemployment (1986) cited in Courchene (1994), p.136-37.

<sup>28</sup> OECD (1996), Annex, Figure 3.3.

less than 0.5% of GDP (2.5% in Germany) which is even lower than the United States (Courchene, 1994, Figure 16). Clearly, in Canada, acquiring job skills is the students' responsibility; work experience is the signal that they have taken responsibility for building their own human capital.

However, acquiring skills has become more difficult in recent times. In 1989, 15.7% (20.2%) of men (women) aged 15 to 19 had no job experience. In 1996, 33.1% (35.7%) of men (women) in the same age class had no work experience. Among the 20- to 24-year-olds, the percentages for men (women) increased from 1.9% (3.2%) to 5.3% (7.2%).<sup>29</sup> For all groups, then there has been a drastic deterioration in young people's ability to acquire work experience. This implies that, in Canada, the traditional way to building human capital, by combining school and part-time or summer work, is breaking down along with the opportunity for young unskilled men and women to find jobs. Entering the labour market in any form has become more difficult for young Canadians. In fact, the period of transition from school to full activity in the job market has lengthened significantly. It starts at the age of 16 and ended at age of 21 in 1984 but at 23 in 1994.<sup>30</sup>

The German and the Canadian education systems are fundamentally different. The German system is highly structured, with streams varying in academic intensity. Students choose a stream that will provide them with at least three years of training beyond compulsory schooling. The Canadian system is academic only with students choosing either to stay in school or to drop out anytime after compulsory schooling ends. Clearly, most young German are not confronted with the adult labour market until they are in their 20s. By that time they have either a nationally respected trade certificate or an advanced academic degree. Canadian youth can face the adult labour market any time after age 16. The earlier they leave the education system, the less training they have, the less prepared they are to succeed in the labour market. This is partly because the private sector is so little involved in training.

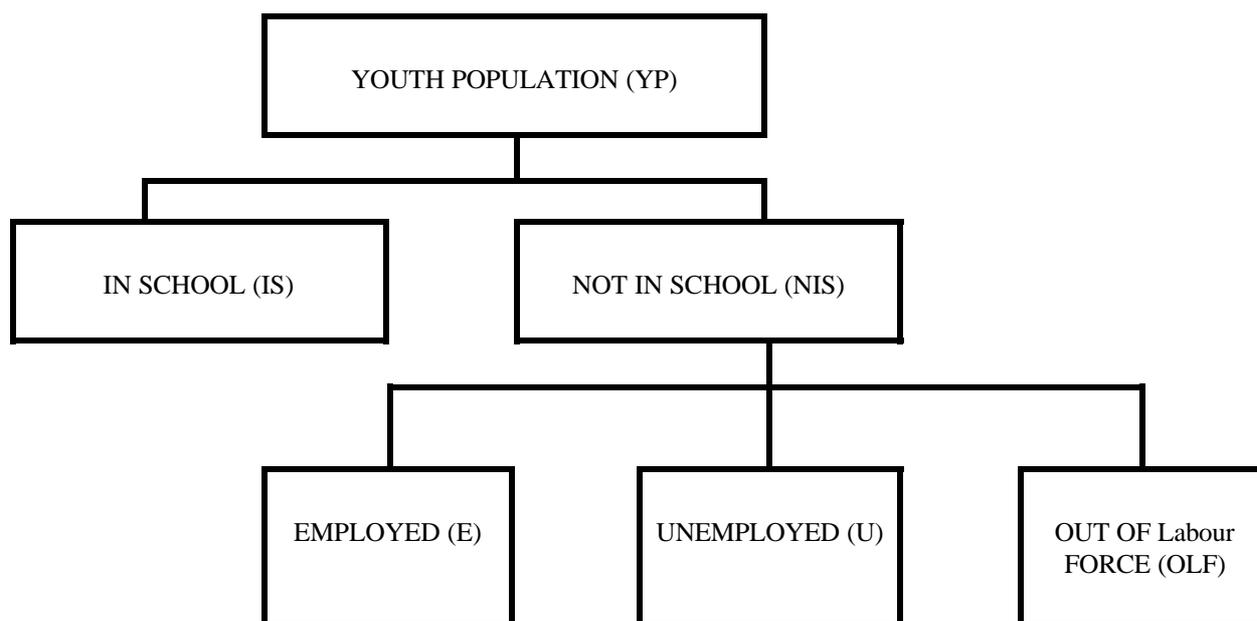
The evidence so far shows that Germany's education system offers young people a consistent successful transition to adult working life. In recent years, the Canadian system, which relies more on market mechanisms, has been failing young people. In particular, securing job experience, at any age, is becoming much more difficult.

<sup>29</sup> All the statistics are from Sunter (1997).

<sup>30</sup> Statistics Canada (1997), Table 15.

## 4.2 School to work: Evidence on transition patterns

Direct comparisons between the unconditional employment rate of young people in Canada and Germany is somewhat biased because the two education systems are so different. However, concentrating on the sub-group that is not in school allows valid comparisons of the probabilities of finding a job in the two countries. To that end, the youth population can be categorized as follows:<sup>31</sup>



How easy is it for young people to enter employment? Alternatively, what proportion of young people who are not in school does not have a job? Table 8 provides some insight into the question by giving the shares of young people who are not in school and do not have a job. These figures are calculated as  $[(U+OLF)/NIS]$  for men and women aged 18 and 22 for Canada and Germany during two years, 1984 and 1994. Shares include unemployed youth (U) as well as young people who are out of the labour force (OLF) because many young people drop out of the labour force after becoming discouraged from searching for a job. Considering only the unemployed would understate the size of the relevant population.

