

Jobs for Youth/Des emplois pour les jeunes
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SUMMARY AND MAIN RECOMMENDATIONS

The labour market performance of young people

The current major economic downturn has brought about a significant worsening in the labour market performance of US youth. In the two years to September 2009, the employment rate of youth aged 16-24 fell by 7 percentage points to 46% and their unemployment rate rose by 7 percentage points to 18%. Despite talk that the worst of the recession may be over, there is little doubt that its labour market consequences will persist over the coming quarters.

Evidence from the aftermath of the early 2000s slowdown in the United States casts doubts on how quickly the youth labour market is likely to recover from the current deep recession. Indeed, in 2007, the labour market performance of youth still stood significantly below its 2000 level. The youth employment rate was 53% in 2007 compared with 60% in 2000; the youth unemployment rate, at 11%, was about 1 percentage point higher than its 2000 level.

In the context of this rapidly deteriorating cyclical outlook, some of the structural challenges facing the youth labour market before the crisis have become more pressing and need to be tackled. First, while the flexible US labour market ensures smooth school-to-work transitions for many, it leaves a hardcore group of youth behind. Labour market outcomes for African-American youth and for youth with no qualifications are particularly poor and young women are more likely to be neither in employment nor in

education and training than young men. In addition, it was teenagers who bore the brunt of the early 2000s slowdown and the drop in their employment rate thereafter accounted for most of the overall decline in the youth employment rate between 2000 and 2007. While this has favoured school enrolment and reduced the share of 16-19-year olds who combine work and study, the effect it is going to have on teenagers' longer-term labour market outcomes is unclear at this point.

Second, school-leavers with the bleakest prospects on the labour market – notably, African-American youth, those with low qualifications and teenage mothers – are more likely to withdraw from the labour market and remain *trapped* in inactivity for a number of years than to continue looking for work. In the early 2000s, about 6% of school-leavers with an upper secondary qualification or less spent the most part of 60 months in inactivity, although for some – *e.g.* young married women – this was a choice.

Third, labour market programmes targeted on disconnected youth are heavily underfunded. Not only are the vast majority of youth currently in this at-risk group not receiving the support they need to reconnect to education and the labour market, but their number is likely to increase significantly in the wake of the current economic crisis if urgent action is not taken. Indeed, as current school-leavers face very difficult labour market entry conditions, the least qualified among them may drift into prolonged unemployment or inactivity and, lacking benefit support and help to find work or retrain, ultimately become disconnected from the labour market. It must be a major objective to minimise this long-term “scarring” effect, by which the experience of early labour market difficulties or exclusion may have permanent effects on youths' labour market outcomes and participation later in life.

Recent initiatives

In early 2009, the US government approved the American Recovery and Reinvestment Act which included several measures aimed at limiting the consequences of the economic downturn on the current generation of school-leavers. Through the Act, approximately USD 3 billion in additional funding have been made available to existing Workforce Investment Act (WIA) programmes, including USD 1.25 billion on programmes focused specifically on disconnected youth. Assuming unchanged expenditure per participant and a constant share of youth in programmes opened to all age groups, this would benefit an additional 240 000 young people, translating in twice as many youth served in 2009 as with yearly appropriations alone. Furthermore, the federal government has provided funds for states to apply an alternative reference period for unemployment benefit calculations – a measure that extends eligibility to unemployed individuals with limited contributory history – and 30 states have accepted so far. Finally, the Recovery Act included significant additional spending on education. Over the next two years, a total of USD 150 billion will be devoted to: school renovation; special education; Head Start and Early Head Start, the largest federal early-childhood education programmes; and Pell Grants, financial aid to low-income college students.

In addition, over the past decade, the federal government has launched a number of initiatives to improve youth performance in the education system and on the labour market.

In 2002, the federal government launched the Good Start, Grow Smart initiative, whereby federal agencies encourage states to align guidelines for early learning interventions with high-school curricula. Indeed, sustained interventions beyond preschool have the potential to strengthen the substantial positive effects that attending early learning initiatives has on education and labour market outcomes of children from disadvantaged backgrounds.

