

YOUTH UNEMPLOYMENT

The right business environment

22/05/2013 – by Jesus Felipe

Too few young people find good jobs in Asia's developing countries. Often, the problem is not insufficient education, Jesus Felipe of the Asian Development Bank told Sabine Balk. In his view, the continent needs private-sector companies to generate more employment.

What is your take on youth unemployment in Asia's developing countries? The greatest challenge is underemployment, not unemployment. Unemployment rates are astonishingly low in many developing countries. The statistics of the Philippines show that the unemployment rate is a mere seven percent. This figure, however, is high compared with those reported by other countries. At the same time, 15 to 20 % of Filipinos are underemployed, they cope by drifting from one occasional job to the next ...

... so they have no secure livelihood.

No, certainly not. They live in poverty. Millions of people earn only a few euros per day. They have a poor diet, they live in slums, and their lives are very simple. And they cannot afford to be unemployed. As most developing countries don't pay unemployment benefits, and there are no social agencies to support the unemployed, everyone has to do something to make a living, earning at least a few euros. You see many people selling food and many small items in the streets. If you ask them whether they are unemployed, they'll tell you no. But they'll also tell you that they would work longer hours, or perform a better-paid job if they were given the opportunity. The countries most affected are in South Asia – India, Nepal and Bangladesh.

Do the people concerned not have the education that is in demand in the labour market?

Sometimes they do not, but education is often not the core issue, and sometimes both people and policymakers are "barking up the wrong tree". It is hard to believe that millions of people are unemployed and underemployed just because they do not have the right education. To understand this issue, it is important to say what purpose education is supposed to serve. Education of the kind you need to compare political systems competently or to appreciate a museum or a novel is one thing, and it will take a lot of reading. But the education required for the kind of jobs that societies generate today is an altogether different thing. People don't need to be well read, they need basic skills and trainability. Even much of what people learn in math or science classes is not relevant for most workers, even though it is supposed to help raise productivity. Most developing countries do provide basic primary and secondary education, and that will do for many of the jobs available there. In India or the Philippines, university graduates struggle to find appropriate work, while many new jobs are in service industries like hotels, restaurants, retail shops or in call centres. Jobs of this kind do not require tertiary education. I'm not saying that tertiary education does not matter. My point is that most people don't need a university degree.

So you do not think that developing countries should improve their schools and universities?

Well, there is obviously room for improvement, and certain professions require a university degree. As I said earlier, the main challenge is not lack of education, but to create millions of jobs. With the existing education levels, workers' productivity could improve substantially by, for example, arranging shop floors more efficiently, as is typical of developed countries. This does not require everyone to have a university degree. It is wrong to believe that today we need more education than, let's say, 20 years ago. Most jobs that are generated today are low-skilled service jobs that do not require higher learning. In developing countries, however, even these kinds of jobs are in short supply; and forget about employment in manufacturing, which represents a small percentage of total employment in most developing countries. In the Philippines, for example, university graduates work in call centres, where the most important skills are to speak good English and be friendly on the phone. Today, education is being devalued by a process of degree inflation.

Please explain.

Well, higher education is, of course, necessary for some professions. And in some cases, there are demand-supply mismatches. That happens when universities don't teach what the labour market requires. Often, however, higher education simply plays a sorting function. It helps to establish an individual's ranking in the hierarchy of employability. A degree essentially proves that a person is smart, disciplined and somewhat organised. The increasing emphasis on higher education is creating pressure to obtain a tertiary degree. First a bachelor degree, then a master's, and perhaps even a PhD. The more people get such degrees, the greater the pressure becomes for other people to get one too, even though the degrees are not really relevant to work at all. That is an inflationary trend.

So you want governments to create jobs?

Governments only create few jobs directly, but nonetheless, we all hold governments responsible for the employment situation in their countries. In a market economy, it is the private sector that creates jobs – and it does so, only when it pays to do so. That is the challenge developing countries face. Population growth is still high in many developing countries, which means that millions of young people enter the labour force every year. Some find good jobs, but too many others do not. Employment creation needs to be a priority; and societies have to create jobs for everyone who wants and needs to work, independently of their education.

Should vocational training be run by the private sector?

Well, it certainly makes sense to involve the private sector in vocational training, as is typical of Germany. Universities don't teach students practical skills. Private-sector businesses, however, can train young people in a more targeted and specific way than any school can. This is the right approach if we want young people to learn what they really need for productive work. But remember that, if the number of people searching for employment outpaces the number of jobs, training will simply have the effect of "musical chairs". Newly trained workers will get jobs at the expense of those who become obsolete. Yes, training and upgrading matter – but we need a context where jobs are available.

But mustn't governments bear at least some of the responsibility for the creation of

jobs?

Yes, of course. First of all, governments must ensure that all young people get solid primary education. And on top of that, they must create a business environment for firms to thrive, so that both big and small companies will rise up and employ staff. The challenge is daunting – just keep in mind that, even when economies grow, that does not guarantee that they create enough jobs. Unemployment and underemployment are permanent features of many societies. In fact, countries are only rarely in the state of full employment. Some countries found solutions and gave employment creation a high priority in the policy agenda. South Korea or Singapore are examples. But other countries trail behind.

What are South Korea and Singapore doing to boost employment, apart from giving the private sector the kind of incentives that result in growth? Please elaborate.

These countries industrialised in the 1960s, 1970s and 1980s and, in the process, created a lot of jobs in manufacturing. This is something that many other developing economies find it very difficult to do today. The reason is that technologies today require lower employment; they are what economists call labour-saving. This means that you can have a large investment in, for example, a car factory, but it requires few workers because of its high automation level. The service sector is creating employment but this is, in many cases, of lower quality. Also, do not forget that now you have China in the picture, which makes the development of a manufacturing sector a more complicated task because China is a very tough competitor.

A high employment rate is important for political and social reasons ...

Yes, obviously. In regard to employment, every government should take the following things into account:

- Unemployment and underemployment of the labour force are a waste of resources, a sign of inefficiency.
- In countries with low unemployment rates, people's purchasing power tends to be high, so markets and business are likely to expand, and investments are made.
- High unemployment, on the other hand, means that the government misses out on revenues. People who do not work do not pay taxes either.
- It is interesting that, according to a UN Charter, there is a right to work. According to the Millennium Development Goals, poverty is to be reduced through the creation of jobs. Only a few central banks, for example, do have the dual mandate to keep inflation in check and create employment.
- Where lots of people have work, political systems are normally stable.

So should developing countries' governments make sure that as many people as possible find work?

Yes, certainly, and my impression is that some countries are becoming aware of the issues at stake. A re-think is beginning. For development to succeed, it is not simply growth that matters, but jobs and the reduction of unemployment and underemployment.

What are the implications when young people cannot find regular work? Does it matter for their long-term prospects?

Yes, of course. If you start your career on the wrong foot, without appropriate training and without a regular and decent job, it is very difficult to switch to a more productive track at a later point in time. In many cases, a poor start will mark an entire working life, and it becomes impossible to find a regular job. Masses of frustrated young people are a potential problem for many governments, and they are well advised to do something to stem the phenomenon. And let me repeat, the core issue is not school education. The crucial point is that the private sector must create jobs. Getting that done is a serious challenge, and there are no blueprints.

Jesus Felipe is originally from Spain and is Advisor in the Economics and Research Department of the Asian Development Bank in Manila.

jfelipe@adb.org