Unemployed and Underemployed Youth:

A Challenge to Canada Achieving its Full Economic Potential

A Background Paper prepared
for Canada 2020

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EXECUTIVE SUMMARY

This paper on youth unemployment (and underemployment) is set against the backdrop of a policy paper series sponsored by Canada 2020. This collection of papers serve to help contribute to the ongoing public discourse on policy issues that impact Canadians and their standard of living. The aim of the report is to bring into focus existing empirical and qualitative evidence to help better understand some of the societal challenges facing Canadians, and in the process inform the role of public policy in addressing these challenges. Much of the analysis provided in this report is based on recent data trends and existing research undertaken by domestic and international inter-governmental bodies, business, government and civil society.

The trends described in this report underscore a simple and well-known fact: Canada's future economic success will depend on the strength and quality of its human capital. As recently emphasized in a report by the McKinsey Global Institute, a government could choose to make human capital central to its economic strategy, on the theory that where the best talent resides, innovation will thrive and investment capital will flow to support all kinds of economic activity.[1]

It is in this spirit that this report asserts that one of the best points of leverage for human capital investment is found in young people. This assertion is not based on some 'special' status that should be afforded to young people on the premise of intergenerational goodwill. Rather this report suggests that there are immediate and future economic costs tied to the unemployment and underutilization of young workers.

To gain a better perspective on whether Canada is leveraging its human capital investment efficiently and striving for efficient labour market conditions, especially when it comes to its young people, this report sheds light on recent developments on youth unemployment and underemployment trends. The report also looks at the potential that entrepreneurship holds for young people in today's workforce, and the type of support required to attract youth to the sector. Here is a summary of the findings:

Youth Unemployment: Part of the deterioration in labour market conditions experienced by young people are cyclical in nature, but structural factors appear to be taking root, especially among 15 to 19 year olds. And while the youth labour market for this age cohort appears weak on a national level, conditions are disproportionately bleaker

[1] "Help Wanted: the Future of Work in Advanced Economies," *McKinsey Global Institute*, March 2012.

in certain regions of the country, with only a few provinces displaying encouraging trends. *What's more, the unemployment rate of 15 to 19 year olds is persistently elevated at a time when the population of this age group is in decline.* Certain segments within the youth population are also experiencing disproportionately harsher labour market conditions, namely recent youth immigrants and Aboriginal youth. There is reason to be hopeful that improving economic growth supported by increasing exports will have a positive impact on youth employment nation-wide, but economic uncertainty continues to plague forecasts. Given the immediate and future cost associated with youth unemployment, waiting for economic uncertainty to dissipate before taking policy action may prove more detrimental than acting preemptively.

Higher education and youth underemployment: Canada compares favorably to other countries in terms of its level of investment in education, at the primary, secondary and post-secondary levels. However, Canada appears to be weaker than major OECD countries, including the United States, on levels of university attainment (college attainment levels is the driver behind Canada's high post-secondary ranking). Beyond improving university attainment levels, *a lingering risk is that Canada is not leveraging its highly educated population optimally as overqualified young workers end up in lower-skilled jobs, which may result in weaker returns on Canada's human capital investment over the long run.* In terms of incidences of overqualification for the entire working age population, Canada does not compare favorably relative to other OECD countries. More specific to youth, national indicators of youth underemployment have remained stable over recent decades, but *some segments of the university educated youth population appear more vulnerable – including youth with a degree in humanities and educated immigrants.* Other recent trends, such as the number of *part-time youth workers being at an all-time high*, are also a concern.

Youth entrepreneurship: For a country as economically diversified as Canada with youth unemployment and underemployment that vary in their cause and severity by region, youth entrepreneurship presents itself as a powerful engine for local job creation. *Moreover, fostering a culture of entrepreneurship among young Canadians may also help smooth out the exit of older business owners in coming years, a transition which, if not well planned, may increase overall downside risks to the economy.* In Canada, young entrepreneurs represent a small share of small-medium sized businesses. *Perhaps more worrisome is the fact that these percentages of SME ownership by young people has declined over the last decade.* While Canadian entrepreneurs appear to operate in one of the most supportive business environments across the G20, it appears less supportive to young people. This is likely attributable in part to the low level of support provided in the area of training and mentoring.

INTRODUCTION

Like all countries in the globalized economy, Canada faces continuous and growing pressure to be innovative and ever more productive. Keeping pace with global competition, evolving global supply chains, shifts in consumer demand, and new technologies require training and sustaining a robust, creative workforce.