In the same year, the federal government introduced the No Child Left Behind Act (NCLB) which makes schools and districts accountable for their students' performance, as measured by a test and by graduation rates. Underperforming schools face increasing sanctions. The reform has had some positive effects, notably on the attention paid to the achievement of those students most at risk of dropping out. However, concerns have emerged on the quality of graduation-rate measures used in several states and on the narrowing of school curricula because of pressure to meet test requirements. To address the first of these concerns, in late 2008, the Department of Education approved a number of changes to the Act. The new regulations require that states: *i)* adopt a uniform "graduation-rate" measure by 2013; *ii)* set a graduation-rate goal for all students and for sub-groups by school year 2008-09; and *iii)* improve notification of additional services available to students in under-performing schools. Further changes are in the pipeline to reduce the demands on teachers to "teach to the test" including the introduction of new assessment tools to measure readiness for college and the workplace. In addition, new legislation has been proposed to improve graduation rates through intervention strategies in secondary education, including: personal academic plans; teaching teams; parent involvement; mentoring; intensive reading and mathematics instruction; and extended learning time. How this legislation would interact with the graduation-rate requirements in NCLB remains unclear.

In the area of apprenticeship training, a new rule introducing more flexibility in completion requirements was issued at the end of 2008. In addition to time-based completion, the rule allows for two other approaches: a *competency-based approach*, which requires the apprentice to demonstrate competency in the specific training area; and a *hybrid approach*, which includes both hours of training and competency requirements. The rule also introduces the possibility of issuing interim credentials that offer apprentices recognition for intermediate accomplishments, thus providing incentives to complete their programmes. This rule is the result of a process of modernisation, initiated with the Advancing Apprenticeship programme in 2002. The reform programme has also been focusing on: stronger links with secondary education for recruitment; increased collaboration with colleges to ensure apprentices gain credits towards a college degree; more and better quality apprenticeships in the service sector; and, since 2004, the registration of new apprenticeship programmes in high-growth industries.

To foster a more efficient use of funds available for programmes targeting

disconnected youth, the Department of Labor launched in 2003 the Shared Youth Vision initiative. This initiative aims to pull together resources from all agencies funding actions for at-risk youth. In addition, by encouraging better coordination and more standardised reporting systems, it has the potential to reduce the administrative burden on programmes funded by multiple agencies. In this context, grants have been awarded to 16 states to help them develop strategic plans to connect systems serving youth.

Finally, in 2003, the Social Security Administration launched the Youth Transition Demonstration projects to foster employment among young beneficiaries of disability benefits. Services provided vary but they tend to include benefit and career counselling, job placements and support once participants have entered employment. The projects also waive various rules governing benefit entitlements – notably, student income and employment income are disregarded when calculating benefit levels – to encourage youth with disabilities to enter employment or work more hours. The projects are about to undergo rigorous evaluation to assess their effectiveness.

Suggested recommendations in response to the remaining challenges

The recent initiatives go in the right direction. However, additional measures accompanied by a substantial increase in funding are urgently needed to ensure that youth leaving education during the current economic downturn do not join the ranks of the already large number of disconnected youth nationwide. Also, existing measures need fine-tuning and/or scaling up to help address the structural challenges facing the youth labour market.

More specifically, the federal government should focus on three areas: *i)* ensuring that youth leave education with the skills required in the labour market; *ii)* reaching more disconnected youth and improving available services to help them find work; and *iii)* studying the effect of the rising minimum wage on the employment opportunities of teenagers.

Ensuring that youth leave education with the skills required in the labour market

Reducing the share of youth with low or no qualifications is key to addressing the challenges facing youth in the United States. In 2006, only 77% of 18-year olds graduated from high school, compared with 82% in the OECD on average. If graduation rates were accurately and uniformly measured using cohort methods, they would likely be even lower. In this respect, the recent changes to NCLB are an important step forward in measuring graduation rates appropriately and improving schools accountability for high-school completion.

