

Barriers to jobs for young people

ALTHOUGH TOTAL UNEMPLOYMENT, while starting to trend upward, remains low at 5.6%, unemployment in Brazil among young people is still unacceptably high at 14.7%. That's the result partly of our very rigid labor legislation and high payroll taxes, and partly of the failure of the educational system to train young people in the skills employers are looking for.

Brazil is not the only country with many young people leaving school and unable to find work. Nor is it the first. Here, we can learn a lot from an initiative Germany undertook ten years ago. In March 2003, when Chancellor Gerhard Schroeder proposed a package of labor market reforms called Agenda 2010, more than 11.6% of the German workforce was unemployed, and among youth the rate was 16%. A widespread assumption was that unemployment could never be defeated, only managed. Agenda 2010 undertook to make Germany's labor market more flexible. It allowed small businesses to fire more easily, which lowered the cost of hiring. It liberalized rules for part-time and temporary work. Above all, it merged two types of benefits—federal assistance for the unemployed and municipal welfare payments—into one guarantee of a basic living standard. Ten years later total unemployment is 5.4% and youth unemployment is 7.7%.

One factor that had long been in place in Germany was a pragmatic educational system that, unlike Brazil's, emphasizes vocational training and company apprenticeships, and

another was a much lower rate of informality in the labor market. Brazil also suffers from structural incentives for worker turnover, specifically the unemployment insurance system, which also discourages firms from investing in training for their workers.

Experts on the labor market generally agree on the need for reforms in education, not only to prepare students for the working world but also to make it more attractive for them to apply themselves in school and to stay there to graduate. They are similarly agreed on the need to loosen the rigidity of the labor market and reduce payroll taxes. But not much has been done, because there is opposition from a variety of interest groups. Unions, for instance, are financed with a universal levy on formal workers, rather than member fees, which means that for all practical purposes they are not accountable to their members. Meanwhile, all those pushing their own interests are holding hostage the possibility of true

economic growth, which though perhaps less obviously would ultimately be greatly in their own long-term interests.

A year ago the Inter-American Development Bank published a report on "Structural Reforms in Brazil: Progress and Unfinished Agenda" that contained a section on labor market policies. There the IDB may have identified the most basic problem of all: "Needed labor market reforms do not appear to figure in the agenda of the current government." ■

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