Industrial Countries: The Youth Unemployment Problem [redacted]

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An Intelligence Assessment

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Information available as of 15 June 1982 has been used in the preparation of this report.

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Industrial Countries: The Youth Unemployment Problem [1]

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Key Judgments

Rapidly expanding youth population and slow economic growth have elevated youth unemployment to record levels in almost all foreign industrial countries. The problem is particularly serious in Western Europe, where unemployment among young people—those 15 to 24 years old—accounts for about 40 percent of total joblessness. The high level of overall unemployment is often cited by West European government officials as a reason for the inability to support US policy initiatives, particularly on East-West issues.

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Although circumstances differ from country to country, a number of general factors have led to the rise in West European youth unemployment. Most important among these:

- The size of the West European youth population has increased sharply, rising by some 2.5 million during 1976-80.
- The number of jobs available to this group, rather than increasing, has declined by nearly 1.2 million positions since the mid-1970s, including 750,000 jobs lost last year.

Even if economic recovery gets under way soon, the impact on youth joblessness will be delayed; this group tends to be the first fired and last hired because of a lack of skills, experience, or seniority.

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The youth unemployment problem in Western Europe should ease around 1985, when the youth population begins to decline in most countries. Given demographic patterns now in train, the youth population by 1990 will be 3.7 million less than in 1985. Only in West Germany will this translate into substantially less unemployment. At the other extreme, in Spain and Portugal, where youth unemployment is already very high, the number of young people will continue to rise throughout the 1980s.

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Japan faces a much different future on the youth employment front. Specifically, the youth population will swell during the 1980s, sharply reversing the decline that occurred in the 1970s. Tokyo should have little trouble dealing with the reversal in youth demographic trends, however, because the adult population will decline. The shift to a younger labor force, according to Japanese trade officials, will help underpin the move to high-technology industries.

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[1] Data used as the basis for this analysis are taken from official statistical yearbooks and from two publications of the Organization for Economic Cooperation and Development, *Labor Force Statistics* (Paris, 1981) and *Demographic Trends 1950-1990* (Paris, 1979).

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Industrial Countries: The Youth Unemployment Problem

Youth Unemployment Trends

After remaining roughly constant at 3 million persons during the 1960s, youth unemployment in the developed countries rose sharply in the early 1970s (see figure 1 at end of text).[2] By the mid-1970s the number had reached 6.4 million; almost all of this increase occurred during the 1974-75 recession years. Despite the economic expansions that characterized the developed countries through most of the 1976-80 period, youth unemployment failed to subside. Youth unemployment again surged during the current recession; the number of unemployed in the 15- to 24-year age bracket will probably surpass 9 million this year. This age group now accounts for about 40 percent of total industrial country unemployment.

The number of unemployed youth stands at record levels in all of the major industrial countries (figure 2):

- The United Kingdom has the worst problem with more than 1 million unemployed youth, 20 percent of the youth labor pool.
- France and Italy each have over half a million unemployed youth, about double the 1975 number.
- West Germany and Japan each have some 300,000 unemployed youth; about 5 percent of the youth labor force.
- In the United States and Canada, youth unemployment stands at nearly 15 percent.

In many respects the problem is more serious in the smaller industrial countries, especially those in southern Europe. Last year the number of unemployed young people in Spain was more than 1 million—nearly 35 percent of the youth labor force and over one-half of total unemployment.

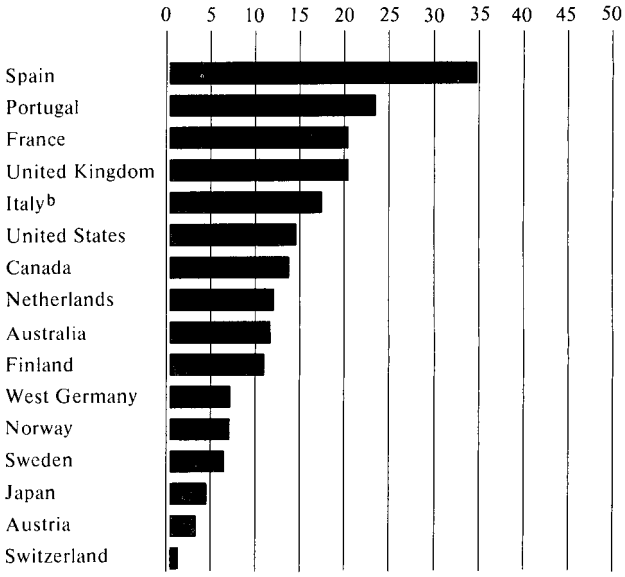
Underlying Factors

The youth unemployment problem has been driven by several factors, including demographic trends and the pace of job creation (tables 1 and 2). In the developed countries as a whole, the number of people in the 15- to 24-year age bracket in 1981 was 113 million, up from 108 million in 1975, according to the Organization for Economic Cooperation and Development (OECD). In the United States the number of jobs held by people in this age bracket increased by 3.0 million from 1975 to 1981. Outside the United States the number of jobs held by this age group declined by 2.5 million. Youth participation rates—that proportion of the youth population seeking employment—leveled in Western Europe and dropped less sharply in Japan, adding to the youth unemployment problem.