Both economic theory and empirical evidence show that a nation's human capital endowment – the stock of competencies, knowledge, social and personal attributes, including creativity – can be a more important determinant of wages and wage growth, firm productivity, and overall economic growth and competitiveness than virtually any other resource. For developed economies, studies indicate that the positive effect of human capital investments on economic growth can be three times larger than the effect of physical investment (i.e., buildings, factories, machinery and equipment).[2] Young people are cited as a great leverage point for investments to human capital: the earlier the investment, the longer the benefits and usually lower the economic, fiscal and social costs over the long run (i.e., present and future loss wages, foregone value added in terms of production, fiscal impact of benefit payments and foregone tax revenues, health costs, etc.).[3]

The World Economic Forum (WEF) gives Canada high marks in assessing the state of its human capital relative to 122 countries (Canada ranks 10th), most notably in the area of education (Canada ranks 2nd).[4] However, investing in human capital is only part of the equation; leveraging it efficiently is another, and yet imperative to generate the type of aforementioned growth returns. In a knowledge-based economy, this requires an educated population, work opportunities matching skill sets, on-the-job training, and fostering an entrepreneurial mindset, among other factors. On this front, Canada also appears to get high marks. According to its latest Global Competitiveness Report, the WEF ranks Canada as the world's seventh most efficient labour market.[5] High labour-market efficiency means that workers are more likely to be allocated to their most effective use and provided with an environment where they are encouraged to give their best effort.

Despite performing well WEF's international benchmarks in the area of education and competitiveness, the Canadian economy experienced a significant downturn in 2008 followed by an economic recovery that has exhibited slow growth. Periods of economic recession and slow growth can disproportionately affect labour market conditions of more vulnerable segments of the population such as young people just entering or looking to enter the work force. Long spells of unemployment or underemployment can be particularly harmful to youth and the economy as a whole over the long run as direct financial and social costs can hamper, or diminish, returns from human capital investment in education among other areas.

While there is reason to be hopeful that improving economic growth will have a positive impact on youth employment conditions nation-wide, but economic uncertainty continues to plague forecasts. Given the immediate and future cost associated with youth unemployment and underemployment, this report takes the view that waiting for economic uncertainty to dissipate before taking policy action may prove more detrimental than acting preemptively.

Policy responses to challenges currently faced by youth in the labour market, including limiting instances of underemployment and fostering a more supportive culture for youth entrepreneurship will require collaborations and synergies across levels of government as well as the involvement of the private and non-for-profit sectors. To some extent this is already occurring, but more aggressive policy responses and a clearer vision is in order to improve the economic situation of young Canadians. Only by doing so will Canada protect its human capital endowment and maximize its future economic potential.

2 N. Gregory Mankiw, David Romer, and David N. Weil, "A Contribution to the Empirics of Economic Growth," *The Quarterly Journal of Economics* 107 (2) (1992): 407-437.
3 "Youth in Decision Making: A Global Perspective," Speech by Daniela Gressani, Vice-President at the World Bank, October 2007.
4 "The Human Capital Report", *World Economic Forum*, 2013.
5 The Global Competitiveness Report 2013-2014, Klaus Schwab World Economic Forum, Fall 2013.

1 RECENT DEVELOPMENTS IN THE CANADIAN ECONOMY AND ITS IMPLICATIONS FOR YOUTH EMPLOYMENT

1.1 Recent Developments in Canada's economy

The Canadian economic landscape has undergone important changes over the past 10 years. Factoring these changes is critical to understanding the long-term trends in the Canada's labour market and related implications for young people.

Prior to the recession in 2008-09, a mix of declining interest rates, booming global growth and rising commodity prices fuelled national output as well as profits and demand for labour across most sectors of the economy. The recession represented a setback in terms of output and employment, with job losses being largely concentrated in the export-oriented sector. Some domestic sectors incurred job losses, but Canada's sound financial system combined with the federal government's strong fiscal position and a resilient overall macroeconomic environment made the net impact on employment conditions less precarious than other developed economies.

Since 2010, output has reached well above pre-recession peaks and employment conditions on the export side of the economy have improved in conjunction with global economic conditions, helping Canada to recoup the 432,000 job losses suffered during the great recession. In fact, there are 600,000 more people working today than was the case before the recession unfolded.[6]

[6] "Jobs in Canada: Where, What and For Whom?", TD Economics, October 2013.

1.2 Adjusting to the shock from the financial crisis and recession

This is not to say the Canadian economy is not going through some adjustments to the shock of the global financial crisis and its ensuing great recession. Indeed, weak global demand has left Canada in a trade deficit position since 2010. With net exports not contributing to GDP growth, Canada was able to weather through the recession and its aftermath in large part due to the strength of its domestic consumption. However, levels of domestic consumption are expected to moderate as Canadians begin to pay off their record level of household debt.[7] With the current government's plan to return to a balanced budget by 2015-2016, there is limited fiscal room to manoeuvre, leaving exports and investments to support growth. As this has yet to occur with exports and investments remaining weak contributors to GDP growth, the Canadian economy has experienced slow growth since 2010 (below 2%), with projected growth expected to remain at 2.5% over the Bank of Canada projection horizon (2014 and 2015).[8]

Looking ahead, some uncertainty appears to plague Canada's economy. As the Bank of Canada noted in its recent *Monetary Policy Report*, a recovery in global trade is expected over the next two years, supported by growing international demand underpinned by U.S. economic growth – which takes in more than three quarters of Canadian exports. However, competitiveness challenges make this outcome uncertain. According to the Bank of Canada's *Business Outlook Survey*, many firms continue to cite difficulties in growing market share in the face of tough competition from the U.S. and other foreign firms. Over the next year, more service sector firms anticipate modest hiring to meet their sales expectations, but hiring intentions have declined in the goods sector. Given

[7] Canadian household debt-to-disposable income has reached record levels, and has surpassed U.S. household measures of leverage.