Most early school-leavers stop studying when they complete compulsory education, but some leave earlier exploiting exemptions to state-specific compulsory education requirements or taking advantage of poor enforcement. Currently, in the United States, 21 states allow youth to leave education at age 14 with parental consent or for employment, although this is conditional on the school district's approval. Hence, even in the states where youth are

required to stay in education until age 18, as many as 4% of 14-17-year olds were not enrolled in school in 2006. Many youth leaving high school without graduating obtain an upper secondary qualification later in life, most often by sitting a General Education Development (GED) test. While this qualification improves labour market prospects relative to holding no degree, several studies have shown that it is only a second-best to acquiring a high-school diploma.

Evidence from rigorous evaluations suggests that participation in high-quality early-childhood services has the potential to improve retention in education and increase post-school earnings. In the United States, early-learning initiatives are the responsibility of the states and efforts have concentrated on disadvantaged youth for whom the benefits are likely to be more substantial. In addition, the federal government funds two nationwide early-childhood programmes: Head Start for 3-5-year olds and Early Head Start for 0-3-year olds. However, despite the importance of acting early, the number of 0-3-year olds benefiting from early-childhood programmes is significantly smaller than that of children of preschool age. The emphasis that Good Start, Grow Smart puts on *sustaining* interventions beyond preschool is well placed in order to ensure that the gains in cognitive and non-cognitive skills acquired in early childhood do not fade away once the child enters primary school.

Vocational education is key to re-engage youth who have become disaffected with academic learning. As a result, the lack of a vocational pathway in state education in the United States represents a serious challenge to retaining youth in this group. Career Academies – small learning communities within high schools combining academic and technical education in a supportive environment – have been shown to improve employment rates of young men at risk of dropping out of education, but too few schools nationwide apply this successful formula. Besides, alternative work-oriented education, provided outside public schools, has the potential to help youth facing specific barriers to labour market entry through ad-hoc solutions. Unfortunately, few of these at-risk youth can be served due to significant funding difficulties. One group which is currently not the focus of specific alternative education solutions is that of teenage mothers. Evidence from New Zealand shows that teenage mothers benefit from alternative schools providing education as well as a number of other support services ranging from childcare on the premises to family counselling.

Apprenticeships represent a high-quality work-based learning option but the programme is small overall and the share of employed youth who participate is only 0.6%. Unfortunately, expansion of the programme has proved challenging, particularly among non-unionised employers who find it difficult to manage and sponsor apprenticeship training. Examples of how this challenge could be overcome can be drawn from Australia and the United Kingdom where, lacking strong union involvement, the government takes a more active role by certifying off-the-job training provision and subsidising training costs. However, adopting these examples of good practice in the United States would require a major overhaul of the current system, including: large government subsidies; sub-minimum wages for apprentices;

and a much broader role for the Office of Apprenticeships – the competent federal agency – accompanied by increased funding. If these measures are not taken, it is unlikely that the Office of Apprenticeships – currently just charged with registering new schemes and certifying that they meet the standards set by law – will be able to expand apprenticeships beyond the current elite model.

As far as tertiary education is concerned, the recent significant rise in funding for Pell Grants – from USD 19 billion to USD 27 billion for the next two years – and the simplification in the application process will help more low-income youth attend college. However, tertiary completion rates must increase if the United States is to improve its international ranking in educational attainment. Just 55% of students who enroll at university graduate within six years, the second worst completion rate across the OECD after Italy. Although state-specific funding rules based on students' intake and not linked with credits earned or graduation rates contribute to this poor performance, the federal government has few tools at its disposal to tackle the issue. On the other hand, action on high-school students' performance – notably through NCLB – is crucial, as failure in tertiary education is also explained by the fact that many high-school graduates enter university unprepared and require significant remedial instruction.