Figure 2

Youth Unemployment Rates, 1981[a]

Percent of Youth Labor Force



[a] Youth aged 15 to 24, aged 15 to 30 in Austria and Switzerland.
[b] Adjusted for comparability.

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[2] The countries included in this analysis are the United States, Japan, Canada, Australia, West Germany, France, the United Kingdom, Italy, Austria, Finland, the Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.

Table 1

Thousand Persons

Industrial Countries: Changes in Youth Labor Force and Determinants

	1961-70	1971-75	1976-80		1961-70	1971-75	1976-80
United States				France			
Labor force	6,221.4	4,475.9	2,363.6	Labor force	655.0	−313.0	−269.6
Population	10,367.0	3,783.0	1,590.0	Population	2,627.4	271.3	−53.7
Participation rate *(percent change)* [a]	0.4	2.3	1.2	Participation rate *(percent change)* [a]	−2.1	−2.1	−1.3
Japan				United Kingdom			
Labor force	464.9	−2,877.9	−1,163.8	Labor force	312.0	−277.0	727.0
Population	3,233.9	−2,703.8	−995.6	Population	1,057.0	−91.0	840.0
Participation rate *(percent change)* [a]	−1.3	−3.1	−1.9	Participation rate *(percent change)* [a]	−0.6	−0.9	0.8
Western Europe [b]				Italy			
Labor force	−904.3	−567.5	903.5	Labor force	−1,150.0	−406.0	156.0
Population	5,643.4	1,652.7	2,455.7	Population	533.0	157.0	−312.1
Participation rate *(percent change)* [a]	−1.6	−1.1	−0.3	Participation rate *(percent change)* [a]	−3.3	−2.7	1.7
West Germany				Austria			
Labor force	−1,595.7	239.0	285.0	Labor force	−87.7	112.6	60.3
Population	−409.7	708.4	1,063.2	Poppulation	42.7	187.1	104.5
Participation rate *(percent change)* [a]	−2.2	−0.8	−1.3	Participation rate *(percent change)* [a]	−1.3	−0.3	−0.2

Western Europe. In several key countries in Western Europe, the central factors in rising youth unemployment have been the accelerated growth of the youth population and a shrinking job market. Western Europe's youth population increased by 2.5 million during the 1976-80 period, although French and Italian youth populations declined slightly. The number of young people looking for work has also been boosted by a leveling off in West European participation rates. Youth participation rates declined sharply through the mid-1970s, partly as the result of an increased proportion of young Europeans staying in school (table 3); this trend apparently changed in the late 1970s. Female participation rates are probably also rising more rapidly. In the case of Italy, rising participation rates meant that the youth labor force increased during 1976-80, despite a decline in the size of the youth population.

On the employment side, the number of jobs held by young people in Western Europe declined by some 400,000 during 1976-80, even though real economic growth averaged 3 percent annually. The steepest decline—a loss of 500,000 youth jobs—occurred in France, where government policy was designed to reduce excess employment in government and industries. As a result, youth unemployment rose sharply despite the small decline in youth population between 1976 and 1980. Spain experienced a similar job loss. The West European joblessness problem worsened last year when real GNP fell and roughly 750,000 youth jobs were lost. Spain, the United Kingdom, and West Germany were the biggest losers.

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Japan. In contrast to the trend in Western Europe, the size of Japan's youth population declined sharply during 1976-80. By the end of the period, it was 3.7 million below the 1970 population. The drop combined with a decline in youth participation rates to push the youth labor force to 4 million persons below

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Table 1 (continued) Thousand Persons