The share of 18-year-olds who are not in school and do not have a job is much larger in Canada than in Germany. Half of young Canadians, men or women, not attending school at 18 also do not have a job; only 1 in 10 of their counterparts in Germany have the same problem. Part of the difference is due to measurement because German apprentices are classified as "employed" not as "in school". Thus, a more accurate comparison can be made by computing the share with respect to the population in the age group (bottom panel, Table 8). Doing so brings the sizes of the shares closer but Canada still fares much worse than Germany. In 1984, an 18-year-old German was two to three times more likely to have a job than an 18-year-old Canadian. Nevertheless, the job situation has improved in Canada over the

<sup>31</sup> What follows is adapted from OECD, *Employment Outlook*, 1996, Chapter 4.

10 years between 1984 and 1994, while it stagnated in Germany. By 1994, the probability of an 18-year old Canadian not having a job had been cut in half (to 0.10, down from 0.20 in 1984). However, since the probability of being unemployed conditional of not being in school has deteriorated significantly (from approximately 0.45 to 0.53), any improvement is likely to be attributable to increased school attendance rather than to a better chance at finding a job. In fact, the percentage of youth aged 15 to 24 attending school rose from approximately 45% in 1984 to 60% in 1996, with the sharpest increase in the 1990s (Statistics Canada, 1997, Table 15).<sup>32</sup>

**Table 8:**  
**(a) Percentage of young people not in school and without a job**

	[(U+ OLF)/NIS] <sup>a</sup>			
	Men		22-year-old	
	18-year-old			
	1984	1994	1984	1994
Canada	43.1	53.1	20.8	30.5
Germany	9.1	14.2	13.1	15.5
	Women		22-year-old	
	18-year-old		1984	1994
	1984	1994	1984	1994
Canada	47.9	52.6	32	32.3
Germany	14.9	18.2	24.2	21.7

<sup>a</sup> U = unemployed, OLF = out of the labour force, NIS = not in school

**(b) Percentage of 18-year-olds in the population and without a job**

	[(U+ OLF)/POP] <sup>a</sup>			
	Men		Women	
	1984	1994	1984	1994
Canada	18	10.2	20.4	14
Germany	5.8	7.8	8.6	8.2

<sup>a</sup> U = unemployed, OLF = out of the labour force, POP = population.  
Source: OECD (1996), Tables 4.8 and 4.9.

<sup>32</sup> Note that OECD, *Employment Outlook*, 1996, Chapter 4, reports unemployment having no significant effect on the share of youth attending school in Canada between 1976 and 1994. This result does not necessarily contradict our statement because most of the growth in school attendance happened in the 1990s (i.e., at the very end of the sample). Note also that the impact of unemployment on school attendance in Germany is positive and highly significant (see Table 4.18).

The difficulties experienced by Canadian youth is further supported by the growth of part-time employment. The incidence of part-time employment among young people who are not in school has increased sharply over the past 20 years. In 1976, the part-time employment rate for young people not attending school was 6%. In 1996, it was 20%. Most growth occurred for jobs ranging from 1 to 29 hours per week, at the expense of jobs ranging from 30 to 49 hours (Statistics Canada, 1997, p. 30-31).

The evidence in this section shows that the job picture for young Canadians has deteriorated on many fronts recently. If they stay in school, they have more difficulty building work experience during their time off. If they enter the labour market, their probability of landing a job has shrunk and it is likely to be a part-time job. German youth seem to fare much better than Canadian youth in their transition from work to school.

*Main points about education systems and transition from school to work:*

- C The structure of Germany's education system ranges from academic to more job-oriented streams. Education in Canada is purely academic.
- C Drop-outs from secondary school must take minimal vocational training courses in Germany. In Canada, drop-outs are destined to work at low-level jobs.
- C The Canadian education system is based on two pillars: School and job experience. Lately, the second pillar has begun crumbling. When apprenticeship positions become scarce in Germany, the government puts pressure on firms to provide more places.
- C In Canada the private sector provides limited training, mostly to university graduates. In Germany, firms work in partnership with education institutions to provide training at much earlier ages.
- C The transition from school to work is much more successful in Germany than in Canada.

## 5. Wage setting and the youth labour market

One argument often invoked to justify high unemployment, especially in European economies, is the lack of wage flexibility: A less than perfect adjustment of real wages to excess labour supply automatically generates unemployment. Thus, institutional arrangements that hinder wage flexibility, such as minimum wages or strong unions, are often held responsible for relatively high unemployment in the medium term. These arrangements may also introduce biases that stimulate substitution across categories of workers. Both unions and minimum wages exist in Canada and Germany but their institutional set-ups differ vastly so their implications for young people are also different.

### **Germany**

Germany has a so-called centralized collective bargaining system. Unions cover industries or sectors rather than individual firms, and negotiations about wage increases as well as non-pecuniary benefits take place yearly. The sequence of events is quite predictable. After preliminary tri-partite discussions with the government and employers' representatives, unions negotiate a wage that serves as a basis for local negotiations for the relevant occupation in a given industry or sector. The order in which unions negotiate is very stable; the largest union (IG-Metal) always starts the process. The unionization rate is quite low (less than a third, on average) which would suggest that wages are relatively flexible. However, the bargaining coverage rate, or the proportion of workers covered by the agreements whether or not they belong to a union, is more than 90%.<sup>33</sup> The coverage rate is higher than the unionization rate because the bargained wage serves as a minimum wage for unionized and non-unionized workers in most sectors.<sup>34</sup> Thus, there is no need to legislate minimum wages in Germany. As a result of the extension of the bargained wage to most of the workforce, very few industries and occupations are under a regime of purely market-determined wage. The coverage rate varies only slightly from one sector to the other and is 99% in all but two sectors. In finance, insurance, real estate, and business services as well as in community, social, and personal services, it is 69%.

