

Youth Initiative Review Paper Executive Summary

I. Life Skills and Decisions

Adolescence is a time when critical decisions must be made—for example, about schooling, careers, fertility—that can dramatically impact the future trajectory of lives. It is also a period in which habits with potential longer-term consequences are formed, including smoking, drug use, eating habits that may increase the risk of diabetes and obesity, or sexual activity patterns.

1. Skills

Young people's skills, both cognitive and noncognitive, can have a significant effect on how well they are able to navigate the transition from childhood to adulthood. Cognitive ability, typically measured by IQ and academic achievement, is traditionally considered a strong determinant of wages, schooling, participation in crime, and success in many aspects of social and economic life. Consequently, cognitive abilities have been the primary focus of public policies aiming to rectify inequalities in economic outcomes. However, a large body of evidence has shown that noncognitive skills, such as perseverance, motivation, time preference, risk aversion, self-esteem, and self-control, are strongly predictive of life outcomes from wages to the probability of engaging in high-risk behavior. Noncognitive skills appear to remain malleable much later in life than cognitive skills (which frequently have sensitive or critical periods in early childhood), suggesting that interventions targeting noncognitive skills may help improve life outcomes for youth. Nevertheless, most research on skill development programs to date has been on interventions targeted to very young children. In the few cases where later-age remediation interventions have been evaluated, much less success has been found, and the effects of successful programs appear to attenuate quickly over time. More research is needed to determine how late is too late for these remediation efforts, and whether they might be cost-effective even if their impacts are small and fade quickly. Research in this area in the context of developing countries is particularly scarce.

Another strand of research has considered whether gender differences in noncognitive skills and psychological attributes can help account for women's disadvantages in the labor market relative to men. There is evidence that women have less of a preference for risk and competition than men, which may affect labor market outcomes. However, other research suggests that cultural and environmental influences are at least partly responsible for these differences. Evidence from developed and developing countries suggests that exposure to female role models can help close these gender gaps.

Key Open Questions:

- *What is the optimal timing for cognitive and noncognitive skill development programs? How late is too late to boost cognitive and noncognitive skills?*
- *What are the components of an effective cognitive or noncognitive skill development program targeted to youth?*
- *Can interventions be designed to reduce gender gaps in cognitive skills and noncognitive attributes (e.g., risk aversion, attitudes toward competition, negotiation skills) that constrain labor market outcomes for women?*

2. Education and Career Choices

A key junction for intervention is the point at which young people have the choice to remain in school or drop out. The availability of credit has been shown to play an important role in these decisions in both developing and developed countries. A large body of evidence demonstrates that financial incentives, most notably conditional cash transfer (CCT) programs, are effective in getting people to attend school. Once again, however, the bulk of the evidence is about the effects of these programs on younger children. CCT programs targeted to adolescents can be designed to incentivize not only day-to-day attendance, but also reenrollment in school the following year, graduation from secondary school, and enrollment in tertiary education. There is also some evidence that conditioning transfers on academic achievement can be effective, though the literature raises concerns about possible negative effects on students' intrinsic motivation to learn and on equity between more and less advantaged students.

Research has found support for the hypothesis that many young people drop out of school because they do not understand the economic returns to education. Providing young people with this information has been shown to increase schooling, though its effects may be limited for poor and credit-constrained households. Little is known about whether classroom effort is also affected by information and whether the effects of informational interventions vary systematically by gender. Providing information on school quality has been shown to help people choose better schools, leading to better educational outcomes. In the context of developed countries, informational interventions could help address the problem of worker over-qualification for job opportunities. One challenge for this type of intervention is the possibility that returns to education and to different career tracks will change quickly after young people have locked in educational choices, especially in transitioning economies (e.g., rapidly industrializing countries).

The timing of critical choices, the influence of peers, and gender differences are also relevant to young people's educational and career outcomes. Requiring adolescents to make important and irreversible choices about their educational track early in adolescence appears to reduce occupational mobility and to disproportionately reduce career aspirations for boys, who tend to mature more slowly than girls. There is evidence that peer influences affect some educational outcomes, but we do not know enough about what, and who, is most susceptible. Differences in norms and expectations for boys and girls lead to gender gaps in schooling choices and even in the economic rewards of different educational tracks. Once again, more research is needed to disentangle biological and environmental influences on the ways in which boys and girls make these choices. Differential access to financial resources may also contribute to gender gaps in education.

Key Open Questions:

- *What is the optimal design of cash transfer programs for adolescents (timing and size of payments, behaviors targeted)?*
- *Could cash transfer programs be beneficially and cost-effectively combined with other interventions, including providing information on returns to education and interventions designed to increase motivation or boost noncognitive skills?*
- *What role do informational imperfections play in explaining high dropout rates or poor educational track choices?*
- *What factors are most important in explaining the opposite gender gaps in educational attainments in developed and developing countries?*

3. Health Outcomes and Risky Behavior

Early investments in health and nutrition improve cognitive function and increase returns to schooling later in life. There is strong evidence from developing countries that interventions such as iodine supplementation, deworming medication, and school meals lead to greater educational attainment. More research is needed on reliable and cost-effective ways to distribute and to facilitate uptake of these interventions among target populations.