Industrial Countries: Changes in Youth Labor Force and Determinants

	1961-70	1971-75	1976-80
Finland			
Labor force	148.0	−36.0	−43.0
Population	192.2	−53.5	−55.7
Participation rate *(percent change)* [a]	1.1	−0.3	−0.6
Netherlands			
Labor force	211.0	−159.0	−67.0
Population	667.4	49.4	120.4
Participation rate *(percent change)* [a]	−1.8	−2.9	−2.1
Norway			
Labor force	18.0	4.0	11.0
Population	140.7	−3.6	0.8
Participation rate *(percent change)* [a]	−2.2	0.4	0.7
Portugal			
Labor force	17.4	255.6	99.0
Population	−93.5	242.1	93.0
Participation rate *(percent change)* [a]	0.9	2.4	0.7
Spain			
Labor force	390.0	138.1	12.0
Population	607.6	308.9	580.7
Participation rate *(percent change)* [a]	0.2	−0.2	−1.9
Sweden			
Labor force	107.9	−19.0	15.0
Population	148.9	−114.5	40.3
Participation rate *(percent change)* [a]	0.3	1.5	−0.3
Switzerland			
Labor force	69.8	−106.8	−82.2
Population	129.7	−8.9	34.3
Participation rate *(percent change)* [a]	−0.4	−3.2	−3.7
Canada			
Labor force	724.8	573.7	380.0
Population	1,272.4	582.3	192.0
Participation rate *(percent change)* [a]	0.0	1.9	1.8
Australia			
Labor force	429.0	129.0	125.6
Population	739.0	208.0	131.0
Participation rate *(percent change)* [a]	−0.7	−0.1	0.4

[a] Average annual percent change.
[b] Western Europe including West Germany, France, the United Kingdom, Italy, Austria , Finland, the Netherlands, Norway, Portugal, Spain, Sweden, and Switzerland.

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the 1970 level. These youth labor force trends made it easier for Japanese industry to continue its lifetime employment practice, despite slower economic growth in recent years.

Government Reactions

Nearly every developed country government has taken steps to mitigate the impact of the rising youth unemployment of the 1970s (table 4). The most frequently encountered youth assistance programs are designed to bolster employment either by direct job creation in the public sector or through subsidies and allowances to the private sector. Youth programs in Western Europe generally utilize the private sector to a much greater extent than do those in North America:

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- West German employers have been required to increase the number of apprentice positions or face an additional tax and a loss of authority over the apprenticeship system.

Table 2 Thousand Persons

Industrial Countries: Changes in Youth Employment [a]

	1961-70	1971-75	1976-80
United States	5,619.0	2,815.0	2,544.0
Japan	469.0	−2,918.9	−1,156.0
Western Europe	NA	−1,643.1	−401.9
West Germany	−1,407.2	2.0	352.0
France	635.2	−600.9	−527.9
United Kingdom	159.0	−443.0	350.6
Italy	−649.5	−500.9	92.9
Austria	NA	119.1	62.5
Finland	NA	−40.0	−61.0
Netherlands	NA	−160.6	−73.4
Norway	NA	1.0	11.9
Portugal	4.6	201.6	−40.0
Spain	NA	−88.9	−488.7
Sweden	31.9	−25.0	5.0
Switzerland	70.5	−107.5	−85.8
Canada	666.0	460.0	298.7
Australia	257.5	7.8	58.2

[a] Youth aged 15 to 24, aged 15 to 30 in Austria and Switzerland.

[redacted]

- Under the current French Employment Pact, employers can be exempted from social security taxes for new hires under 26 years old.
- In the United Kingdom, small employers in "special development areas" are given a 26-week subsidy for newly created jobs.
- The governments of Finland and the Netherlands will finance 12 months of private employment; Canada, Australia, Norway, Spain, Sweden, and Switzerland will pay full or partial tabs for work lasting from two to six months.

The West European employment projects that have proven most popular are subsidized jobs in small service-sector firms. [redacted]

Most countries have also devoted some effort to easing the transition from school to work. Japanese employers submit their hiring plans in advance to the Public Employment Security Offices, and up to 90 percent of all students have prearranged jobs before leaving school. France's "stages of enterprise" program helps students acclimate themselves to a work environment by providing on-the-job training before graduation. Guidance facilities have been upgraded in several countries, particularly the Scandinavian countries, Switzerland, the Netherlands, Spain, and Canada. Moreover, unique "outreach" programs in the United Kingdom and Sweden enable employment department officials to meet with young people in sports clubs, cafes, and other gathering places. [redacted] 25X

The Netherlands and the United Kingdom have publicized commitments to provide every young person with a job, a place in training, or higher education. In the United Kingdom, for example, any summer or Easter school-leaver who remains unemployed by the following Easter is to be offered a place in the Youth Opportunities Program. Finland, Norway, and Sweden have implemented similar experimental "youth guarantee" programs. These programs are unlikely to lower youth unemployment significantly, however, because of their temporary nature and limited funding. [redacted] 25X1 25X