[8] *Monetary Policy Report*, Bank of Canada, January 2014.

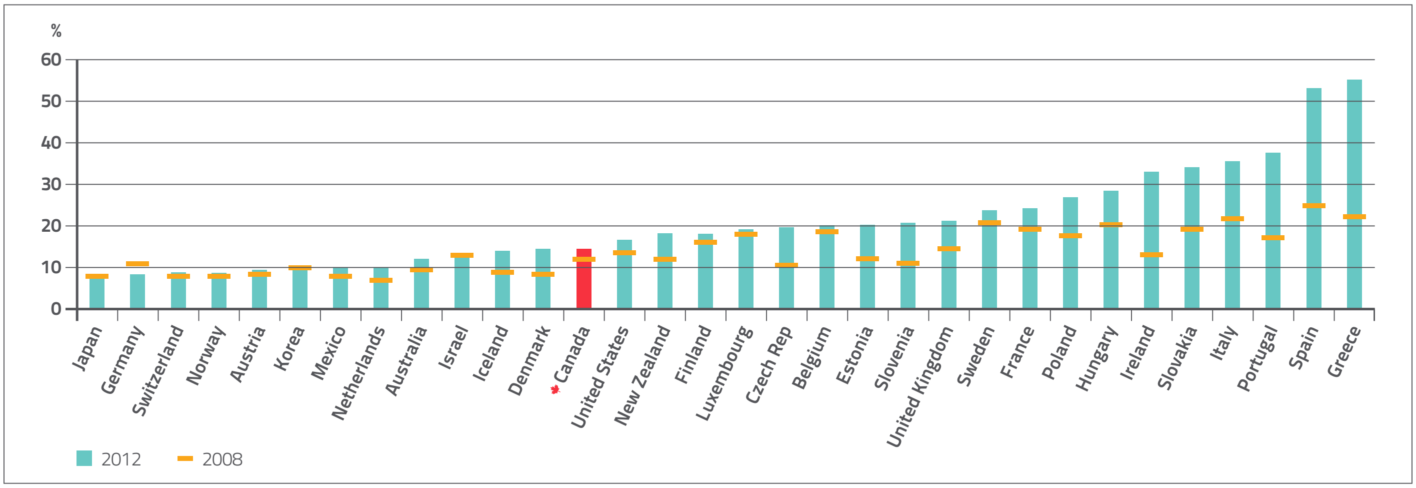
that a majority of young workers are employed in the services sector, this may prove beneficial; however, modest hiring may not take place evenly across all service sectors. For instance, the domestic retail sector is experiencing intensifying competition from the market entry of U.S. retailers in addition to a weaker dollar, which is increasing input costs (i.e., imported goods). Early in 2014, thousands of Canadian retail workers lost their job and more job cuts are expected in the coming months.[9]

1.3 Canadian youth disproportionately hurt by the recession

At first glance, certain indicators describing the state of youth employment in Canada appear to show some positive trends. However, some of these indicators are masking disconcerting developments that warrant closer scrutiny.

Canada youth unemployment rate (15 to 24 years of age) was an estimated 13.7% in 2013, which compares favorably from an international perspective (Chart 1).[10] In addition, the current generation of young workers in Canada appears less severely impacted by the most recent recession than youth in previous downturns. Youth unemployment rates reached as high as 19.2% and 17.2% in previous recessions and remained elevated for a longer period (up to 18 months in 1990s recession). In the latest recession, the unemployment rate peaked at 15.2% and began to decline a few months after Additionally economic growth resumed (Chart 2). Additionally, although the youth unemployment rate is the highest among all age groups, this is not completely abnormal from a historical standpoint – even in recessions youth tend to be the last age cohort to benefit from a recovery following a downturn.[11] The proportion of young people losing their jobs involuntarily also continues to drop with only 12.3% of young Canadians experiencing this fate in 2013, a more than two-fold decline since the 1990s. Furthermore, for nearly 50% of all unemployed Canadian youth in 2013 unattached to the labour market prior to their unemployment spell, attending school was the main activity of choice – more than twice the rate observed in 1980. According to a recent study by Statistics Canada, young people are staying in school longer with some delaying their departure from the family home, which may also be delaying their definitive entry into the labour market.[12] Being unemployed after attending school or training can be viewed to some extent as a natural phenomenon that is part of integration or re-integration into the workforce. Although, and as the next section of this paper