A complex wage structure results from this industrial relation set-up. Wages vary according to skill levels, occupations, industries, regions, and most important for our purpose, age. In effect, in most industries a lower wage is paid to very young workers even if they have completed their training and are considered skilled (see Marsden, 1985). Some examples that illustrate the effect of youth on wages are given in Table 9.

Certain features of Germany's wage structure directly affect young people. First, there is an age floor below which the person is not a "full worker"<sup>35</sup> and therefore collects less compensation than a "full worker" with otherwise identical characteristics. The age floor varies

<sup>33</sup> See OECD, *Employment Outlook*, 1994, Chapter 5, for details.

<sup>34</sup> In most instances, unionized workers go through a second round of bargaining at the plant level.

<sup>35</sup> The term "full worker" (i.e. *Vollarbeiter*) is not related to the time spent on the job but is based strictly on the worker's age.

from 18 to 21 years.<sup>36</sup> Second, compensation for younger workers can be defined as an hourly or monthly wage or as a percentage of the full worker's wage. In 1996, it usually represented between 80% and 97% of the full worker's wage. Note that these proportions have been adjusted gradually since the 1970s, when rates of 70 to 75% were common. Third, the age floor may apply to skilled, semi-skilled, and unskilled workers or only to unskilled workers, depending on the industry. Clearly such an arrangement is an attempt to compensate for "experience" at a given skill level. Thus, as young people are paid less at given skill levels but with less experience, it is unlikely that any substitution would occur against them. However, the pay of young people and adults has been converging in recent years.

**Table 9: Relative negotiated wages for young and adult workers in Germany (1996/97)**

Industry	Age limit	Young worker's compensation	Number of skill categories with different compensation	Unskilled adult worker's compensation	Young workers' compensation in % of adults'
	1	2	3	4	5
Electricity <sup>a</sup>	< 21	97%	5 out of 6	DM 3,193 per month	97%
Chemical ind. <sup>a</sup>	< 18	DM 2,577 per month	unskilled	DM 3,032 per month	85% <sup>e</sup>
Metal ind. <sup>b</sup>	< 21	90%	all	DM16.62 per hour	90%
Sugar <sup>c</sup>	< 18	DM 2,556 per month	unskilled	DM 3,001 per month	85% <sup>e</sup>
Retail <sup>d</sup>	< 18	80%	3 out of 4	DM 14.43 per hour	80%

<sup>a</sup> Baden-Württemberg. <sup>b</sup> Schleswig-Holstein and Niedersachsen. <sup>c</sup> West Germany. <sup>d</sup> Schleswig-Holstein.  
<sup>e</sup> column 4/column 2.  
Source: SB. (1996).

### Canada

Canadian unions operate very differently from their German counterparts. Bargaining is decentralized and there is no economy wide coordination. Unions are organized at the plant level and collective bargaining takes place on a plant-to-plant basis. Also, there is no provision for extensive coverage from rates negotiated and there is an almost one-to-one relationship between union density (38%) and the coverage rate. Also, the unionization rate varies drastically from one sector to the other. For example, in public utilities, electricity and gas, the coverage rate is 72%; in wholesale and retail sales, it is 14%. So, a much larger share of the economy operates with market-determined wages, which is likely to work in favour of young people.

<sup>36</sup> Apprentices have their own compensation scheme independent of the examples shown in Table 9.

However, another major feature of wage-setting in the Canadian economy is the legislated minimum wage. The minimum wage, which is under provincial jurisdiction,<sup>37</sup> is not automatically indexed to the cost of living. Adjustments are made according to the economic situation and the political will of the current government.<sup>38</sup> All employees and all students who work must be paid the minimum wage (HRDC, 1995b, Section 2). In most provinces the minimum wage is independent of age but there are some exceptions: In Alberta and Ontario, the rate is lower for people under 18 who are attending school. Until March 1, 1995, British Columbia had a lower rate for everyone under 18. The youth rate is approximately 8% lower than the general minimum rate.

There is an on going controversy about the direction of the effect of minimum wages on employment.<sup>39</sup> There are only a few studies about the impact of minimum wage laws on Canadian youth, mostly because the rates are province-specific. But these studies all conclude that raising the minimum wage has an adverse impact on youth employment. Swidinsky (1980) shows that the teenage labour market (14- to 19-year-olds) is adversely affected by minimum wage changes. Using an index of minimum wages for Canada based on provincial values from 1956 to 1975, he finds that increases in the minimum wage have a negative effect on employment and the labour supply and that the derived elasticity of unemployment is positive. In all instances, the female labour market is more responsive than its male counterpart.<sup>40</sup> Kupina (1986) also finds adverse effects on employment and labour force participation in the province of Ontario with smaller elasticities for women than men. Finally, Cousineau et al. (1992) find an adverse effect of increasing the minimum wage in the provinces of Ontario and Quebec. Overall, the evidence suggests that minimum wages in Canada tend to harm young people by increasing unemployment.

At a more aggregate level, Canadian young people have lost more grounds in terms of total earnings than their German counterparts. Earnings for young people relative to earnings for adults fell in most major countries, but the decline in Germany was a fourth the size of the decline in Canada.<sup>41</sup> Factors responsible for the difference were not identified but likely candidates are the degree to which collective bargaining is centralized in Germany, youth unemployment, and hours worked.