Youth Unemployment in the 1980s: Western Europe [3]

Western Europe will experience rising youth and total unemployment during the next few years before shifts in demographic trends get fully under way and begin to alleviate the situation in the second half of the decade. Through about 1985, youth population will continue to rise in nearly all West European countries, although at a slightly slower pace than in 1976-80 (figure 3 and table 5). If late 1970s trends in youth labor force participation and youth labor usage (the ratio of youth employment to real GNP) continue,

[3] To assess potential youth unemployment in the 1980s, we have used a scenario approach incorporating the relatively certain demographic trends and alternative assumptions of GNP growth, the pace of youth job creation, and youth participation rates. This analysis is available on request. [redacted] 25X 25X1

Table 3

Percent

Rates of Enrollment in Full-Time Education for Teenagers and Young Adults [a]

	Teenagers (15-19)			Young Adults (20-24)		
	1960	1970	1975	1960	1970	1975
United States	64.1	74.4	72.0	12.1	19.8	21.6
Japan	45.4	64.3	75.6	4.2	11.9	14.4
West Germany	34.7	47.5	48.1	6.9	10.2	12.4
France	32.5	45.2	53.2	7.3	9.6	11.7
United Kingdom	16.6	33.9	44.6	4.9	6.1	7.7
Italy	18.7	31.6	43.3	4.9	8.6	16.8
Canada	49.2	64.9	66.4	7.0	14.1	14.5
Australia	36.6	38.6	44.4	1.2	3.0	5.4
Austria	NA	21.1	24.9	NA	6.6	10.7
Finland	NA	NA	NA	NA	NA	NA
Netherlands	30.6	43.9	57.5	5.8	8.8	12.3
Norway	NA	NA	55.2	NA	NA	19.5
Portugal	NA	21.3	30.8	NA	11.4	14.0
Spain	NA	21.4	32.6	NA	10.8	15.0
Sweden	36.9	56.0	57.1	15.5	16.1	14.4
Switzerland	33.1	67.9	68.2	4.0	10.9	13.9

[a] Sources: *Educational Statistics in OECD Countries* (Paris, 1981), and Reubens, B. G. and others, *The Youth Labor Force 1945-1995,* (Allanheld, Osman Publisher, New Jersey, 1981).

[redacted] 25

West European real GNP would have to increase by more than 6 percent a year from 1982 through 1985 just to maintain the present 16-percent youth unemployment rate. Since actual real growth during the period is likely to be barely half that amount, youth unemployment could well top 5 million persons, or more than 20 percent of the labor force, by 1985. Total unemployment could top 12 million persons. [redacted] 25

France, Portugal, and Spain will likely face the highest levels of youth unemployment in the next few years. France's youth unemployment will increase despite a declining youth population, unless the rate of total and youth job creation turns around sharply from its pace of the past several years. By 1985, these three countries would have to create an additional 550,000 jobs for young people to keep youth unemployment at present levels; in 1976-80 employment of youth fell by over 1 million in these countries, despite a drop of only some 150,000 in youths looking for work. The United Kingdom and Italy also face rough sledding, given youth population patterns and the difficulty both countries have creating jobs. [redacted] 25

[redacted]

Even if economic recovery begins fairly soon, any favorable impact on youth employment will be delayed. In addition to the generally lower skills and experience of levels of youth, union agreements in 25

Table 4

Industrial Countries: Public Programs To Alleviate Youth Unemployment [a]

Country	Employment Generation		Education Programs	Other
	Public Sector	Private Sector		
United States	Public Service Employment (450,000 participants). Youth Community Conservation and Improvement Corps (34,000 participants). Young Adult Conservation Corps (70,000 participants). Youth Incentive Entitlement Pilot Projects (37,000 participants). Summer Youth Program (901,000 participants).	Apprenticeship Service. Tax credit for Work Incentive Program (WIN).	Youth Incentive Entitlement Pilot Projects provide jobs, but participants must remain in school. Job Corps program. National Preapprenticeship training.	
Japan				Combined welfare, counseling, and leisure facilities for young people. Public Employment Security Offices make over a million placements annually. Youth wage determined by prefecture; usually a small fraction of adult wage.
West Germany			Ninety percent of compulsory school graduates acquire further general or vocational training. Dual system involves simultaneous on-the-job and classroom training. Special vocational training is available for those not accepted for normal training and who are unemployed (15,000 participants).	First year apprentices receive 20 percent of the adult wage rising to 30 percent in their third year.