The US government should address the weaknesses of existing measures to ensure that the challenges currently faced by the education system are overcome. In doing so, the government should:

- *Expand existing early-childhood education programmes and emphasise sustained intervention.* Early-childhood programmes that have undergone rigorous evaluation and have been found to improve children's educational outcomes – such as Head Start and Early Head Start – should be expanded to reach more disadvantaged families. The primary focus of the expansion should be 0-3-year-old children as acting early is key and this group is currently less well served than their preschool counterparts. Special attention should also be paid to the transition into primary education. Children and their parents should be supported during this phase to ensure that the benefits of preschool interventions are sustained.
- *Make the most of experience with NCLB to ensure that graduation rates are accurately measured and that schools and districts are held accountable.* In particular: *i)* states should be encouraged to institute longitudinal tracking of students through a unique common identifier system to allow accurate graduation-rate measurement; *ii)* schools should be required to meet graduation-rate objectives overall and for specific subgroups; and *iii)* graduation-rate objectives should be binding.
- *Make high schools accountable for the readiness for college and the workplace of their students.* The recent proposal to replace literacy and numeracy tests with assessment tools that measure readiness for college and the workplace in the context of the NCLB should be approved.

- *Reduce the use of GED testing in favour of high-school diplomas acquired at school or in a charter-school context.* This should involve encouraging out-of-school unqualified youth who participate in employability programmes – particularly the youngest – to obtain a high-school diploma rather than a GED.
- *Roll-out Career Academies nationwide.* Career Academies should become a model for the provision of vocational education in secondary school and funding for their expansion should be provided directly from the Department of Education.
- *Envisage raising the school-leaving age to 18 in states where this is not already the case,* possibly with a focus on retention until a qualification is obtained rather than on staying until a given age, as in the recent Dutch and English initiatives to raise the school-leaving age. For a measure of this type to be successful, learning routes should be broadened – notably, through Career Academies – to engage youth who would have left school in the absence of compulsion. The higher school-leaving age should be accompanied by tighter exemptions for youth aged 16-18 and no exemptions at all for youth aged 14-16.
- *Ensure more funding for high-quality alternative education.* This is essential to increase the share of at-risk youth served through the alternative education model. The Portland school district provides an example of good practice in this domain as funding follows each young person no matter where education is provided, including alternative education institutions.
- *Apply the alternative education model to teenage mothers.* Teenage mothers represent a group at very high risk of disconnecting from education and the labour market. Because the responsibility of being a young mother makes it difficult to attend public school, youth in this group can benefit from specialised support to complete their schooling and acquire vocational skills.
- *Broaden the role of the Office of Apprenticeships to include funding responsibilities and allow for federal subsidies to employers.* Compensating employers who provide apprenticeship places for their training efforts is key to encourage them to take on more apprentices. In addition, subsidies could be differentiated by the age and qualifications of the apprentice, as is done in Australia and the United Kingdom, and entry wages below the minimum wage could be envisaged. Some employers may also find it difficult to provide off-the-job training without union support. The funding and/or certification of private training providers, as is done in Australia and the United Kingdom, would help employers organise quality off-the-job training.
- *Promote the use of apprenticeships for teenagers.* The Office of Apprenticeships and State Apprenticeship Agencies should promote examples of good practice in this area. Notably, the State of Michigan runs a School-to-Registered-Apprenticeships programme consisting of a refundable tax credit paid to employers who hire low-skilled youth

under 20 as apprentices. To qualify for the credit, youth must be studying towards a high-school diploma or a GED certificate. If its role was broadened, the Office of Apprenticeships could also organise pre-apprenticeship courses and offer subsidies to employers hiring graduates as apprentices. In Australia, employers who take on apprentices who have attended a school-based apprenticeship – *i.e.* a programme aimed at preparing youth in their last two years of high school to start an apprenticeship upon graduation – attract higher financial subsidies. A scheme of this kind may help youth who have become disaffected with academic education to prepare for work-based learning on an apprenticeship.

- *Encourage SMEs wanting to offer apprenticeship places to join forces.* The Office for Apprenticeships should encourage small employers in rural/isolated areas, where private training provision is difficult, to join forces to train apprentices. Group Training Associations in the United Kingdom have this function and have been rather successful as participating employers can oversee the classes and link them to on-the-job training.

