

## Youth Labour Markets – is it true that technology takes jobs and should be considered as a threat?

The global youth entering the labour force in recent years and those about to enter in the coming decade are faced with much more uncertainty than the generations before them. Rapid technological change and globalisation have become both threats and opportunities for young people, as some thrive in this fast-changing environment, while others lose out.

### Scared generation – Millennial on the labour market

It is now firmly established that what happens in young people as they enter the labour market is very much dependent on what is going on in the economy as a whole<sup>1</sup>. Millennial Generation (Generation Y), which is just starting to enter the labour market, is faced perhaps with the greatest difficulties in developing their professional careers since the economic crash of 1929. Nevertheless the greatest challenge of the current young working population is the impending “demographic cliff” – the birth rate is falling everywhere in the world and in time this will translate into more elderly and economically inactive people per worker of the smaller next generation – the current Millennial generation, which is finding it hard to enter the labour market and start building wealth. Paradoxically this may also be an opportunity – the Millennials will

<sup>1</sup>N O'Higgins, Youth Labour Markets in Europe and Central Asia, DISCUSSION PAPER SERIES, Forschungsinstitut zur Zukunft der Arbeit, Institute for the Study of Labor, 2010.

gradually establish themselves on the labour market and enjoy rising premiums for their work as the number of employees retiring

**Global youth unemployment (%)**



Source: ILO

will not be matched by the number of people entering from the younger generations. Another key competitiveness factor for young people are a well-defined skill set they need for their career choice and a continuous pursuit of improving and updating these skills. As with flexible skills learning, young people are increasingly being exposed to more flexible job markets than their parents or grandparents, which creates another disadvantage for the economically active youth – they compete on uneven terms with more experienced workers who are also oftentimes better protected by law than their younger colleagues. Furthermore, many employed youth are in informal or temporary jobs, which make their situation even more precarious.

### Technological change – blame it or not?

In the last few decades rapid technological change has begun to create a global labour market and contributed to large increases in productivity, albeit at a cost of greater job market polarisation – high-skilled workers currently command a much greater skill premium than they did at the start of the 1980s. This is caused by a shortage of high-skilled workers and an

oversupply of low-skilled employees, according to the findings of the McKinsey Global Institute<sup>2</sup>. Nowhere is this skills mismatch more apparent than in the case of youth

unemployment, where in many developing and developed countries large proportions of the young population suffer from endemic joblessness, while in other countries there is an oversupply of skilled workers, which leads to employment below one's educational and skill level – this is most often the case of workers who are currently under 24. This situation persists largely due to the low global mobility of labour – there are a lot of barriers which stop its free flow, when compared with capital or trade flows. Branko Milanovic of the World Bank shows that only 3% of the world population now lives in a country where they were not born, while 30% of global output is sold in countries where it was not produced<sup>3</sup>. And as young people are the most likely group to move to another country, the restrictions on free labour flows hit them the hardest and at times make them captive participants in national labour markets. These labour market failures on a global scale mean that, according to the calculations of *The Economist*, 290 million 15 to 24-year-olds, or a quarter of the youth on the planet, are neither working, studying or training for a job<sup>4</sup>. The rate of

global youth joblessness is expected to rise from 12.4% to 12.8% by 2018<sup>5</sup>.

Does this mean that labour supply is overabundant and, conversely, labour demand is scarce for workers? As for low-skilled jobs they indeed are scarce both in the developed and developing countries, but high-skilled labour is still in short supply. Nevertheless the answer is complicated by the fact that a university degree, once the foundation of a stable lifelong career, no longer guarantees job security, as rising standardisation and automation of all jobs (even cognitive jobs) which can possibly be turned into model procedures is gathering pace. Add to this the imminent rise of artificial intelligence surpassing the human brain's processing capacity (some estimates put this moment as early as 2025<sup>6</sup>) and the rapid trend of commoditising previously highly-skilled jobs and some will argue that we are heading for a world where there is no demand for labour as machines will be able to do everything a human being can. Yet this is not the case – young people currently entering the labour market will do well to specialise in services which they perform efficiently and which will be scarce, independently of technological change. The reason for which the labour market will not disappear is simple – it exists because people (unlike machines, even those more “intelligent” than humans) are not made and programmed for a given purpose and instead want to satisfy their needs by maximising the resources they own and the time at their disposal while minimising their effort, thus creating scarcity. The whole economy is a construct of specialised scarcity, and there will always be demand for scarce human abilities.