Table 4 (continued)

Country	Employment Generation		Education Programs	Other
	Public Sector	Private Sector		
France	Experimental Community Projects (one-year subsidy; 5,000 participants).	"Stages in enterprise" (work experience; 70 percent subsidy and social security exemption; 120,000 participants). Exemptions from social security charges (new hires under 26; 135,000 participants). Employment and training contracts (subsidies for training new employees; 12,000 participants).		National Employment Pact stresses jobs but offers a variety of subsidies, training contracts, mobility grants, and apprenticeship; stresses employment by artisans and small-scale industries. Youth minimum wage, about 70 percent of adult minimum, received at age 18.
United Kingdom	Special Temporary Employment Program (13,000 participants). Community Industry (6,000 participants). Youth Opportunities Program. Community Service and Project-Based Work Experience.	Youth Opportunities Program (training courses followed by work experience on employer's premises for six months). Countercyclical support for training. Small Firms Employment Subsidy (26-week subsidy). Job Introduction Scheme (primarily for disabled; 2,000 participants).	Youth Opportunities program. Unified Vocational Preparational courses. Training for skills program.	Youth typically start at 60 to 75 percent of adult wage, determined by collective bargaining. Adult wage received at 21.
Italy				Employment Act of 1977 (youth provisions not implemented).
Canada	Federal Youth Job Corps (13,000 participants).	Job Exploration by Students (nine-week partial subsidy; 5,000 participants). Job Experience Training (50-percent subsidy for 26 weeks; 41,000 participants). Canada Manpower Industrial Training Program (74,000 participants). Employment Tax Credit Scheme.	Work experience programs and vocational training.	Computerized vocational guidance assistance at Canada Employment Centers. Minimum wage determined by province; differential varies from 5 to 13 percent; adult minimum received at 18.

Table 4 (continued)

Industrial Countries: Public Programs To Alleviate Youth Unemployment [a]

Country	Employment Generation		Education Programs	Other
	Public Sector	Private Sector		
Australia	Community youth support and volunteer youth program (48,000 participants).	Special Youth Employment Training Program (45,000 participants). National Employment and Training for long-term unemployed (900 participants).	Commonwealth Rebate for Apprenticeship Full-Time Training (tax exempt rebate to allow employees to train full-time during working hours; 85,000 participants). Basic literacy training (6,200 participants).	Special unemployment benefits for persons under 16; full benefits over 16 with no time limit.
Austria		Financial support for additional apprenticeships.		
Finland	Employment subsidies to local authorities (42,000 participants). Extra office jobs for youth (1,000 participants).	Experimental Work Experience (5,000 participants). Subsidies to the private sector for 12 months of employment for apprentices (6,000 participants).	Additional 10th year of school for those not admitted to vocational or secondary schools and who would otherwise be unemployed. Increased vocational school capacity.	Two-year experimental program to guarantee work, school, or training to all youths.
Netherlands	Temporary jobs scheme (100-percent subsidy for six months). Additional job creation program (4,000 participants).	Temporary junior workers wage subsidy (one-year subsidy; 2,000 participants). Subsidy for apprentices (1,400 participants). Thirty-percent wage subsidy for long-term unemployed (400 participants).	Training subsidies for unemployed apprentices. Subsidy for training jobseekers. Grants for special course for unemployed (1,000 participants).	Fifteen-year-olds receive 40 percent of adult age; proportion increases by age until 23.
Norway	"Individual work places" program (2,000 participants).	"Individual work places" program (lump sum subsidy for 13 weeks of employment). Revised support for apprenticeship.	Expanding vocational training programs.	"Youth Guarantee" program to ensure those under 20 of an opportunity of further education or employment; emphasis on vocational training.
Portugal				1975 law guarantees youth 50 percent of the adult minimum wage.
Spain		Youth employment promotion program and training assistance (75-percent social security remission; 101,000 participants).	Vocational guidance system for young persons.	

Table 4 (continued)

Country	Employment Generation		Education Programs	Other
	Public Sector	Private Sector		
Sweden	Relief work (41,000 participants, including private sector).	Relief work (75-percent reimbursement for six months). Labor Market Training (temporary jobs).	Courses on working life and education. Study grants for unemployed. Labor market information and vocational guidance.	Unemployment benefits for school-leavers out of work for three months. "Youth Guarantee" program subsidy for employers to train school-leavers.
Switzerland		Fifty-percent subsidies for temporary work on environmental projects.	Lengthening of compulsory education to 10 years in some canons. Vocational guidance system.	Apprentices receive less than 20 percent of the adult wage.