*Main points about wage-setting and the youth labour market:*

- C Union coverage in Germany is 90%; in Canada, it is below 40%.
- C Bargained wages in Germany serve as minimum wages and therefore apply to all skill categories. There is a reward for experience, as special lower wage rates exist for young people (sometimes up to the age of 21).

<sup>37</sup> There is also a federal minimum wage for jobs under the *Canadian Labour Code*. Since July 1, 1996, it has been aligned with provincial rates (Kerr, 1996, p.15).

<sup>38</sup> For example, in the province of British Columbia, the nominal minimum wage was adjusted twice between 1976 and 1986 (June 1, 1976, \$3.00; December 1, 1980, \$3.65) and seven times between 1987 and 1995 (From \$4.00, February 1, 1987, to \$7.00, October 1, 1995).

<sup>39</sup> See Kennan (1995) for a survey.

<sup>40</sup> Schaafsma and Walsh (1983) confirm this result but obtain even larger elasticities for employment, the labour force, and unemployment.

<sup>41</sup> See OECD, *Employment Outlook*, 1996, Chapter 4, Table 4.14.

- C Minimum wages in Canada are legislated, apply only to unskilled workers, and have been shown to increase youth unemployment. Only two provinces have lower wages for people aged 18 or younger.

## 6. Youth labour market policies

Policies on education and wage-determination can greatly influence outcomes in the youth labour market. Equally important are government policies, particularly policies to combat unemployment. Labour market policies are often described as *active* or *passive*. Passive policies include basic social programmes such as unemployment insurance and income assistance that provide monetary support in times of need. Policies are active when the government directly intervenes to modify the structural characteristics of the labour supply. Training programmes are typical of active policies. Table 10 shows the relative importance of the two types of policies in terms of spending in the 1990s in Canada and in Germany.

**Table 10: Percentage of gross domestic product spent on active labour market policies in Germany and Canada<sup>a</sup>**

	1991/1992		1995/1996	
	Canada	Germany	Canada	Germany
<b><i>Youth measures</i></b>	0.02	0.05	0.01	0.06
Measures for unemployed and disadvantaged youth	0.02	0.04	0.01	0.05
Support for apprenticeship and related forms of youth training	-	0.01	-	0.01
<b><i>Measures for the disabled</i></b>	-	0.26	-	0.26
Vocational	-	0.15	-	0.13
Work	-	0.1	-	0.13
<b><i>All active measures</i></b>	0.61	1.33	0.56	1.33
<b><i>All passive measures<sup>b</sup></i></b>	2.28	1.8	1.32	2.14

<sup>a</sup> Programs funded by the federal governments.

<sup>b</sup> Passive measures= unemployment compensation + early retirement for market reasons.

Source: OECD. *Employment Outlook*. 1996. Table T.

Clearly Canada favours passive labour policies and Germany favours active policies (see last two rows of Table 10). Moreover, few policies in Canada target youth and the limited share of spending on active policies actually declined in the first half of the 1990s, despite rising youth unemployment. In 1991/92, Canada spent only 0.02% of GDP actively helping youth;

Germany spent 2.5 times more (0.05%). By 1995/96, the Canadian share had fallen to 0.01% of GDP and the German share had increased to 0.06%.

## 6.1 Special youth programmes

### **Germany**

Germany's special programmes for youth aim to facilitate a lasting success in the job market. Target groups include young people who are socially disadvantaged (for examples, those who receive child care assistance or are former drug addicts), who are slower learners (school drop-outs at any level), who are physically or mentally disabled and face specific difficulties in school, and who are foreigners or immigrants. The goals of Germany's programmes are to increase their chances of entering or completing vocational training and being integrated in the labour force.<sup>42</sup> There are three kinds of programmes: Vocational preparation schemes, vocational training support schemes and inter-company training centers.

The vocational preparation schemes consist of pre-vocational measures for youth who have not found apprenticeship positions. They focus on the first step toward integration, entering vocational training. The courses consist of classroom training and include (a) basic training (2 to 12 months) for young people who did not get an apprenticeship position for lack of opportunity, (b) informational and motivational classes for drop-outs (maximum 3 months),<sup>43</sup> and (c) intensive social support courses (up to 12 months) to improve the prospects for vocational training for young people who cannot be integrated into (a) or (b) courses.<sup>44</sup> In 1995, 19,100 West German unemployed below the age of 25 started these programmes. Young people who have been on the job market but are presently unemployed must meet less stringent conditions than adults (that is, they need 4 months' minimum work experience rather than 12 months'). In 1995, 7,800 candidates were young people with learning disabilities or social handicaps.

In addition, special programmes are organized exclusively for mentally and physically disabled people. These programmes are concerned mostly with recruiting candidates and training them in schools addressing their special needs. The courses last between 6 and 36 months. In 1995, in West Germany alone, 89,061 people (29,905 women) entered such programmes and 88,090 (29,490 women) left such programmes. Of those who left the programmes, 76% (75.4% of the women) had successfully completed the programme. Some rehabilitation centers report that 72% of young people found a job, 18% became unemployed, and the other remaining 10% could not be integrated into the labour market (Franz et al., 1996).

Vocational training support schemes are special measures for youths with inadequate school experience or with social problems (or both) who have completed vocational preparation programmes but are likely to drop out of vocational training. These courses focus on the second step toward integration, completing an apprenticeship. In addition to extra

<sup>42</sup> For details, see Pütz (1995), BMASO (1995b), BA (1996a) and Germany (1996). The statistics are from BA (1996a, 1996b) and Germany (1996).

