YOUTH EMPLOYMENT IN CANADA: A MISPLACED PRIORITY?

n 1984, la question du chômage des jeunes était au coeur des préoccupations d'un grand nombre d'individus et d'organismes, aussi bien dans le secteur public que privé, de tous les grands partis politiques et de tous les niveaux de gouvernement au Canada. Rarement voit-on un problème social faire l'unanimité à ce point. Mais si elles sont louables, les interventions récentes ne sont pas nécessairement bien dirigées. Le chômage des jeunes n'est pas un problème récent, et c'est un problème qu'on aurait pu anticiper. Le phénomène a commencé à se manifester dans les années 70 avec les premières arrivées des vastes cohortes de la génération du 'baby boom' sur le marché du travail. La question du chômage des jeunes se posera vraisemblablement de manière différente à l'avenir. Comme les chiffres les plus récents le suggèrent, le chômage des jeunes est d'ores et déjà en train de se résorber, parallèlement au vieillissement de la génération du 'baby boom'. Une telle conclusion palliative ne devrait pas être une excuse pour négliger le problème ou le considérer comme résolu. Le problème du chômage des jeunes se transforme progressivement en problème de chômage des jeunes adultes. C'est maintenant qu'il faut prendre les initiatives visant ce groupe d'âge, et pas en 1994, quand le problème sera largement dépassé et aura commencé de se résoudre de lui-même.

y 1984 the problem of youth unemployment had captured the attention of many individuals and organizations in the public and private sectors, all major political parties and all levels of government in Canada. Rarely has such a policy issue elicited such a consensus. Recent policy responses, while laudable, are not necessarily well placed. Youth unemployment is not a new problem, nor is it a problem that could not have been anticipated. The problem emerged over the 1970s when the large cohorts of the Baby Boom generation completed entering the Canadian labour market. The future for youth unemployment is likely to be quite different from the past. As recent data suggest, the problem is in the process of solving itself, reflecting in large part the aging of the Baby Boom generation. This palliative conclusion must not be used to obscure or overlook the problems of the future. Youth unemployment is currently being converted into a young adult unemployment problem as the youths of yesterday become the young adults of tomorrow. Now is the time to build on the recent initiatives with this age group in mind - not in 1994 when the problem has largely passed and has started to solve itself.

I Introduction

The international year of the youth was 1985, yet 1984 was the year in which youth unemployment became recognized as a 'problem' by policy-makers in Canada. Nowhere was this more evident than in the late summer 1984 federal election when all three major political parties announced programs as part of their election platforms. Such policy initiatives were not limited to the federal level of government. Concern for youth unemployment extended to the provincial and municipal levels of government as well. Concerns were also expressed by numerous other public and private organizations and individuals. Rarely does a policy issue elicit such a consensus.

Consensus usually implies widespread recognition and concern, but it does not necessarily imply appropriate policy. Although laudable in their intent, it is nonetheless tempting to ask:
(a) where were these governments when the problem first emerged in the 1970s; (b) why were these policy initiatives so widespread in 1984; and (c) are these concerns well placed? These are the questions motivating the authors of this paper.

The theoretical foundation for the analysis is outlined in Section II. The dimensions of the youth problem in Canada are reviewed in Section III where recent data are summarized and analysed. Section IV explores the effect of changing demographic growth and composition on the youth unemployment rate in Canada. These results suggest that demographic effects have been responsible for an increase in the youth unemployment rate over the decade of the 1970s, but that the problem peaked in 1980. Currently, the youth unemployment rate is declining as a result of demographic factors. This palliative conclusion, however, must not be used to obscure or overlook the problems of the future, which are analysed in Section V. A subsequent section briefly explores the implications of nonsegmentation in the labour market. The concluding section focusses on the policy implications of the findings in the paper.

Demographic developments are, of course, not the only determinants of youth unemployment. The problem is a complex amalgam of numerous considerations.⁴ However, the demonstrable importance of population aging on public policies in Canada is now widely recognized. This paper provides another illustration.

