

ON THE DRY SIDENo. ONE HUNDRED-FIVE.John HydeTHE OECD AND YOUTH EMPLOYMENT

An OECD team comprised of Mrs. Ritt Bjerregaard, a former Danish Minister of Education and Social Affairs; Mrs. Anke Fuchs, a former German Minister for Family Affairs and Labour and Sir Richard O'Brien, Chairman of the U.K. Engineering Industry and Training Board, is reported to be about to recommend against cutting youth wages to improve youth's employment prospect for fear of displacing lowly paid adults. The technical staff of the OECD ^{also} have recently spoken on this subject with a review of the literature from eight countries including Australia.

The respect which this technical study accords to the Australian Bureau of Labour Market Research (BLMR) study of the causes of youth unemployment could not help but bring to mind the aphorism that prophets are not without honour except in their own countries. The support which the survey of youth employment markets in other places offers to the BLMR findings is quite exciting. We have what everyone agrees is a very serious problem. The BLMR diagnoses an illness that with some difficulty is curable. Their radical diagnosis is dismissed by the local establishment who, recommend^{ing} treatment to ease the symptoms but none for the illness, then call in like-minded specialists. ~~Another eminent expert supports the BLMR diagnosis and~~ We do not yet know the attitude of the establishment to the conflicting OECD opinions.

The essence of the BLMR diagnosis is that youth employment has been adversely affected by the increase in relative youth wages in the 1970s. The implication is that if the cause of the illness - youth wages that are relatively too high - is removed the patient might get better, but the establishment which prescribed high wages for the patient is reluctant to explicitly admit its error. However, it has tacitly admitted it by prescribing makeshift schemes which subsidise the cost of employing young people.

In all eight OECD countries surveyed - Australia, Canada, France, Germany, Japan, Sweden, United Kingdom and United States - youth had a higher incidence of unemployment than adults. Over the first half of the 1970s, in Australia, France, Germany, Sweden and the United Kingdom the employment of youth deteriorated sharply relative to adults. Since 1970 in Japan, Canada and the United States the relative employment of youth has improved. Here is a variation which a diagnostician can exploit. What was different about Japan, Canada and the U.S. ?

It is not simply that youth wages rose relative to adults'; in Canada and Japan relative youth wages at some stage rose but relative youth employment either remained fairly constant or actually improved. In Canada young people's relative wages went down, up, and down again while their relative employment hardly changed. In Japan, relative youth wages rose at the same time as their labour market position improved, then fell at a time when their labour market position showed little change.

In Germany, youth's relative employment deteriorated while youth wages remained a constant proportion of adult wages.

The common factor in the five nations in which youth ^{un}employment rose relative to adults' was "non-market institutional influences" which forced relative youth wages up in Australia, France, Sweden and the United Kingdom, and prevented relative youth wages from falling in Germany. The OECD survey had this to say about Australia: "The increase in youth wages relative to adults that occurred between 1972 and 1974 first surfaced for apprentices in the metal trades in 1972, in response to a long-standing trade union position favouring increased youth pay and a willingness by employers to pay more under buoyant conditions to attract more apprentices. This increase then informally 'flowed on' to most other young workers as metal trade determinations typically 'lead' other award decisions.... Further this system of youth wage determination is a substantial barrier to downward flexibility...as the youth wage element of the Award agreements is seldom considered on its own merit."

Discussing the supply of young workers the international survey writes: "Overall the available evidence suggests that the response of young workers to changes in real wages is not great." - indicating that they will accept more lowly paid jobs if these were available.

In contrast, discussing the supply of jobs, the survey finds that "employers do respond to a change in the relative wage of young workers by changing the number of them they seek to employ." The estimates of just how many would be employed for how great^a reduction in wages are scattered over a wide range but, "...the factor demand elasticity for young workers [seems] larger than 0.5 in absolute value, but probably less than 1.5." If the median estimate of 1.0 is accepted, then a 17% reduction in youth wages would halve Australia's 25% youth unemployment.

As well as the gains described above, youth would make some further employment gains at the expense of adults. The OECD survey does not give us an estimate of this as the estimates in the several individual studies are a bit of a dog's breakfast but there is general agreement that there will be some substitution and it will be predominantly for adult females. The often remarked increase in female workforce participation rates, in the presence of inflexible youth wages, apparently explains much of the hike in youth unemployment.

We are starting to understand why our patient is sick in terms that might be helpful to his cure. The alternative treatments have narrowed down to kicking some of the adult (married) women out of the workforce or adopting a flexible youth employment market. The latter cure would of course be preferable on equity, efficiency and administrative grounds.

The situation in the United States serves to demonstrate the importance of downward relative wage flexibility. In that country, young people have increased their share of the labour force over the past fifteen or twenty years, and at the same time adult females have increased their labour force participation more than other groups. Youth wages have shifted downwards relative to adults and the labour market position of youth has improved relative to adults.

Mr. Willis might get that BIMR study from behind the lavatory door or wherever else he has it. It would not be the first time that a common sense cure has received the support of more widely gathered evidence or that researchers' opinions have differed from those of experienced policy makers.