Chart 1: **Youth unemployment rate by country, 2008 & 2012**



Source: OECD Labour Statistics

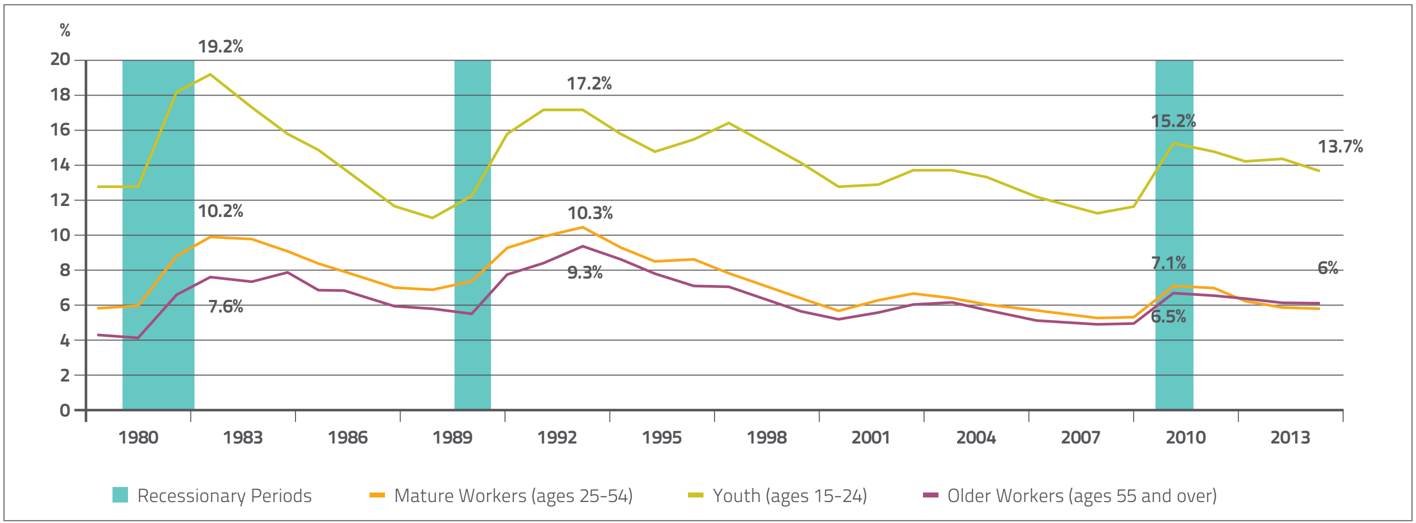
9 In January 2014, Best Buy and Sears announced the layoff of 950 and 2,200 full-time employees, respectively.

10 Canada's youth unemployment rate was slightly more pronounced than the global average of 12.6% but still better than the average of OECD and G7 countries, which was estimated at 16.3% and 16% respectively. (Source: Global Employment Trends for Youth 2013: A Generation at Risk, International Labour Organization, 2013.)

11 According to the Certified General Accounts of Canada, a number of explanations exist for the constantly elevated unemployment rates faced by youth even the absence of downturns. For instance, youth typically have less general work skills whereas its human capital may be less specific for the particular firm or employer; youth may also have a narrower professional network outreach; the willingness of parents to support unemployed youth financially or through intra-household in-kind transfers may also create disincentives for extensive job-search activities.

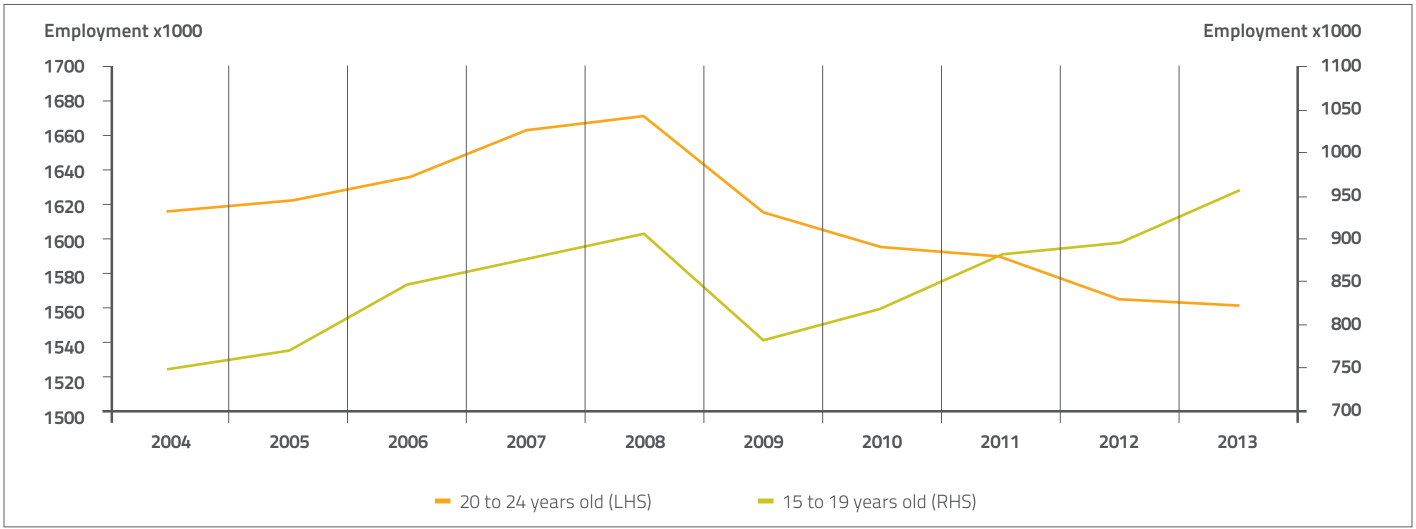
12 Diane Galarneau, René Morissette et al. "What has Changed for Young People in Canada?", Insights on Canadian Society, Statistics Canada, July 2013.