II The Youth Labour Market

Over the 1970s the theory of labour markets underwent considerable development and revision. Doeringer and Piore (1971, 1975) popularized the concept of the dual labour market which challenged the orthodox ways of examining the labour market. Subsequently, this theory was further developed (Osterman, 1975; Piore, 1975, 1983; and Cain, 1976) and is reflected in a considerable amount of empirical research (Freeman, 1979; Hammermesh and Grant, 1979; and Merrilees, 1982). Results with a wide variety of data confirmed the existence of segmentations in the labour market and recent research has explored the relevant determinants. These have included both demand and supply characteristics (Rosenberg, 1980).

Early proponents of labour market segmentation theory concentrated on job or demand characteristics. The distinctions between the segments of the labour market are explained in terms of different job and technological requirements, including on-the-job experience. In contrast to this demand-based theory, proponents of the human capital and job search approaches focussed on the importance of personal attributes in explaining employment patterns (Doeringer and Piore, 1975). Characteristics such as insufficient work experience, poor work habits, unreliability and lack of dedication to the job lead to the segmentation of workers (Osterman, 1980). This constitutes a supplybased theory.

Attempts have been made to test the relative merits of these two approaches (Leigh, 1976a, 1976b; and Schiller, 1977). Cain (1976) indicated that such tests are generally not entirely successful because of the inability to adequately measure empirically the specific job and personal characteristics which are hypothesized to be responsible for the segmentation. Consequently, several researchers (e.g., Piore, 1975; and Smith, 1976) suggested an explanation based on both demand and supply characteristics.

Recent concerns with the labour market for youth (Adams and Mangum, 1978; Andrisani, 1980; Osterman, 1980; Freeman and Wise, 1982; and Borus, 1984) implicitly use age as a proxy for both demand and supply characteristics. As noted by Kaliski (1984:131) 'young entrants into the labour force, however energetic or well-educated must, of necessity, be inexperienced' and this forms the basis for much of the segmentation of the youth in the labour market. Osterman (1980) found that firms with 'desirable' job characteristics preferred to hire persons who already had some experience in the labour market. This invariably excluded the young entrants to the labour force. Moreover, it has been noted that youth are often 'target earners,' adopting a casual attitude to work and interested primarily in short-term employment which will interfere minimally with school and yield incomes that will support leisure-related activities, such as travelling and buying a car (Feldstein, 1973; Doeringer and Piore, 1975; Piore, 1975; and Osterman, 1980). These job and personal characteristics are not unrelated, since previous experience is often used as another proxy for maturity and stability. In essence, therefore, the youth labour market has been identified as a segmented market characterized by both demand and supply elements.

This does not deny that there is no transition between segments of the labour market. Aging gives youths an opportunity to move into another segment as they accumulate work experience and more maturity (Osterman, 1980). Moreover, Stevenson (1978) suggested that while entrylevel jobs often provide limited opportunities for advancement and permanence, they do not reduce their value as developers and demonstrators of work attitudes and work habits which are important labour market characteristics. Freeman and Wise (1982) found that unemployment immediately after the completion of school had almost no effect on employment three or four years later. However they noted that while youth unemployment in general did not appear to have major long-term consequences for later employment, it did appear to have a negative effect on subsequent wages, since wage increases are related to work experience.⁵ Finally, Rosenberg (1980) found that mobility between segments of the labour market existed and suggested that favourable demand conditions may assist some workers to move to 'more desirable' segments of the labour market.

Many recent studies, therefore, suggest that labour market segmentation may be attributable to demand and/or supply characteristics. Because of limited work experience and other personal characteristics, youths provide one such market. Transition opportunities are provided as these individuals age and become more firmly attached to the workforce.

III Historical Perspective

The growth in the youth source population in Canada was especially rapid over the late 1960s and early 1970s as the Baby Boom generation became of labour force age.⁶ The 'tail-end' of this generation entered the labour force over the late 1970s. By the 1980s, the much smaller cohorts of post Baby Boom young people started to enter the youth labour market, resulting in negative source population growth. The participation rates of youth also rose over the 1970s, and consequently, increasing population and participation rates both contributed to growth in the youth labour force, but at a declining rate. By the 1980s this pattern was broken. Since 1981 source population has declined and has dominated any increases in participation rates, resulting in a decline in the youth labour force.