<sup>43</sup> The so called Test-Inform-Try (tip) course: "Detached from the rhythm of school and training years, the 'tip' courses are especially suited for reaching 'late entrants' and participants who previously expressed no recognizable intention to get training." (Germany (1996), p. 16)

<sup>44</sup> These courses address the special needs of immigrants of German origin, foreigners, youth with sizeable educational deficits, and former or current prison inmates.

courses, tutoring, and intensive language training they offer study help, counselling on how to handle authority, and examinations. In 1995, 42,000 West German youth with social problems or with educational deficits participated in this programme; in 1996, 61,000 participated.

Participants are eligible for financial aid under specific conditions. Apart from disabled people in rehabilitation programmes, 43,600 people in pre-vocational and additional vocational programmes received a subsidy from the employment office in 1995.

Finally, the inter-company training centers help young people who, after participating in vocational training support schemes have still not started training in a company. Inter-company training centers offer short periods of on-the-job training to acquaint candidates with the demands and pressures of working life. Participants must have completed a vocational preparation scheme and are expected to move as quickly as possible to a regular apprenticeship position. Trainees continue getting vocational training support as well as financial support, if necessary. Training can be completed in inter-company centers and in 1996 more than 17,000 young West Germans completed apprenticeships in such centers. This programme supports mostly youth in Eastern Germany (almost 20,000 in 1996).

### **Canada**

"The general impression our survey results give then is that there are a limited number of government-sponsored job-creation schemes in Canada, that those that exist are often put in place to solve an immediate problem rather than as part of some larger training strategy, that many are intended to provide summer employment for students and that relatively few high-school and university graduates participate in such schemes. In addition, these results highlight the fact that apprenticeships are uncommon in Canada."<sup>45</sup>

As Table 10 shows, the Canadian government spends much less resources than its German counterpart on active labour policy in general and on alleviating youth unemployment, in particular. Canada relies mostly on support from general social programmes such as Unemployment Insurance (UI) and Income Assistance (IA). Until 1994, there was no comprehensive strategy to deal with youth unemployment and programmes for youth were limited in scope and in duration. For example, in 1985, in the face of persistent high unemployment, the federal government introduced the Canadian Job Strategy which replaced all other programmes (see Skof, 1994, and Krahn, 1991). Only two out of the six programmes targeted minorities including young people.<sup>46</sup> One novelty was that the Canadian Job Strategy did try to get the private sector more involved in training.<sup>47</sup> In the past, the government had purchased courses from community colleges. Under the Canadian Job Strategy, part of the Job Entry Program was to finance job-training ventures and co-operative educational programmes. The Job Development Program subsidized employers who hired the long-term unemployed, especially young people (Krahn, 1991, p. 31).

In the mid-1990s, youth unemployment became a more pressing concern for the Canadian government and some aspects of the Canadian Job Strategy that had been shown to

<sup>45</sup> Krahn and Lowe (1991), p. 156.

<sup>46</sup> The other two minorities are usually women and First Nation People.

<sup>47</sup> As Krahn (1991, p. 31) writes: "In some ways, the CJS [Canadian Job Strategy] was more interventionist than the programmes it replaced. But it also shifted more of the responsibility for training and job creation away from government-funded employment centres to the private sector."

serve their purpose efficiently were developed further. In the Job Entry programmes, for examples, enterprise training was found to improve job opportunities for young men (but not young women) and classroom training was found to have no impact (OECD, 1993, chapter 2). In 1996, the government set up a task force with the mandate "... to consult Canadians to determine how government should address the issues facing all youth in making the transition from school to work." <sup>48</sup>

Among the more than one hundred disparate federal schemes and services for youth, only a handful are designed for unemployed young people. <sup>49</sup> Most of the youth-specific programmes are one of three types: Career planning, financial support or work experience.

Career planning programmes include counselling services such as those offered by the Canada Employment Centers for Students. The centers are open only during the Summer to help high school, college, and university students find jobs (through Student Summer Job Action also called The Student Summer Employment Program). Canada Career Week is held every year during the first week of November to inform students about career and employment opportunities. Outreach is a year-round counselling programme for youth and other disadvantaged people. All these programmes provide information on available jobs and advise students on how to search for a job.

Among programmes providing awards and financial support for students and occasionally entrepreneurial projects, the largest financial support programme is The Canada Student Loans Program. In recent years it has been presented as a powerful tool against youth unemployment and in June 1994, major changes were introduced (HRDC, 1995a). The weekly loan limit for full-time students was raised by 57% for the first time in 10 years and the annual ceiling for loans to part-time students was raised by 60%. Special grants were introduced for students in need or with permanent disabilities. The Student Business Loan programme lends money interest-free to students for Summer projects. Students must repay the loans by October and go back to school full-time.

Programmes that provide work experience include two new programmes specifically designed for young unemployed people having difficulty entering the labour market were tested and implemented in 1994: Youth Internship Canada and Youth Service Canada. The Youth Internship Canada programme supports partnerships between employers, communities, and educators to give on-the-job and classroom training to people aged 15 to 24 who are looking for training or entry-level jobs. The Youth Service Canada programme is a national programme that tries to give young people work experience through community service. Unemployed and out-of-school youth are given the opportunity to build up work experience by participating in community projects. Over four years, 17,500 young people are expected to take part in the programme.

Some federal programmes provide opportunities for temporary employment. The Federal Summer Student Employment Program (FSSEP), for example, which offers 24 weeks of employment in various government departments; the Accelerated Economist Training Program (AETP) offers 6-month assignments in government departments with an economic focus; the Summer Employment Program in the National Research Council offers 4-month employment

<sup>48</sup> See HRDC (1996a).