Reaching more disconnected youth and improving available services to help them find work

Estimates of the number of so-called “disconnected youth” in the United States – defined by WIA as low-income youth who face one or multiple challenges to employment or learning – vary considerably around an average of approximately five million. This group is likely to overlap significantly with the share of high-school leavers in the early 2000s who remained trapped in inactivity after exiting education, which the report estimates at around 6%. In the wake of the current economic crisis, not only is the size of this group likely to increase significantly, but a group of youth trapped in unemployment for a significant period of time is also likely to emerge. The line between these two groups is particularly blurry when youth are concerned as there is evidence that youth are more likely to be discouraged – *i.e.* leave the labour force without returning to education after a spell of unemployment – than their adult counterparts.

In the current context, the additional funding made available through the Recovery Act for programmes targeting at-risk youth is welcome. However, a permanent rise in yearly appropriations is a priority. Unfortunately, most evaluations of programmes targeting very disadvantaged youth, both in the United States and in other OECD countries, have yielded disappointing results. Indeed, disconnected youth are a very heterogeneous group with very complex needs and multiple problems ranging from the lack of basic skills to behavioral difficulties and alcohol and drug abuse. However, some interventions are promising and additional spending should concentrate exclusively on these potentially effective programmes.

The Department of Labor funds a number of programmes targeted on disconnected youth to help them reconnect to education and the labour market. On the one hand, under WIA, the Department of Labor distributes federal

funds to states and local workforce investment areas, which provide a comprehensive array of education, employment and follow-up services for 14-21-year-old youth. On the other, some large-scale nationwide youth programmes receive separate federal funding.

Programmes funded through the WIA youth chapter vary in structure and content but are required to provide: *i*) education and training services leading to an upper secondary qualification; *ii*) vocational training and placement support; *iii*) guidance, counselling and adult mentoring; and *iv*) follow-up services. Excluding the temporary funding rise provided through the Recovery Act, WIA serves less than 5% of disconnected youth and funding has been shrinking over the past few years. While the number of beneficiaries could double temporarily thanks to Recovery Act funds, the number of disconnected youth is also expected to rise in the context of the crisis, hence it is unlikely that the share of youth covered will increase by much. Financial constraints mean that much-needed increases in funds devoted to out-of-school youth – all the more important given the extremely high youth unemployment rate – can only be achieved by reducing the maximum 70% share available for programmes targeting in-school youth. While out-of-school youth are a more problematic group, acting early on at-risk in-school youth is equally important, particularly in communities where alternative education options are limited. In addition, funding for the in-school group has already suffered from the elimination of the Summer Jobs programme, which many analysts blame for the worsening employment prospects of teenagers prior to the current downturn. Increased federal investment is also needed to enable communities to replicate and scale up those existing programmes of demonstrated effectiveness for which there is great demand.

The second set of interventions funded by the Department of Labor includes a number of federal programmes that have been shown to work for at least a subgroup of their target population, notably the Youth Opportunity Grants, Job Corps and YouthBuild. All but YouthBuild – an academic and vocational training programme focusing on the construction sector – have undergone rigorous evaluation to assess their effectiveness. While these programmes are rather costly – in the range of USD 15 000 to USD 25 000 per participant – if effective, they yield sizeable savings compared with prison – approximately USD 80 000 per inmate per year – which is, in some cases, the most likely destination of targeted youth should they not participate in the programme. Despite this proven value for money, some funding issues also arise for these programmes.

The Youth Opportunity Grants – aimed at creating a high concentration of employment- and education-oriented services for youth in high-poverty areas – has been shown to reduce NEET rates and increase high-school enrollment for several sub-groups of at-risk youth. Unfortunately, funding and support available for high-poverty areas to implement the programme was exhausted in 2005. Career Academies are another successful programme whose expansion is constrained by limited funding.