Throughout the 1970s, average labour force growth exceeded average employment growth for youth creating an upward pressure on the youth unemployment rate. The effects of the 1982 recession reduced youth employment by over 10 per cent and resulted in a substantial increase in the youth unemployment rate. Continued decreases in employment which exceeded decreases in the labour force over 1983 pushed the youth unemployment rate to almost 20 per cent. It is this background which, presumably, induced Canadian policy-makers and governments to act in 1984.

Although the unemployment rate for youth was rising over the 1970s, the unemployment problem was not confined to youths. Chart 1 shows that over the decade slightly less than

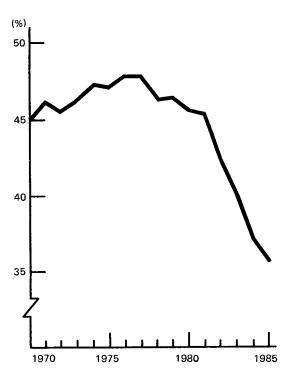


Chart 1
Youth unemployment as a share of total unemployment. Canada, 1970—85

one-half of unemployed Canadians were youths. A slight peak occurred in the mid-1970s, but this proportion remained relatively stable over the decade. The 1980s present a different picture. In 1980 the proportion of Canadian unemployed who were youths started to decline even though the youth unemployment rate continued to rise through 1983. The declining proportion of unemployed who were youths had fallen to 35.6 per cent by 1985, well below the 1970s average of 46.6 per cent.

These historical data suggest that the increase in youth unemployment rates that precipitated policy-makers into action in 1984 were actually part of a much more widespread phenomenon of a general increase in unemployment in the Canadian economy. By the early 1980s, the relative status of the unemployed youth was improving.

IV The Future of Youth Unemployment

The labour market for youth can be summarized by the following equations:

UY = LFY - EY = POPY*PRY - EY and URY = UY/LFY = 1 - (EY/LFY), where

UY = number of unemployed youths,LFY = number of youths in the labour

force,

EY = number of employed youths, POPY = source population of youths,

PRY = youth labour force participation

rate, and

URY = youth employment rate.

These equations reflect both the demand and the supply determinants of labour market segmentation theory. Demand behaviour is captured in EY while supply behaviour is captured in POPY. Labour force participation behaviour (PRY) may reflect either or both determinants. The youth unemployment rate is then a reflection of both of these components. If the employment demand for youth falls then, ceteris paribus, URY will increase. The same occurs if the youth participation rate rises, while declines in the source population of youth, ceteris paribus, cause URY to fall. The calculations which follow concentrate on the latter of these impacts; sensitivity of the conclusions to the remaining two determinants will then be briefly investigated.

The Canadian population aged 15 to 24 years, which forms the basis of the source population for the youth labour force, peaked in 1980 at 4.665 million persons. Since then this population has been declining, and the decline is projected to accelerate over the remainder of the 1980s (Statistics Canada, 1985). This means that by the end of the decade the youth population will be around 3.84 million persons, a decline of over 600 thousand persons in only 6 years, which reflects the departure of the Baby Boom generation from these age groups.

Calculations based on 1984 data show that, under unchanged participation rate and employment conditions, the youth unemployment rate would have peaked in 1980 at approximately 3.7 percentage points (or 20 per cent) above the 1984 rate. This confirms the findings based on historical analysis in the previous section, which suggested that the youth unemployment problem emerged over the 1970s, reached a peak by the end of the decade and was improving by the 1980s. This improvement can be expected to continue. Under the hypothesized conditions,

the youth unemployment rate will be reduced significantly within five years.

It could be argued that these calculations are overly optimistic - that youth participation rates will continue to rise and that youth employment will continue to fall, both of which would put upward pressure on future youth unemployment rates. To explore this possibility, the results were recalculated restoring the prerecession (1981) participation rates and assuming a further decline in employment of 5 per cent for both males and females by 1990.8 This results in an overall youth unemployment rate almost 7 percentage points below the 1984 rate. For the youth unemployment rate to remain unchanged over 1984-90, youth employment would have to decline a further 12.4 per cent to completely offset the projected demographic developments. While not an inconceivable eventuality, it does appear very unlikely given the depressed post-recession levels of youth employment. Consequently, the current downward trend in the youth unemployment rate appears likely to continue over the remainder of the 1980s. The problem can be expected to diminish even without the policy initiatives introduced in 1984.