Risky behaviors adopted during adolescence—including poor eating habits, smoking, excess drinking, drug use, teen sex, and criminal activities—can limit or disrupt the acquisition of life skills and assets. There are strong correlations between education and healthy behaviors, but research to date has not settled whether these reflect causal effects and whether there exist relevant differences between developing and developed countries. There is some evidence that interventions focused on noncognitive skills can reduce violent crime, and more research is needed on other high-risk behaviors. Evidence from Africa indicates that cash transfers can reduce sexually transmitted infection (STI) rates among both males and females, and can be used to incentivize healthy behaviors such as voluntary counseling and testing (VCT) for HIV.

Peer influences are also very important in explaining young people's propensity to engage in risky behavior. Most of the research to date on this topic has been in the US context, and parallel research in developing countries is urgently needed. Helping young people relocate away from clusters of poverty has been shown to improve health outcomes and reduced arrests for female youth, with mixed positive and adverse effects for males.

Key Open Questions:

- *How can preventive health and nutrition interventions be cost-effectively provided at a large scale?*
- *How does education affect risky behaviors?*
- *Can noncognitive skill development programs reduce the odds of engaging in risky behavior?*
- *How strong are peer effects on risky behavior in developing-country contexts?*
- *Can financial incentives help youths avoid risky behaviors?*

II. Youth Integration in the Labor Market

Youth unemployment rates tend to be relatively high even in good times. Youth employment has suffered disproportionately in the aftermath of the global financial crisis, as youths tend to be the “first out and last in” during economic downturns. This section reviews what is known about policies to promote youth employment.

4. Information, Youth, and the Labor Market

Young people often lack adequate information about what jobs are available and may not understand what behaviors are expected in a workplace. A range of school-to-work programs have attempted to smooth this transition. Internships and apprenticeships appear to be effective for both men and women, but these programs suffer from various problems. In both developed and developing countries, demand tends to be low from youth and firms, and problems with initial matches between youth and firms leads to high drop-out rates. There is some evidence of modest positive effects of summer

and part-time employment during young people's school years on future labor-market outcomes. However, these studies are predominantly from developed economies, and differences in context may be very relevant here. In general, more evidence is needed to understand the mechanisms behind school-to-work programs and the best way to address their shortcomings.

Young people also lack information about where jobs are and how to get them. Social networks play a major role in the job search process, but youths are often at a disadvantage in access to beneficial networks. Neighborhood effects appear to be influential as well: being surrounded by individuals who are currently employed improves labor market outcomes. Ongoing research is examining whether mentoring programs can facilitate the development of social networks for youth.

Firms' lack of information about the productivity of young people can be a barrier to hiring them. Youths are disadvantaged in the labor market because they have fewer ways to signal their productivity level to employers. Providing information about youth productivity has been shown to strongly affect labor market functioning. Referrals from current employees or from previous employers have been shown to improve employment outcomes in some contexts, though evidence from developing countries shows that referrals do not always help find employers find more skilled employees. Referrals may also further reduce job prospects for the already disadvantaged, which may not have strong networks. Ability testing and credential systems are potentially promising, but have not been rigorously tested. Younger workers may also be subjected to discrimination, and current research is attempting to determine whether this can lead to a self-fulfilling prophecy, in which managers' belief that youths will perform poorly leads to reduced performance.

Key Open Questions:

- *How can internship and apprenticeship programs be improved and dropouts reduced?*
- *What interventions can help youth develop networks or integrate into existing networks?*
- *Can referral systems be designed to align employer and employee incentives? Can they be designed so as not to further disadvantage unemployed youth who do not have strong social networks?*
- *Can ability testing and credential systems help young people find jobs and lead to better matches between workers and jobs?*

5. Location, Neighborhood, and Mobility

The "spatial mismatch hypothesis" attempts to explain underemployment of minority and low-skilled workers in terms of physical distance from job opportunities. Location may also negatively impact labor market integration through residential discrimination. Policy responses to these issues have included housing voucher programs to help people move to areas with better opportunities, improving transportation systems, and encouraging firms to locate near deprived areas, e.g., through tax incentives. Existing research suggests that these policies are not effective in reducing employment gaps, though most studies only focus on blacks in the US.

An alternative hypothesis is "social mismatch": It is not physical distance that matters, but the social networks with which one has contact by virtue of location. There is substantial evidence that the neighborhood composition has a strong influence on education and labor outcomes. This suggests that spatially-based policies may need to be complemented with interventions targeted toward improving labor market networks. Greater work regarding residential mobility and local social networks is needed in

developing countries, but poor infrastructure and strict residential policies may make relocation policies less feasible than policies that seek to directly develop social networks within existing communities.