<sup>49</sup> For a list of federal government services see HRDC (1996b). See also Kerr (1996). Information is also taken from HRDC (1995a) and Skof (1994).

opportunities in sciences and engineering or in the Park Canada volunteer programme. Most of these programmes are for college or university students only.

Clearly most employment programmes are organized for secondary or post-secondary students. Very few target directly the group with the most problems finding work: Secondary school drop-outs with no training. Moreover, the amount allocated to summer employment programmes has been cut drastically from \$127 million in 1988 to only \$90.1 million in 1991 (to be spent on the Student Job Action Program) (Kerr, 1996). These cuts happened at a time when conditions in the summer labour market were deteriorating. Student participation in that market dropped by 13 percentage points between 1989 and 1996, and their unemployment rose from 10.1% to 18.4% (Statistics Canada, 1997, p.21).

## 6.2 General training programmes

Young people have access to and participate in general training programmes in both countries (see Table 11, for selective years).

**Table 11: Youth relative participation in general adult training and retraining programs**

	< 20 years old				20-25 years old			
	Number	% of total	Number	% of total	Number	% of total	Number	% of total
	Men		Women		Men		Women	
<i>West Germany</i>								
1994	422	0.2	632	0.5	22254	12	15389	11.7
1990	877	0.4	1034	0.8	39188	17.3	26643	19.5
1986	1607	0.8	3198	3.2	48973	23.5	31110	31.2
<i>Canada</i>								
1994	2970	4	1110	3.4	15420	20.8	5540	17
1990	1790	6	460	5.6	8810	30.6	1870	22.6
1986	1270	7.1	520	39.8	7160		2460	30.6

Observations for the month of December.

Sources: BA. *Amtliche Nachrichten der Bundesanstalt für Arbeit. Arbeitsstatistik. Jahreszahlen.* Various years. Statistics Canada. *Unemployment Insurance Statistics.* Various years.

Germany has three types of programmes: Further training in the same trade (*Fortbildung*), re-training in a different trade (*Umschulung*) and informal on-the-job training (*Einarbeitung*). In Canada, courses are approved and paid for by the federal government on subjects in high demand by employers and are offered by colleges.

Not surprisingly, the proportion of people under 20 taking part in these programmes is much smaller in Germany than in Canada. German teenagers already have access to many programmes tailored to youth. Moreover, the dual system of training with its in-firm training component gives them state of the art knowledge so their skills are unlikely to be obsolete. The much larger share for Canada is consistent with the larger share of unskilled teens in unemployment and the lack of specific training programmes for them until recently.

### 6.3 Social programmes.

Social programmes such as Unemployment Insurance (UI) and Income Assistance (IA) influence young people's transition to labour market activities through provisions that determine directly their incentives to stay in school or enter the labour market. This is more likely to be true in Canada than in Germany.<sup>50</sup>

In Germany, a long minimum period of work (12 months of work during the past four years) prevents young people from having access to the benefits since, most of the time they have little or no work experience. Also, people who quit their jobs cannot collect benefits.<sup>51</sup>

In Canada, where the required period of work is much shorter (as little as 10 weeks in regions of high unemployment and 14 weeks in regions of low unemployment), UI is an integral part of young Canadians' life. In 1992, 17% of the UI recipients and 21% of social assistance cases were people under 25 (CYF, 1995) although that age group represented only 14.1% of the population and this happened after the eligibility requirements for UI were tightened. In effect, the unemployment insurance act was modified in 1990 to penalize people who quit their job without just cause by increasing the waiting period from 2 to as much as 12 weeks and by cutting benefits from 60% to 50% of insurable income. Since April 1993, quitters have been denied benefits entirely (Opie and Bates, 1995). In a country where sampling jobs is an important part of the transition from school to work and of the acquisition of work experience, these modifications were viewed as hampering the process of gaining experience and knowledge of the job market.

Faced with ever increasing budget costs, and the clear adverse incentives generated by UI for all workers and for firms, the government initiated a major overhaul of the scheme which resulted, in June 1996, in the new "Employment Insurance Act" and further amendments in January 1997. Conditions under which support was provided for job loss were changed and some changes affected youth directly, notably reduced benefits based on claim history and a longer qualifying period for first entrants to the labour force (see Kerr, 1996, for details).

Clearly, Germany and Canada have chosen different roads to helping young people in their transition to the labour market. These differences are rooted partly in their different approaches to education. Germany's emphasis on vocational training in the education system is reinforced by government policies designed to help disadvantaged young people succeed through one of the streams of the education system.

Although Canada has much higher unemployment rates than Germany, it does not offer much help to disadvantaged young people. The few existing programmes are geared toward helping young people gain job experience in post-secondary school. Until 1994, little concern was expressed about the many untrained school drop-outs for whom the unemployment rate was the highest. Only recently has the Canadian government started developing programmes to involve the private sector in training for unskilled youth. Finally, recent reforms in the social insurance system have tried to make unskilled work less attractive by correcting adverse incentives but the reforms also penalize youth in a system which has traditionally emphasized the importance of searching for a job by trial and error.

<sup>50</sup> In the literature analysing the growing gap between Canadian and American unemployment rates, several pieces blame Canada's relatively generous UI scheme (see for examples, Card and Riddell, 1993, Milbourne et al., 1991, Ham and Rae, 1987).

<sup>51</sup> See, for examples, Gross (1994) and Atkinson and Micklewright (1991) for details.

*Main points about youth labour market policies:*

- C Germany's labour market policies are active and targeted policies. Canada's are passive and general.
- C The goal of youth programmes in Germany is to increase the chance of disadvantaged young people of completing vocational training.
- C Youth programmes in Canada provide counselling services, financial support or work experience mostly to post-secondary students.