[a] Source: OCED; numbers of participants, where available, are the most recent annual numbers; participants in these programs are usually not counted as unemployed in labor statistics.

most major European industries require that former employees be rehired first. In the Big Four West European countries, youth employment during the early stages of the 1976-80 economic expansion trended much less favorably than total employment. Youth employment declined by 200,000 in 1976-77, for example, while employment of older workers rose by 100,000 jobs.

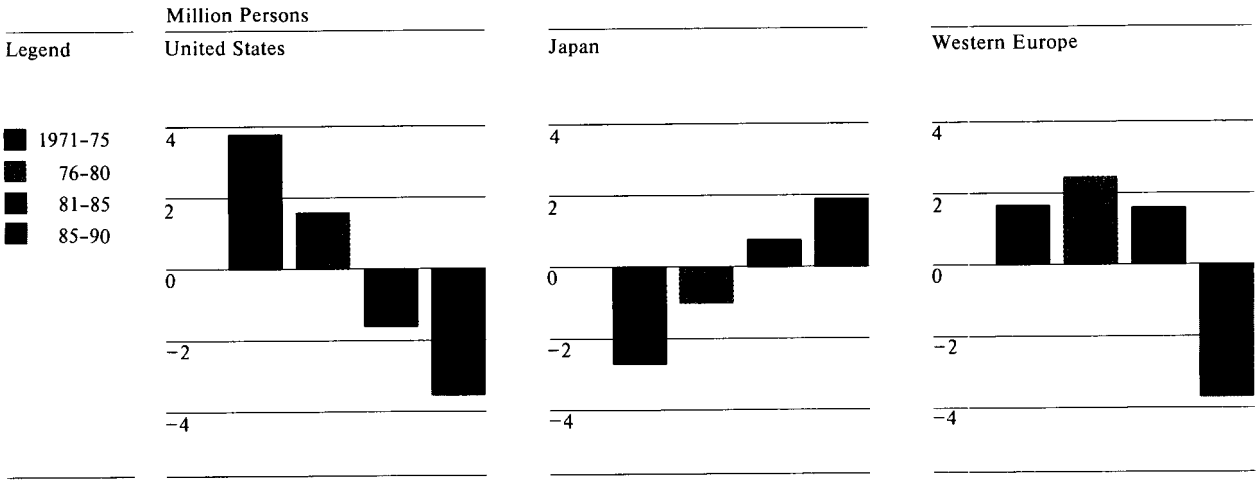
Demographic factors should provide relief for West European youth and total unemployment situations beginning around 1985. By that time the youth population will be declining in most West European countries. In West Germany the decline will begin in 1984 and will be substantial; in the second half of the 1980s, West Germany's youth population will decline by 2 million to a level 20 percent below the 1985 population. In Italy, the United Kingdom, and to a lesser extent, France, declining youth populations should also ease youth unemployment pressures. In Spain and Portugal, however, the youth population will continue to grow; this population pressure combined with slow job creation could result in the kind of substantial labor migration to northern Europe that occurred in the 1960s. By 1990 the total youth population of Western Europe will be 3.7 million below the 1985 mark and 2 million below the 1980 level.

These trends will influence overall unemployment in West European countries:

- West German total unemployment should peak in the next year or two and then decline sharply through 1990 as the declines in youth population override accelerated growth in adult population.
- If the British and Italian economies recover from their present recession to achieve growth rates of about 2 percent and 4 percent, respectively, increases in overall unemployment levels should end in those countries around mid-decade.
- Of the Big Four West European economies, France faces the bleakest post-1985 outlook for total as well as youth unemployment. French population increases in the 25- to 54-year age bracket will accelerate after 1985.

Figure 3

Changes in Youth Population



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- Examination of overall population trends for Portugal and Spain show little relief elsewhere in the age structure to offset the expected continuation of their already severe youth unemployment situations. In fact, the adult population in both countries will grow more rapidly after 1985 than before.

Youth Unemployment in the 1980s: Japan

The outlook for unemployment in Japan is in many ways the opposite of that in Western Europe. Rather than declining, Japan's youth population will increase sharply. Between 1980 and 1985, the number of Japanese young people will rise by 800,000; between 1985 and 1990 an additional increase of 1.9 million will occur. Thus, to keep youth unemployment constant at the present low level (5 percent of the youth labor force), some 1.5 million job openings will have to be created for Japanese young people over the course of this decade.

A roughly commensurate decline in the adult population will alleviate Tokyo's problem of dealing with the reversal in youth demographic trends. Specifically, the 25- to 54-year-old adult population will actually decline by 3 million persons in the 1980s, after having risen by 6 million in the 1970s. Consequently, Tokyo could keep its unemployment problem under control during the 1980s by creating jobs at a pace similar to that of the second half of the 1970s. The age structure of Japanese employment will have to be shifted, however, away from the 25- to 54-year-old workers toward younger and older workers.