Chart 2: **Canadian unemployment rate by age cohort, 1980-2013**



Source: Statistics Canada

Chart 3: **Canadian employment by age cohort, 2004-2013**



Source: Statistics Canada

will show, some youth may not be working in a field where they are optimally using their skills or qualifications.[13]

However, these positive trends are hiding some developments that are cause for concern. Firstly, the youth unemployment rate is now 2.3 times higher than the national average, the highest gap in the past 30 years suggesting that market conditions appear to be disproportionately less favorable to young people. This is occurring at a time when demographic trends should be supporting lower unemployment among young people. Indeed, the Canadian youth population has declined from 19% in the early 1970s to 13% in 2011.[14] Secondly, deteriorating labour market conditions have been particularly notable for those aged 15 to 19, with the unemployment rate for this age cohort hovering around 20% since 2009 – almost 4% higher than in 2000. Since September 2008, youth aged 15 to 19 have lost roughly 265 thousand jobs, while those aged 20 to 24 and 55+ years had net job gains of 26 and 705 thousand respectively (Chart 3).

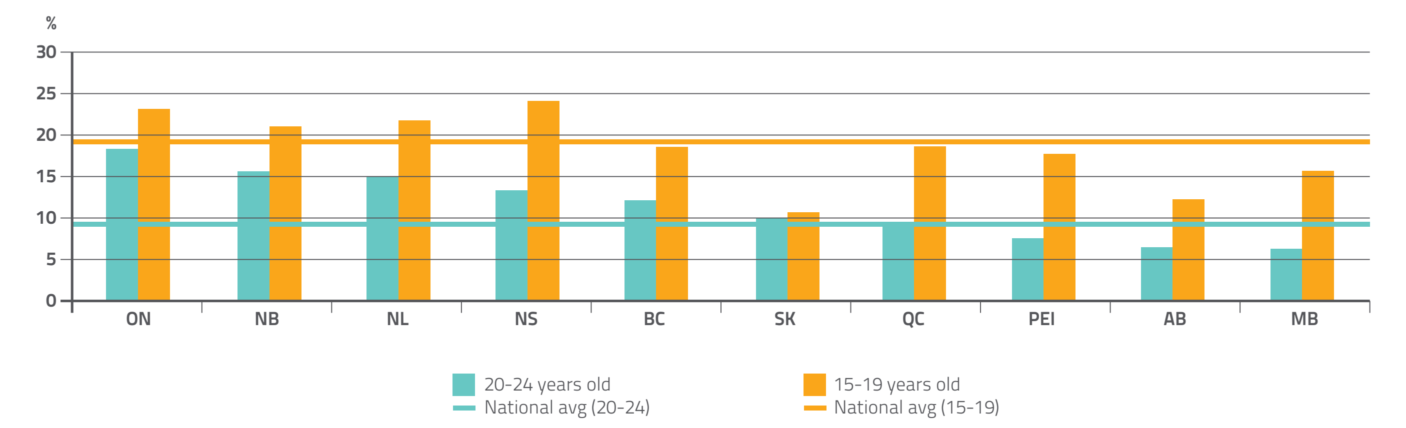
[13] Source: Statistics Canada, Labour Force Survey, 2013.

[14] Diane Galarneau, René Morissette et al. "What has Changed for Young People in Canada?",July 2013.

Chart 4: **Population and unemployment rate (ages 15-19, 1976-2013)**

Source: Statistics Canada

Chart 5: **Youth unemployment rate by province (2013)**



Source: Statistics Canada

TD bank economists attribute the decline in employment to increased competition for entry level jobs faced by the 15 to 19 age cohort.[15] The competition may come from two sources: (1) older more experienced workers remaining in the workforce (a trend that may have staying power); (2) a by-product of employers increasingly wanting more education, experience and skills from new hires (also symptomatic of underemployment condition as educated young people may be in lower-skill jobs, see next section for more detail on this topic).