## 7. CONCLUSION

At first glance the experiences of youth in the Canadian and German labour markets do not have much in common. Youth unemployment is much higher in Canada than in Germany, in absolute terms as well as relative to adult unemployment. In Canada, youth rates are double the adult rate of unemployment; in Germany, they are equal to or below the adult rate. A sharp drop in youth population since the early 1980s and longer schooling in the 1990s should have translated to lower unemployment rates in Canada. But no significant drop occurred and youth unemployment rates remain persistently high even at the peak of the business cycle.

Certain common features of the two countries' youth labour market suggest that some underlying economic forces are similar. In particular, in both countries, unskilled and untrained teenagers bear a disproportionate share of the burden of unemployment and more training or education lead to higher probabilities of finding jobs. As a consequence, both governments have developed programmes and policies to encourage young people to stay in school. In both countries, these programmes are linked to the basic education system but the countries' fundamentally different approaches to education have produced programmes and policies with different targets, emphases and levels of efficiency in alleviating the unemployment problem of young people.

### ***Germany***

The German education system covers a wide spectrum of types of training from the academic to the more practical. Streaming starts in secondary school and students who graduate from any stream have a very high probability of finding a job. Young people who enter the labour force without training have a higher unemployment incidence throughout their working life but less than 15% of the population follows that route. Underlying the success of Germany's system is a society that values all forms of education especially the least academic one, the apprenticeship system. There is a strong belief that apprenticeships are the key to integrating youth into the labour market, a goal viewed as "Access to avenues of social prestige" (Pütz, 1995, p. 15). The reward for training is access to the so-called internal labour market with its well-paid jobs, possibilities of promotion, and protection against dismissal. So, government programmes concentrate on bringing drop-outs back into the education system and helping them successfully complete their vocational training. Resources are used to ensure that disadvantaged young people, such as foreigners, slow learners, or disabled youth, have a chance to graduate from the apprenticeship system. The statistical evidence shows that the German approach has been quite successful in controlling youth unemployment.

The system is not flawless, however. The German economy has been for a long time a value-added economy, hence the emphasis on training. However, with globalization and technological progress, industrial and service jobs in Western economies are becoming more polarized in the levels of skills they require. It may be unrealistic to expect that most youth (close to 90%) can complete certification in skilled trades, with or without help from the government. Under its present set-up, Germany's education system is producing a large number of highly skilled workers and only a few completely unskilled workers. Participants in the apprenticeship system have voiced their concern about the polarization of jobs and the

possible excess supply of highly skilled workers and have called for more flexibility in education.

Employers, who claim they face a shortage of semi-skilled workers, are suggesting the creation of a semi-skilled stream with certification after a shorter training periods (two years or less) and lower wages for graduates. Clearly, such a stream could be one avenue for some drop-outs to acquire skills without the help of government programmes. It would be a superior alternative to remaining unskilled as official certification would ensure access to the internal market.

Another avenue that has begun to open is more flexibility across education streams, in both directions (from more academic to less and from less to more). In a fast-changing world, students should not be penalized for the rest of their lives because they made the "wrong" decision at age twelve.

Finally, the German training system is not only part of the education system but also part of a global strategy for the entire labour market. Young people's easy transition from school to work is not independent of other policies implemented on the labour market, in particular early retirement schemes and older generations seem ready to leave the labour market so that the young generation has access to jobs (see Gross, 1998).

### ***Canada***

In Canada the education system is purely academic, without streaming, and students who complete post-secondary schooling are much more likely to succeed on the job market than those who stop earlier. The Canadian government's strategy is to encourage young people to enter post-secondary education and to gain job experience through summer employment. Federal programmes provide financial and counselling support as well as opportunities to work temporarily in government agencies, opportunities offered mostly to post-secondary students. The approach has succeeded somewhat: Young people in the 1990s are leaving school with more education than they had a decade earlier. But government policies have done little to address the roots of the youth unemployment problem, namely the large proportion of young people who drop out of the education system before or at the end of secondary school. Because so many programmes rely on the labour market and government budgets, in recent years young people have been having more difficulties securing job experience in both the private and public sectors.

In Canada, one young person in three enters the labour market without post-secondary education. In the past, this high rate was sustained by a resource-based economy and generous social programmes. But with the rapid transformation of the Canadian economy and rising demand for highly skilled workers, unskilled workers in the future are likely to experience even higher unemployment rates. In the province of British Columbia, educational needs for projected job opportunities in 1992-2001 have been estimated as follows: 12.8% with incomplete secondary education, 13.7% with high school graduation and 73.5% with post-secondary education or the equivalent training. In 1993, actual education attainments were 18.1%, 26.2%, and 55.7% respectively. Surveys of independent businesses reveal that 40% of employers would hire more skilled workers if they were available (BCPF, 1994, p. 14). Yet it seems unrealistic to expect that every student can complete successfully post-secondary studies. Only recently, in 1994, did the government finally set up programmes offering alternative forms of training for less gifted students. Interestingly, these programmes, strongly inspired by the German model, were organized in cooperation with private employers and the

education system. Early evaluations of pilot projects show these programmes to be increasing opportunities for some young people to get jobs.

The Canadian experience should be put in a broader perspective. The introduction of comprehensive training programmes in particular is hampered by the distribution of responsibilities across levels of government. The provinces are in charge of education and industrial standards but training is under the jurisdiction of the federal government. As Maxwell (1994, p. 234-35) puts it: "... a system exists which involves many players in the public, private and education sectors and for whom no one is accountable. ... Viewed from the perspective of the unemployed, however, the system looks unresponsive, overloaded, and inefficient. ... 'the worst of both worlds': A secondary school system that does not prepare young people for work and a training system that does not compensate for that failure." The absence of a clear institutional framework for education and training in Canada may be the largest stumbling block to a successful training strategy for young people. Another problem is the low value society places on training. Maybe Canadians need to stop thinking that only a college or university education is socially acceptable.