Policy Implications

Rising youth unemployment through the mid-1980s will continue to put pressure on almost all foreign industrial countries, particularly in Western Europe. Specifically, aggressive expansionary policies to alleviate the effects of rising joblessness would run the risk of generating new inflation and would require additional outlays from already strained budgets. As it is, total government spending in Western Europe is

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Table 5 Thousand Persons

Industrial Countries: Changes in Youth Population [a]

	1976-80	1981-85	1986-90
United States	1,590.0	−1,588.8	−3,526.7
Japan	−995.6	756.1	1,898.5
Western Europe	2,455.7	1,596.5	−3,661.5
West Germany	1,063.2	215.0	−1,981.7
France	−53.7	−17.2	−194.4
United Kingdom	840.0	519.5	−761.4
Italy	−312.1	414.8	−247.1
Austria	104.5	45.3	−177.2
Finland	−55.7	−51.4	−84.2
Netherlands	120.4	61.9	−215.4
Norway	0.8	23.0	1.8
Portugal	93.0	111.9	58.9
Spain	580.7	211.2	38.4
Sweden	40.3	46.0	−3.1
Switzerland	34.3	16.5	−96.1
Canada	192.0	−235.5	−455.1
Australia	131.0	139.3	−6.3

[a] *Demographic Trends 1950-1990*, OECD, Paris, 1979. Youth aged 15 to 24 years.

[redacted]

the equivalent of 45 percent of GNP; the lion's share of these outlays are for social programs. The large deficits facing most countries mean that increased spending to fight youth joblessness will have to be offset by cuts in other areas. At a minimum, pressures to increase spending for social programs are apt to strengthen the position of those who argue for smaller defense outlays. [redacted]

We are uncertain about how and to what extent rising youth unemployment in the near term will affect the political process in Western Europe. We believe that social strains, attributable at least in part to youth unemployment, played a role in Mitterrand's victory over Giscard and are factors in the increasing polarization in the West German political arena. The resiliency of Spain's weak democratic government may also be tested by the continuing high levels of youth unemployment. Fears of major social disruption stemming from high youth joblessness, however, appear to have been largely overplayed, at least in the past. [redacted] 25

For the next few years, West European governments will continue to use their unemployment problems in general, and youth problems in particular, as a reason for not supporting US policy initiatives, particularly on East-West issues. West German and French opposition to more restrictive credit policies already draws heavily on the argument that neither country can afford to lose jobs associated with goods exported to the Soviet Union. The employment problem also provides much of the impetus for protectionist pressures. Unless the next economic upturn generates substantially more employment opportunities than the previous one did, these pressures are apt to intensify. High-employment industries—steel, automobiles, and textiles, for example—will be the chief focus of protectionist sentiment. [redacted] 25

In the latter 1980s the shift in West European demographic trends will be felt most strongly in West Germany, where the possibility of labor shortages cannot be ruled out. In this environment Bonn will have substantially more flexibility in formulating domestic and foreign economic policy than the government now appears to have. On the domestic front, 25
Bonn will be well positioned to adopt expansionary economic policies, but only if the country is willing to accept relatively large numbers of guest workers, as it did during the 1960s. We are not confident that reduced unemployment will translate into greater West German support for US policy initiatives on East-West issues. The arguments used by Bonn, however, will have to change. In most other West European countries, particularly France, Spain, and 25X
Portugal, unemployment problems will merely be alleviated, at best. [redacted] 25

The Japanese, for their part, expect that economic growth will be sufficient to provide employment opportunities for the expanding youth labor force. Given the drop in their 25- to 54-year-old labor force, they may well be correct. The Ministry of Trade and Industry maintains that the growing youth population will provide a large pool of workers available at low wages for Japan's expanding high-technology industries. [redacted] 25

Western Europe: The Employment Problem

A key factor pushing youth unemployment in Western Europe has been the extremely slow pace of job creation. Besides slower economic growth, the rigid structure of labor costs contributed to this problem. Employers are saddled with fringe benefit expenses—including levies for social security, sickness, and unemployment pay—that are generally higher in Western Europe than in Japan or the United States. In a large West German company such as Krupp, for example, these indirect wage costs exceed the cash paid to each worker. Because of problems like these, the gain in total West European employment between 1975 and 1980 was only 500,000 positions in contrast to a Japanese increase of over 3 million and a US increase of over 12 million. [redacted]