What is particularly concerning about the persistently high unemployment rate of 15 to 19 year olds is that it is remaining elevated at a time when the population of this age group is in decline (Chart 4). Research shows that the change in the cohort size of workers, in this case 15 to 19 year olds, affects the unemployment rate pushing it to move in the opposite direction.[16] Some might suggest that such an adjustment will occur over time, but it has been 4 years in waiting – previous drops in population for this age group, such as in the early 1980s, took less than 2 years to trigger a downward adjustment of the unemployment rate.

Another aspect that data aggregated at the national level masks is the regional dimension of youth unemployment. Depending on the provincial vantage point, the employment reality of young Canadians may look very different. For

15 "Jobs in Canada: Where, What and For Whom?", TD Economics, October 2013.

16 Bell, D.N. and Blanchflower, D.G. "Young People and Recession: A Lost Generation?" Institute for the Study of Labour (IZA), 2010.

instance, the youth unemployment rate of eastern provinces, namely Ontario and the Atlantic provinces (with the exception of PEI), is consistently higher than the national average for both 15 to 19 and 20 to 24 year olds (Chart 5); in some cases exceeding the Canadian average by 4 to 5 percentage points. Overall, most provinces are experiencing high unemployment rates for 15 to 19 year olds, with the exception of Alberta and Saskatchewan. Even Quebec which implemented an action youth strategy, with a focus on youth integration into the workforce, appears to exhibit a high unemployment rate for its 15 to 19 age cohort. In many provinces, youth employment trends have either deteriorated or shown little sign of progress sincefully the onset of the recession, suggesting that deteriorating labour market conditions may be becoming chronic. And the unemployment rate is not the only employment indicator looking bleak. In the case of Ontario, young workers were twice more likely to be laid off than adult workers.[17] Other provinces, such as the Atlantic provinces, are experiencing very low levels of economic growth, especially in non-resource export sectors (such as services), which is affecting youth disproportionately.

1.4 Young immigrants and aboriginal youth facing harsher labour market conditions

Beyond the regional dimensions of youth unemployment, certain segments of the youth population are facing higher unemployment rates than the national average, namely young immigrants and young aboriginals.

Young immigrants between 15 and 24 years of age had an unemployment rate of 16.3% in 2013, almost 3% higher than the unemployment rate of their Canadian-born counterparts of the same age group.[18] The situation for young recent immigrants does not appear to be improving as the gap in the unemployment rate between recent immigrants and Canadian-born youth has been growing since 2011. In addition to higher unemployment, young immigrants are also experiencing disproportionately high levels of underemployment compared to their Canadian-born counterparts.[19]

Young Aboriginal peoples are likely the group that is at the greatest disadvantage when it comes to employment prospects in Canada, and appear to have been disproportionately affected by the economic downturn experienced in 2008. In 2010, the unemployment rate among Aboriginal youth aged 15 to 24 was 21.1% compared to 14.7% for non-Aboriginal youths.[20] For the same year, 57% of Aboriginal youth were either employed or looking for work (i.e., participation rate in the labour market) compared to 64.8% of non-Aboriginal youths. From 2008 to 2010, the participation rate of Aboriginal youth declined (5.0%) more sharply than for non-Aboriginal youths (2.9%).

Young immigrants and Aboriginal youths are experiencing harsher jobs prospects than the already difficult labour market conditions faced by the larger youth population in Canada. Labour market challenges differ for these groups, and as a result, existing policy responses have been designed in an effort to meet the respective needs of these groups. For instance, recent immigrants are generally more educated than Canadian-born individuals. More than half (56%) of recent immigrants had a university degree, compared to a quarter of the Canadian born population; yet the unemployment rate for recent immigrants with a university degree was five times the unemployment rate for university-educated, Canadian-born individuals.[21] The issue for recent immigrants is one of credential recognition and language training. As for Aboriginal youth, the challenge remains one of higher education attainment. Despite improvement over recent years, post-secondary educational (PSE) attainment rates are still very low among Aboriginal peoples. Approximately 38% of Aboriginals had some level of PSE in 2011 (i.e., college, university, specialized training), relative to almost 55% for non-Aboriginal Canadians.[22] According to TD economics, this implies that nearly two-thirds of Aboriginal peoples have a high school degree or less.

Clearly, existing policy tools are not doing enough to address the labour market challenges faced by young immigrants and Aboriginal youth. Existing labour market policies for these

[17] Sean Geobey, “The Young and the Jobless: Youth Unemployment in Ontario,” Canadian Centre for Policy Alternatives, Sept 2013.