Job Corps – a long-standing residential programme for youth at risk with a focus on remedial education and employment assistance – represents an

exception in that its expansion over time has been made possible by significant and rising financial support. However, despite the constant increase in the number of centres and participants, Job Corps only serves 60 000 youth per year, just over 1% of the estimated number of disconnected youth nationwide. With each slot costing approximately USD 25 000, raising the share of disconnected youth served would require significant spending increases and should be backed by evidence of cost-effectiveness. Unfortunately, rigorous evaluations have found that Job Corps is only cost-effective for 20-24-year-old participants. Indeed, while initial evaluations using survey data found that the programme raised the earnings of *all* participants, a more recent study using administrative data over a longer follow-up period failed to isolate positive earnings effects for teenagers beyond four years of entering the programme. Researchers suggested that some programme characteristics may be among the factors explaining this difference: 20-24-year olds spend more time on Job Corps on average and receive more hours of vocational training while enrolled. A recent initiative launched by the Department of Labor to raise the long-term employability of Job Corps participants may also help improve the programme's cost-effectiveness. In the so-called "New Vision", more emphasis will be put on transferable skills and on ensuring that the training provided is in line with industry demands.

Fairly rigorous performance measurement systems exist for all programmes funded by the Department of Labor. However, two areas require further improvement. First, most performance goals do not account for local labour market conditions or for client characteristics. Second, despite the emphasis on the long-term employability of participants, outcomes are rarely measured beyond 6-12 months of leaving a programme. Indeed, only some of Job Corps goals are adjusted to account for local labour market conditions and/or measured up to 12 months from exit. On the other hand, WIA participants are only followed for up to six months and no adjustment is made to any of the objectives.

The focus on disconnected youth rather than the sub-group of youth in receipt of unemployment benefits is a key feature of labour market programmes in the United States. Indeed, unemployed youth – who have entered the labour market and have acquired some experience – are often far from being the most at risk. In addition, in the United States, few youth have the contributory history required to qualify for unemployment benefits and those who have tend to experience shorter spells than adults. Because benefits are only paid for a maximum of six months and payments are small, benefit dependency is not a major issue, despite light job-search requirements.

These settings are likely to come under severe strain in the context of the current economic downturn. Across age groups, youth have experienced the sharpest rise in unemployment so far but are the least likely to benefit from the temporary extensions in benefit duration put in place to deal with the current economic downturn. Also, the alternative base period for unemployment benefit compensation proposed and funded by the federal government may improve coverage of youth with limited work experience but not all US states have agreed to apply it. A long period of time without welfare support could

push some youth to withdraw from the labour market, possibly increasing the share of disconnected youth in the medium term. The recent emergency measures have the potential to help if accompanied by the application of the mutual obligation principle, *i.e.* strict job-search requirements in exchange for effective re-employment services under the threat of moderate benefit sanctions in the event of non-compliance.

When authorising legislation concerning programmes for disconnected youth, the US government should consider the following recommendations:

- *Raise federal funding significantly and permanently for effective programmes serving disconnected youth.* This rise in federal funding is essential in the context of the current economic downturn. A substantial increase in funding would ensure that more out-of-school youth can be served without sacrificing initiatives for at-risk in-school youth. However, local communities should be required to justify spending on in-school youth based on local conditions and on how the services offered effectively supplement other programmes and services available from the education sector.
- *Favour summer jobs programmes for at-risk in-school youth served by federal initiatives.* Many analysts have pointed to the role that the Summer Jobs programme played in achieving positive post-education labour market outcomes. Indeed, the programme provided important work opportunities for youth with limited family networks and prevented at-risk behaviour during school holidays. Interest in promoting summer employment opportunities for youth has re-emerged in the context of the current crisis and the US government has emphasised that additional funding available for youth programmes through the Recovery Act should be spent primarily on such programmes.
- *Provide funding and assistance to build delivery capacity for youth services in communities with high poverty rates.* The Youth Opportunity Grants, which focused on an entire community rather than just on disconnected youth, significantly reduced NEET rates. Hence, their model should be duplicated.
- *Expand Job Corps for young adults and improve its effectiveness for teenagers.* In light of the programme's cost-effectiveness for young adults, its expansion should concentrate on this group first. At the same time, extra efforts should also be made to sustain teenagers' earnings gains beyond the short-term in order to raise the programme's cost-effectiveness for this age group. Evaluations suggest that these efforts should concentrate on encouraging teenagers to stay on the programme longer and to engage in more vocational education. A new rigorous evaluation to test whether these actions have been successful should be planned before the programme is expanded for teenagers as well.
- *Ensure that performance evaluation criteria reward the best programmes for disconnected youth.* The new evaluation system should improve on the one in use for WIA programmes and Job Corps in two