For a variety of reasons, the youth population has suffered most from the poor West European job market. A primary factor has been the particularly weak performance of traditional manufacturing, which employs large numbers of semiskilled youth. Beyond this, legislated or collectively bargained worker protection rules—such as in Italy and Sweden—have discouraged employers from hiring new entrants because discharging them is difficult. Relatively low youth wages are preventing even larger declines in youth employment. West German and Swiss apprentices, for example, receive about 20 percent of the adult minimum wage their first year and about 30 percent by their third year. Other West European countries usually pay workers under 21 between 50 and 75 percent of the adult minimum wage. [redacted] 25X

European governments, following the Japanese lead, are increasingly pinning their hopes for future jobs on the development of high-technology industries. With this in mind, governments have begun to pump more money into research and development despite strapped budgets. The Mitterrand government, for example, has ordered a substantial increase in spending on research and development as a means of fostering growth of the country's high-technology industries. Government officials believe that the expansion of these research-intensive sectors will stimulate growth in other industries, enhance French competitiveness, and boost employment. [redacted] 25X 25X

European Community Employment

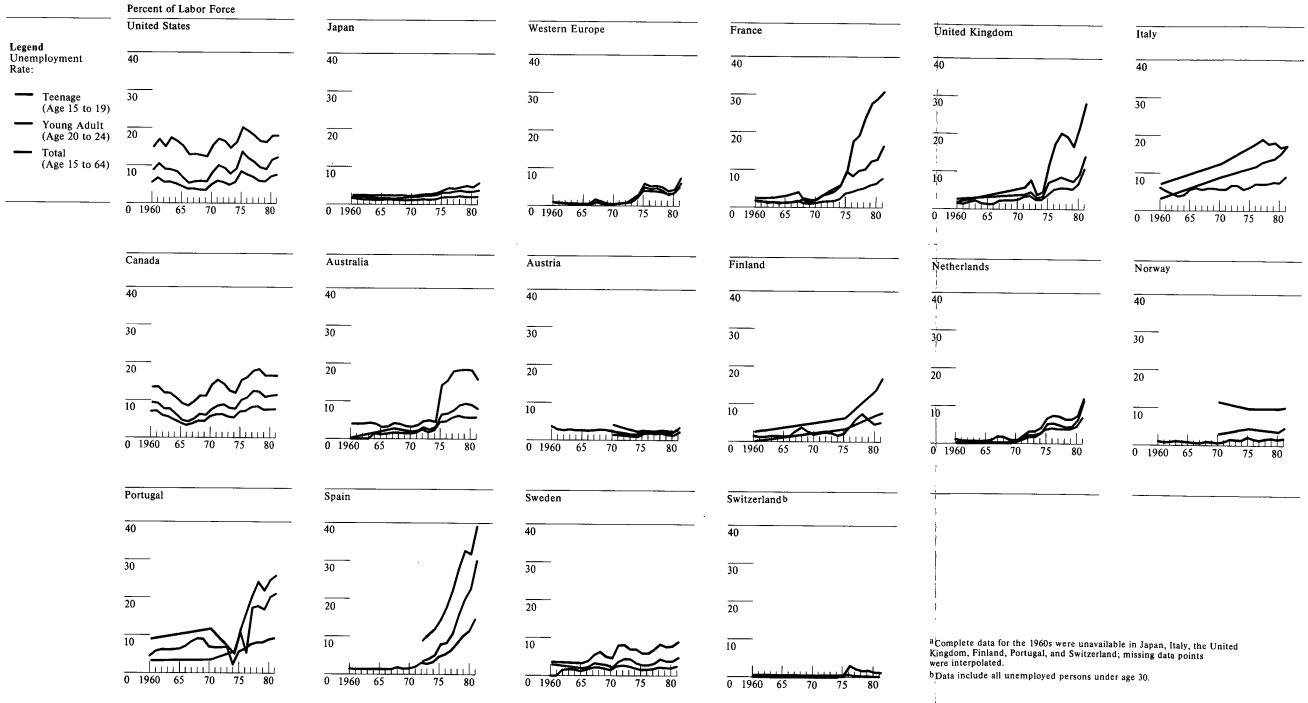
Thousand Persons

	1975	1980
Total manufacturing	**30,758.0**	**28,820.2**
Iron and steel	579.1	461.6
Motor vehicles	1,932.4	1,945.9
Textiles	4,060.0	3,357.6

[redacted] 25X

Figure 1

Industrial Countries: Unemployment Rate Trends[a]



[a]Complete data for the 1960s were unavailable in Japan, Italy, the United Kingdom, Finland, Portugal, and Switzerland; missing data points were interpolated.

[b]Data include all unemployed persons under age 30.

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