Key Open Questions:

- *Can spatially-based policies—helping people move to where jobs are, improving transportation, and encouraging firms to locate in deprived areas—improve labor market outcomes in developing countries?*
- *Are there complementarities between spatially-based policies and interventions to help strengthen social networks?*

6. Labor Demand for Young People and Contracts

Employment legislation that raises hiring and firing costs has been shown to reduce labor market turnover, and this may disproportionately affect young workers because of the lack of information about their productivity. Minimum wage laws may also reduce youth employment opportunities, since they are more likely to bind for inexperienced workers. Temporary contracts may favor hiring young people, but there is limited and conflicting evidence on whether they lead to more permanent work and assist in youth human capital formation. The potential downside to short-term contracts is that they may trap young people into a succession of uninteresting short-term positions. Interventions aimed at specific demographic groups, such as easier hiring and firing laws for young workers, can help increase labor demand for those groups, but policymakers should be aware of possible substitution effects that could hurt other workers.

Key Open Questions:

- *Are current contract features reducing the demand for young people more strongly than for the other demographic groups?*
- *What are the effects of short-term contracts for youth on their human capital formation and long-term labor market attachment? How can these contracts be optimally designed?*
- *What is the optimal way to implement wage subsidies for young workers?*

7. Active Labor Market Programs (ALMPs)

Active Labor Market Policies (ALMPs) are based on the idea that some unemployed workers suffer from low employability and may be helped with training or direct experience. Existing empirical work on ALMPs—including employment services, labor market training, wage subsidies, and job creation—suggests that these policies are not very effective, both in general and in addressing the employment needs of youth. However, it is difficult to draw general conclusions. There is a strong heterogeneity in the way ALMPs have been implemented, and these details matter. The way evaluations have been conducted up to now makes it difficult to account for this heterogeneity. In cases where randomized evaluations have been conducted, they have often found positive, though usually small and time-limited, effects.

Employment services, such as job search counseling, have been shown to have short-run positive effects but little long-term effect in a few randomized evaluations. There are many potential research questions related to employment services, including the role of motivation, the right search channels to focus on, the role of caseworkers, and public versus private provision. One important potential

consequence of counseling programs that deserves further study is displacement effects, whereby these programs effectively redistribute jobs to program beneficiaries from others in the same labor market.

Training is widely seen as a promising intervention given the idea that skill mismatch is a first-order issue. However, results on job training programs have been quite mixed. In Latin America, randomized evaluations have found qualified success for training programs that combine classrooms with internship-style components. Results from the US tend to show that training involving on-the-job sessions are more successful. Little is known about how to promote high-quality training. Training raises many of the same issues as education and career choices: effectively matching young people with training programs, fostering demand among young people for training, and dealing with dropout problems.

Results on employment subsidies, which compensate firms for the initial hiring and training of targeted workers, have also been mixed, with at least one rigorous evaluation showing positive results for youth in the short run. One common finding is that when the subsidized job ends people do not exhibit a better labor market situation than nonbeneficiaries, suggesting that there is little improvement in employability or that it is difficult to communicate it credibly. Wage subsidies could also, in theory, contribute to the formalization of jobs in developing countries, and there is some empirical evidence for this. As with other policies, substitution effects, in which incumbent workers are displaced by subsidized workers, are a concern. The best way to design and implement wage subsidies for youth remains an open question. Complementing these subsidies with incentives for workers such as conditional contract renewals, “soft skills” training, or with referrals and job search counseling, can be a promising avenue for future research.

Direct employment through public work projects has rarely been found effective and may even be harmful in some cases, though evaluations in this area may be especially susceptible to selection bias. A few rigorous evaluations in developing countries have found small positive effects on program participants, though they often do not succeed in targeting the poorest. Given that these programs are likely to persist due to their political appeal, additional rigorous evaluations should investigate whether public work programs can be modified to improve long-term outcomes in a cost-effective manner, successfully target the poorest, and avoid creating distortions in private-sector job markets.

A final set of interventions seeks to assist and subsidize youth in developing their own enterprises. Results on business training and microcredit have tended to find modest positive effects, but few of these programs have been tailored specifically to youth. Successful youth-focused interventions will need to address the particular needs of workers who are just beginning their careers and may lack the skills, assets, and access to credit that older workers have. Recent innovations in microfinance, such as lending models that offer more flexible repayment schedules (to facilitate asset building) and use mobile technology (e.g., to issue reminders to save money), may be worth testing on youth. Additional research is needed to determine what other interventions—such as providing role models and incentivizing formal-sector firms to do business with the informal sector—can improve the economic and business prospects of youth.

Key Open Questions:

- *In general, there is a need for evaluation of ALMPs accounting precisely for the features of interventions.*
- *There is need to evaluate specific adjustments to ALMPs to fit the needs of young people, e.g., lack of labor market experience, motivation, career services, peer effects, and caseworker training.*
- *How can demand for ALMPs be fostered?*
- *How can ALMPs with beneficial short-run effects be enhanced to improve long-term labor market outcomes?*

(Link to the full Review Paper: <http://www.povertyactionlab.org/YI/review-paper>)