[18] Statistics Canada defines recent immigrants as “landed” immigrants. A landed immigrant is a person who has been granted the right to live in Canada permanently by immigration authorities. Canadian citizens by birth and non-permanent residents (persons from another country who live in Canada and have a work or study permit, or are claiming refugee status, as well as family members living here with them) are not landed immigrants. (Source: Statistics Canada Labour Force Survey Estimates)

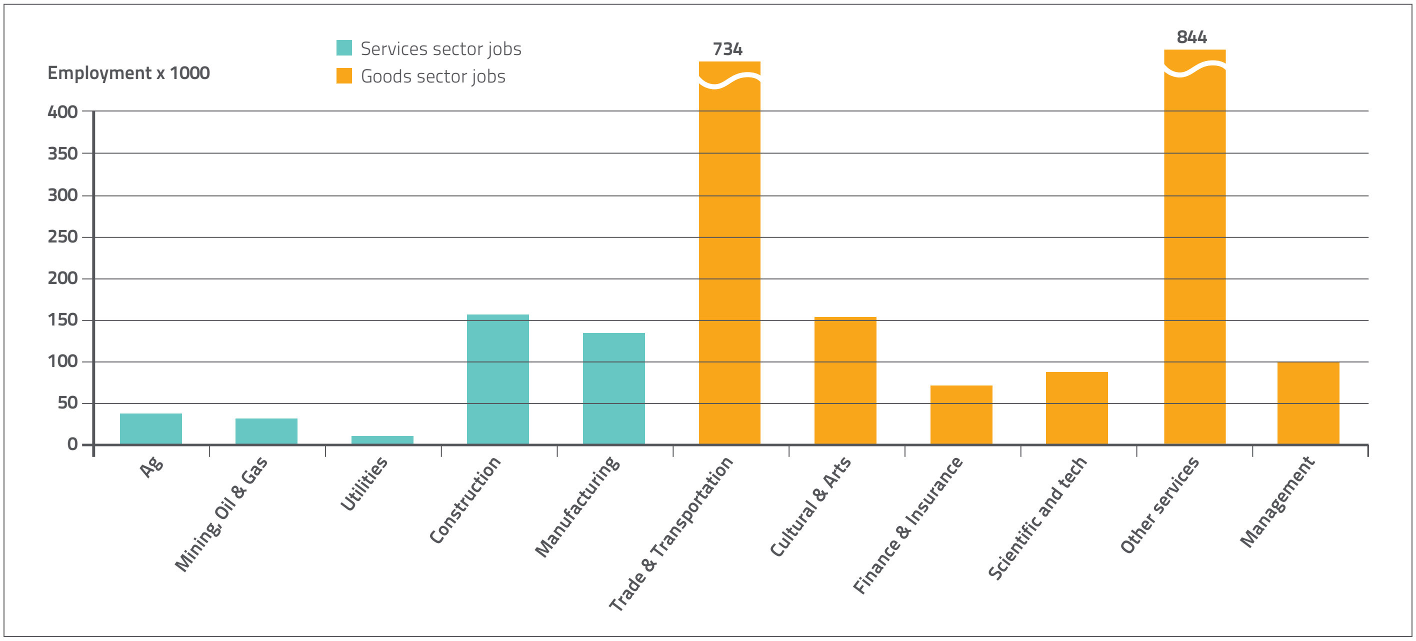
[19] For more information on levels of underemployment among young immigrants, please see section 2.2 of this report.

[20] Jeanine Usalcas, “Aboriginal People and the Labour Market: Estimates from Labour-Force Survey Statistics Canada, November 2011.

[21] “Canada’s Labour Market Sputtered in 2013,” Policy Brief, Canadian Chamber of Commerce, February 2014.

[22] Francis Fond and Sonya Gulati, “Employment and Education Among Aboriginal Peoples,” Special Report, TD Economics, Oct 2013.

Chart 6: **Youth employment by sector (15-24 age cohort, 2013)**



Source: Statistics Canada

segments of the youth population need to be assessed with the input of community stakeholders (including other levels of government, private sector and non-for profit groups) and develop a more targeted and aggressive policy tool kit.

1.5 How do youth stand to gain from improving economic growth and rising exports?

If Canada is to attain the levels of economic growth projected by the Bank of Canada in the coming years (2.5%), the support will need to come in part from an increase in exports. As mentioned previously in this paper, some uncertainty remains, especially pertaining to the impact of U.S. growth on Canadian exports, leaving firms with modest hiring intentions in the services sector over the coming year and a decline in hiring in the goods sector.

The recent depreciation in Canada's currency is likely to make exports more competitive. But how would a growth in exports and better global economic growth more generally impact the youth labour market in Canada? The bulk of Canada's exports are in the goods sector, and while most youth are employed in the services sector (Chart 6 & 7),[23] a turnaround in the export of goods could help reverse job losses in the natural resource and manufacturing sectors; youth have experienced job losses of 2.2% and 5.5% in these respective sectors on an average annual basis since 2005.[24]