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<sup>2</sup> McKinsey Global Institute, *The world at work: Jobs, pay and skills for 3.5 billion people*, 2012

<sup>3</sup> Branko Milanovic, *Adam Smiths of Capital, Friedrich Lists of Labor*, 2012

<sup>4</sup> The Economist, *Around the world almost 300m 15- to 24-year-olds are not working. What has caused this epidemic of joblessness? And what can abate it?*, 2013

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<sup>5</sup> International Labour Organisation, *Global Employment Trends for Youth 2013*

<sup>7</sup> Asia Network News, *Policies to Facilitate the School-to-Work Transition*.

## How to get use to it

Therefore what is really happening in global labour markets in recent years is a lack of equilibrium between employers' needs and employees' skills due to rapid technological change, which is quicker than the respective adjustment in the education of new workers, which in turn creates wage imbalances. The key to solving this problem is a more flexible (developed world) and universal (developing countries) education system and a new paradigm of lifelong learning and re-adjusting to new conditions on the labour market – jobs for life are dying if not dead already. This is confirmed by the numbers – according to the OECD, average employment rates are 28 percentage points higher for people with tertiary education as compared to people with below-secondary schooling. The same report finds education to be good insurance against unemployment and a facilitator for the transition between education and employment. One of the most popular ways of transitioning between these two periods has been to apply for internships, whose popularity has surged in recent years with the large increase in youth unemployment. Employers can tap into well-educated but inexperienced workers for next to nothing, while these workers benefit from learning on the job, which adjusts their skills more closely to the actual requirements of the market and prepares them for the challenges ahead.

## Current policies – a reliable solution?

Right now nearly six million people under the age of 25 are unemployed across the European Union — nearly one quarter of the total, according to Eurostat, the Union's statistical office. European countries backed urgent action to rescue a generation of

young Europeans who fear they will not find jobs, with youth unemployment in the EU standing at nearly one in four, more than twice the adult rate. It's the best ever educated generation in this continent. Situation is slightly better in Asia, because high unemployment is a result of the general economic slowdown across the region (and Asia is considered to be in a better shape than Europe), but are also a consequence of inflexible labor market rules that make entry into the work force particularly difficult for young people.

Politicians are looking for solution. In a joint statement adopted in 2013 at the 4th Labour and Employment Ministers' Conference of the Asia-Europe Meeting (ASEM) held in Hanoi, the leaders noted that the global financial crisis and economic slowdown have exposed the weaknesses of labour markets and contributed to a "worsening youth employment crisis." Asian and European labour ministers and high-ranking officials have pledged to take steps to create decent jobs, especially for young and vulnerable job seekers, and promote better social protection policies.<sup>7</sup> Solutions aren't simple. Ana Revenga, World Bank Sector Director for Human Development in the Europe and Central Asia region said that "Faster job creation will require changes in the social contract between workers, enterprises and governments. The policy agenda must focus on removing obstacles to entrepreneurship, helping education and training systems adapt better to fast-changing labor markets, facilitating labor mobility, and making pensions, social benefits, and labor regulations compatible with longer and more productive working lives. The right combination of specific policies

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<sup>7</sup> Asia Network News, Policies to Facilitate the School-to-Work Transition.

will vary across countries, but the ultimate result is the same: more rapid creation of productive jobs".<sup>8</sup>



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<sup>8</sup> World Bank, Growth in Europe and Central Asia Continues, but Slowly and Unevenly,  
<http://www.worldbank.org/en/news/press-release/2013/04/19/growth-in-europe-and-central-asia-continues-but-slowly-and-unevenly>