ways. First, the evaluation process should take local labour market conditions and client characteristics into account. An example of how this could be done is provided by the Star Rating system used to evaluate the performance of Job Network providers in Australia. In the system, the ratings are calculated using a regression model that looks at the number of jobs or outcomes that a site has achieved after controlling for the characteristics of its clients and the conditions of the local labour market. Second, the evaluation process should include longer-term objectives, beyond the current 12 months applicable to some Job Corps goals.

- *Launch an experimental evaluation of YouthBuild.* YouthBuild is the only major federal programme that has not undergone rigorous evaluation yet. It costs between USD 15 000 and USD 18 000 per participant and has benefited from an additional USD 50 million in Recovery Act funds.

- *Temporarily relax unemployment benefit eligibility conditions for unemployed youth with some work experience but apply stricter job-search requirements.* Given the severity of the current economic downturn, a temporary reduction in the contributory history required to qualify for unemployment benefits would help prevent some youth from disconnecting from the labour market. The federal government could provide the additional funding needed to enact these temporary changes at the state level, as it has done with the application of the alternative base period for benefit calculations. Alternatively, the government could set up a federal unemployment assistance fund for youth. In either case, financial support should be matched by stricter job-search requirements backed by the threat of moderate benefit sanctions in order to avoid benefit dependence.

- *Envisage the application of the mutual obligations principle to unemployment benefit recipients.* The application of this principle would provide an opportunity to direct the most at-risk unemployed youth to available employability programmes. It would also align practice in the United States to that prevailing in several other OECD countries. A swift move in this direction would be particularly important in the context of the current economic downturn.

Studying the effect of the rising minimum wage on the employment opportunities of teenagers

The Fair Labor Standards Act of 2007 approved a substantial rise in the federal minimum wage, from USD 5.15 to USD 7.25 per hour, to take place in three steps between July 2007 and July 2009. Plans to raise the minimum wage further and to index it to inflation have recently been put forward by the current federal government.

In 2007, before these increases started to come into effect, the ratio of the US federal minimum wage to the median wage was, at 0.34, the second lowest across OECD countries after Mexico. Although some states had significantly higher minimum-to-median wage ratios than the federal level, the highest ratios were only just near the OECD average of 0.45. As a result, only 5.8% of young

men and 8.1% of young women earned the minimum wage in 2007 and over 70% of them had moved to higher pay by 2008. However, even then, some youths were more affected than others. Notably, 16% of 16-18-year olds were employed at the minimum wage in 2007.

Hence, the 40% increase approved in 2007 could affect the employment prospects of some youth, notably teenagers, especially in the context of the current major economic slowdown. Even if median wages were to grow at the same rate as in the past five years, the minimum-to-median wage ratio would rise to 0.4 in July 2009. This would still be below the OECD average applicable to adults but it would be above the ratio of 0.37 applicable to 17-year olds in OECD countries with a sub-minimum wage for youth.

While the rise in the minimum wage is in line with the objective of guaranteeing that work pays, it is important that its effect on teenage employment is disentangled from the effect of the current recession. Hence, it would be desirable to:

- *Study the effect of the approved increase in the federal minimum wage for teenagers.* The collapse of teenage employment rates over the past decade warrants a closer look at the effect that the higher minimum wage may have once cyclical factors are accounted for. Additionally, the effect on school retention should be studied as there is evidence that the most disadvantaged students may leave school for the labour market when the minimum wage is too high. The findings of the study should be used to inform decisions on future minimum-wage increases.

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