As for training programmes, the German experience and Canadian pilot projects share some common features that should lead to success on the job market. First, firms, especially large firms, must be involved in training. Canadian experience shows that purely academic training, unless very advanced, does not improve the ability to land jobs. In-firm training provides up-to-date skills that are easily marketable. Second, training is not independent of the education system. One of the most successful labour market programmes is a diversified education system. Third, governments should not give mixed signals through programmes that generate incentives to drop out of the school system. Generous social programmes that were appropriate with the economic structure twenty years ago, may today bias decisions about remaining unskilled and generate high youth unemployment. However, training incentives are compatible with social programmes; financial support, especially for young people should be conditional on acquiring training and education. Fourth, young people should not have the impression that training (outside of advanced education) is a dead-end solution. In Germany the possibility of accessing the internal market makes investing in human capital more valuable than remaining unskilled but this requires a consensus between employers, parents, and trainees that in-firm training is a valuable alternative to a college education. Clearly, the wage structure has also a role to play in determining incentives. Fifth, training programmes must be targeted to specific groups. The priority group should be young people whose probability to succeed on the labour market is the lowest.

Finally, in the longer perspective, there needs to be more flexibility over time. Further training or re-training should be available at all ages and not necessarily through government programmes for the unemployed. In a rapidly changing world, continuing education should be an integral part of working life.

## APPENDIX A: DEFINITIONS OF THE VARIABLES

### A.1. Statistical sources

Unless otherwise specified, data for Canada are from the Canadian Socio-Economic Information Management System (CANSIM) maintained by Statistics Canada. The identification number of the series used in this essay are: Figure 3: C892341, C892342. Figure 7: D767424, D767422, D767556, D767554, D767427, D767429, D767449, D767447. Figure 8: D769738, D767422, D769742, D767554, D767428, D769740, D767447, D767446. German statistics come from several different sources specified in each instance.

### A.2. Business cycle measures

The business cycle indicators depicted in Figure 5 are computed as centered moving averages of detrended Real Gross Domestic Product. Quarterly RGDP is first regressed on a constant, a time trend, and time trend squared, with the following results:

For Canada:

$$\ln(RGDP)^{CAN} = 11.346 + .0085 \text{ Time} - .00003 \text{ Time}^2$$

(11.7)                      (3.4)

For West Germany only:

$$\ln(RGDP)^{GER} = 13.050 + .00376 \text{ Time} + .000023 \text{ Time}^2$$

(5.5)                      (2.8)

Then, centered moving averages over five quarters of the estimated residuals are computed to smooth the seasonal variations.

(German RGDP: OECD. *Quarterly National Accounts*. Various years. Canadian RGDP: CANSIM I36026).

## APPENDIX B: ANALYTICAL RESULTS

### B.1. Business cycle variations and supply of apprenticeship positions by firms

A simple regression of the logarithm of annual flow of apprenticeship positions announced at the labour office by firms (LFLOW) on a constant, a time trend (TIME) and a business cycle measure (BC) as described in Appendix A gives the following results:

$$LFLOW_t = 12.837 + 0.039 TIME + 1.423 BC_t + 2.543 BC_{t-1} - 0.310 D91 + 3.742 (BC * D91)_t,$$

(6.20)      (1.6)                      (2.7)              (5.4)              (9.6)              (6.4)

$R^2=0.977$      $F(2,11)=2.17$      $Reset F(1,12)=2.99$

The period is 1977 to 1996 the frequency, annual. Absolute t-values in parentheses. Reset is a test for missing non-linear variables and  $F(2, 11)$ , for serial correlation up to 2 lags. Note that there is a shift in parameters in 1991 after the reunification of the two Germanies even though the dependent variable is measured for the Western part of the country only. There is a one-step downward change (D91) and a marked increase in sensitivity to contemporary business cycle variations  $(BC * D91)_t$ . Before and after the shift, the results clearly show a sensitivity of the number of positions supplied by firms to business cycle variations.

### B.2. Teenage population and demand for apprenticeship positions

A simple regression of the logarithm of the annual flow of applications to apprenticeship positions (LAPPLIC) on a constant, the logarithm of the population of teenagers 15-18 (LTEEN), the business cycle measure (BC), a constant, and a time trend (TIME), gives the following results:

$$LAPPLIC_t = -9.077 + 0.580LAPPLIC_{t-1} + 0.962LTEEN_t + 0.037TIME - 2.486BC_{t-1}$$

(3.8)      (6.0)                      (6.2)              (5.3)              (3.8)

$R^2=0.953$      $F(2,10)=2.75$      $Reset F(1,11)=3.385$

The period is 1977 to 1994 the frequency, annual. Absolute t-values in parentheses. Reset is a test for missing non-linear variables and  $F(2,11)$ , for serial correlation up to 2 lags. The number of applicants is positively correlated with the population of teenagers and thus the drop in demand for apprenticeship positions in the 1980s reflects a drop in the relevant population. The number of applicants is also negatively related to the business cycle. The model is too simple to provide an insight into the reasons for the adverse impact of the business cycle on the number of applicants but one can speculate that in expansion more young people may be tempted to enter the labour market directly rather than start an apprenticeship. Finally, the trend is positive, when the population is controlled for, suggesting again that there is no loss of interest in the system. There is no indication of a shift in parameters in this case.

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