Recent responses to high youth unemployment rates must not be used to obscure or overlook the problems of the future. And there is a larger, perhaps more important, unemployment problem looming on the immediate horizon in much the same way as youth unemployment did a decade ago, and it involves the same people. This issue is explored in the following section.

V The Emerging Unemployment Problem

The youth of yesterday and today are the young adults of today and tomorrow and the youth unemployment problem is rapidly converting itself into a young adult unemployment problem. By 1984 there were almost as many 25 to 34 year olds in Canada as there were 15 to 24 year olds; by 1985 there were more (4.5 million). Moreover, this age group can be expected to continue to swell through the remainder of the 1980s. Even if the policy-makers and governments in Canada could have been excused for not anticipating the youth unemployment

problem in the mid-1970s, they should not be excused for neglecting the emerging young adult unemployment problem in the mid-1980s.

Unemployment among young adults (25 to 34 years) has been gradually increasing as a share of total unemployment since 1981. By 1985 the contribution of this age group to total unemployment had risen to 29.6 per cent, up from an average 23.4 per cent over 1975-80. Similar calculations, with 1984 data, 9 to those discussed for youth indicate an emerging unemployment problem for these ages throughout the 1980s. This problem reaches a peak in 1990 (ten years after the peak in the youth unemployment rate) at an unemployment rate almost 7 percentage points above the 1984 rate. It would be possible to explore the sensitivity of these results to alternative participation and employment growth assumptions, but this should not alter the basic conclusions since the population of young adults continues to increase through the 1980s.

An unemployment problem is emerging among Canada's young adults. In the numerous policy initiatives introduced in 1984 they were overlooked. Unfortunately this appears to be the story for this generation. Their unemployment problem was largely ignored by Canada's policy-makers when they were youths and their younger brothers and sisters have received all the policy concern. Without appropriate policy initiatives, unemployment rates for young adults can be expected to increase over the late 1980s unless the Canadian economy experiences a sustained economic recovery. As is now apparent from recent experience, such rising rates are likely to be of increasing concern, especially when it is realized that in these age groups people traditionally desire some economic security for housing purchases, family formation, etc., and they are the very same people who have been adversely affected by the youth unemployment problem of the recent past.

VI Labour Market Implications of Nonsegmentation

The calculations discussed in the previous two sections are based on the implicit assumption of no substitution between youths and young adults in the labour market. This implies that

the latter, when faced with gradually increasing unemployment rates, do not 'invade' the youth employment market thereby taking jobs away from youths and placing upward pressures on the youth unemployment rate. This 'invasion' would happen if, for example, a youth occupying a youth-type job remained in that position when he or she became a young adult, a situation which might arise in the face of gradually increasing unemployment rates among young adults.

From a demographic viewpoint, there is a tendency for the declining youth unemployment rate to approach, or fall below, the increasing young adult unemployment rate, thus perhaps reversing the traditional relationship between these two unemployment rates. The traditionally higher unemployment rate for youth has been attributed largely to their lack of labour market experience (see Section II), but it may also have been supported by the underlying pyramidal shape of age distribution of the labour force. This pyramidal shape is now disappearing and it will be interesting to see if this traditional relationship continues to hold in the years ahead.

Combining youth and young adults into a single category implies perfect substitution between the two groups, 10 and as such provides the opposite to the perfect segmentation cases discussed in the previous two sections. These results indicate that although the population aged 15 to 34 years peaked in 1982 at almost 8.9 million persons, the labour force (at constant 1984 participation rates) and hence unemployment rate does not peak until 1986. Moreover, unemployment rates for this entire group remain above 14 per cent throughout the 1980s. Consequently, if unemployment in this combined age group was perceived as a problem in 1984, little improvement can be expected before the end of the decade. As previously noted, this reflects an increasing number of young adults and a decreasing number of youths in the combined age group.

Under what conditions could young adult workers be given job preferences over youths? Presumably young adults have longer labour market experience, including a greater likelihood of related job experience, and other desirable labour market characteristics such as maturity,

developed work habits, etc. However, it is by no means certain that they will be given preference since they may be perceived to (a) be 'overqualified' for a youth-type job, (b) have too high a reservation wage, 11 (c) not be as familiar with the very latest job-related techniques as a result of a 'depreciated' education, and (d) be more immobile as a result of home ownership, family responsibilities, etc. The existence of any or all of these conditions, which limit their substitutability in the labour market, reinforces the segmentation theory and hence the views outlined in Sections 4 and 5 above. As these conditions become less relevant, more substitutability is permitted and the calculations discussed in this section become more relevant. Nonetheless the policy implications, reviewed in the following section, remain unaltered.

VII Policy Implications

The causes of unemployment are many and varied. Macroeconomic performance and policy remain a major determinant of unemployment rates in Canada and elsewhere. However, the substantial demographic developments that have begun to have an impact on the Canadian labour market as a result of the coming of labour force age of the Baby Boom generation are now here to stay for a long time. If segmentation in labour markets exists, then policy targetting becomes increasingly necessary.

Evidence of this is seen in recent policy responses to the high youth unemployment rates which are laudable, especially considering the potentially devastating effects on youths when, after over one and a half decades of usually dedicated study, they find limited labour market opportunities awaiting them upon graduation. But this was not a new problem, nor was it a problem that could not have been anticipated. The large cohorts of the Baby Boom generation completed entering the Canadian labour market over the 1970s, joining a greatly expanded Canadian labour force. 12 In taking so long to confront this problem, Canada's policy-makers and governments have not only demonstrated their tardiness in action but also their preoccupation with the past. Yet it is the future in which these policies will apply and with which current policy

development should be concerned, and the future for youth unemployment is likely to be quite different from the past. Youth unemployment was largely a policy problem of the 1970s — a problem which, because of supply side developments, is in the process of solving itself within the near future. This should make it relatively easy to claim an apparent success for the recent policy initiatives within a relatively short period of time.

However, this does not mean that Canada's unemployment problems are history even if the economy experiences sustained economic growth. The youths of yesterday and today are the young adults of today and tomorrow, and as the Baby Boom generation ages the youth unemployment problem is rapidly being converted into an unemployment problem for young adults. This is likely to be the unemployment problem of the 1980s. 13 Now is the time to build on the recent initiatives by gradually extending the youth unemployment programs to the young adult age groups, and to devise and develop new programs with this age group in mind - not in 1994 when the problem has largely passed and has started to solve itself!

Notes

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- 1 Traditionally, youth is defined as those in the labour force aged 15 to 24 years.
- 2 The New Democratic Party (NDP) proposed a \$1.5 billion levy-grant program, the Conservative Party a \$250 million program of refundable tax credits for businesses which create jobs for youth, and the ruling Liberal Party a \$1 billion youth worker trainee program initially funded by diversion from existing programs and the unemployment insurance fund.
- 3 For example, the focus of the May 1984 Ontario budget was a ten point program oriented towards youth unemployment, while in November 1984

- the mayor of Toronto called for a new public relations and co-ordinating role for the city to tackle the problem.
- 4 Shaw (1985) provides a recent example of the complexity of the unemployment problem.
- 5 Some of these findings have been questioned by Stevenson (1978) and Andrisani (1980).
- 6 The Baby Boom generation in Canada comprises those with birthyears 1947 to 1966 inclusive.
- 7 Labour force source population is defined to exclude inmates of institutions, Indians on reserves and residents of the Territories from total population. This resulted in a 2.8% difference in 1984.
- 8 Over 1980–84, which included the recession, youth employment fell 10.7% 13.1% for males and 7.8% for females.
- 9 These calculations are illustrative only since it has not been established in this paper that a segmented labour market exists for this age group.
- Note that all that is really required is perfect substitution at the margin. However, given the projected demographic changes the margin is quite substantial.
- 11 Salary expectations are likely to increase with age, but could be lowered as a result of extensive job search.
- For further discussion of these demographic impacts on the Canadian labour force see Reid and Smith (1981), Foot (1983) and Foot and Li (1985).
- 13 The concerns expressed by Denton (1981) are equally applicable in this context.

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