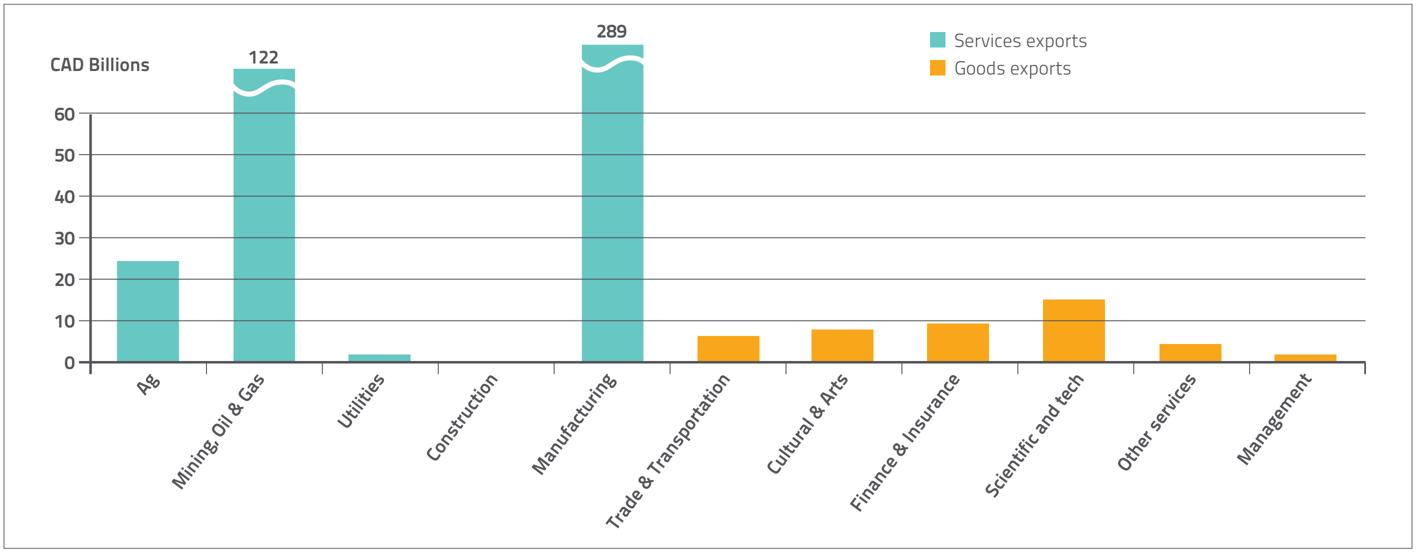
Improved global growth would likely support elevated commodity prices, which would bolster investment in the natural resource sector. Such gains could also help offset future potential job losses in the construction sector as a slowdown in the housing sector, even in a soft landing scenario, might erase some of the job gains made by young people in this sector over recent years.[25] An increase in services export would also provide support to the youth labour market. In the services sector, youth job growth has come from scientific and technical services with employment increasing by 3.4% on an average annual basis, an encouraging trend as high-skilled jobs are found in this sector. More broadly, domestic services firms, even if not export intensive, are likely to gain from the rise of economic

[23] In reference to Chart 6, 84% of Canadian youth (15 to 24 year olds) are employed in the services sector, with 50% of all youth jobs concentrated in the trade and transportation sector (which includes retail trade) and accommodation-food services industries.

[24] One bright spot in the goods sector is that youth jobs grew by 7.4% in the utilities sector on average annual basis, but this growth is coming off such low levels of employment (chart 7) that the gains are marginal in job number terms.

[25] Youth had job gains of 3% on an average annual basis in the construction sector since 2005.

Chart 7: Canadian exports by sector (2012)*



*Services exports as of 2011

Source: Statistics Canada

activity generated by exporting firms and a lower dollar (through, among other channels, an increase in tourism), which could provide further support to youth employment.

An increase in exports and investment along with elevated commodity prices over the coming years looks promising overall for youth labour market conditions. However, important risks to the macroeconomy remain. Should exports and investment fail to contribute more significantly to GDP in the coming years at a time when domestic consumption and housing will provide less support to growth, youth unemployment may worsen. This could be compounded by ongoing fiscal tightening.

1.6 The cost of youth unemployment

As was recently noted by economists at the C.D. Howe Institute, the burden of recessions is that it is distributed unevenly across the population.[26] In actual recessions, the vast majority of the population experiences little or no change in real income; at the same time, a small segment of the population loses most or all of its income for a period up to a few years. In this regard, youth are one of the most vulnerable segments of the population.

Recent research from TD economists reveals that the economic cost (i.e, wage losses) of the recent decline of youth employment has notable implications for Canada's economy both in the short and long term.[27] The immediate cost of wage losses due to unemployment is estimated at $10.7 billion, with long term costs (or future wage losses) over an 18-year period estimated at $12.4 billion for a combined total of approximately $23 billion or 1.5% of GDP.

This to say nothing of indirect economic losses such as foregone value added that would have been generated by the production of goods and services (as well as the multiplier effect stemming from the additional production) by those not working. To this list can be added social costs stemming from higher unemployment (i.e., crime and deterioration of health standards) and the fiscal impact from benefit payments and foregone tax revenues.[28]

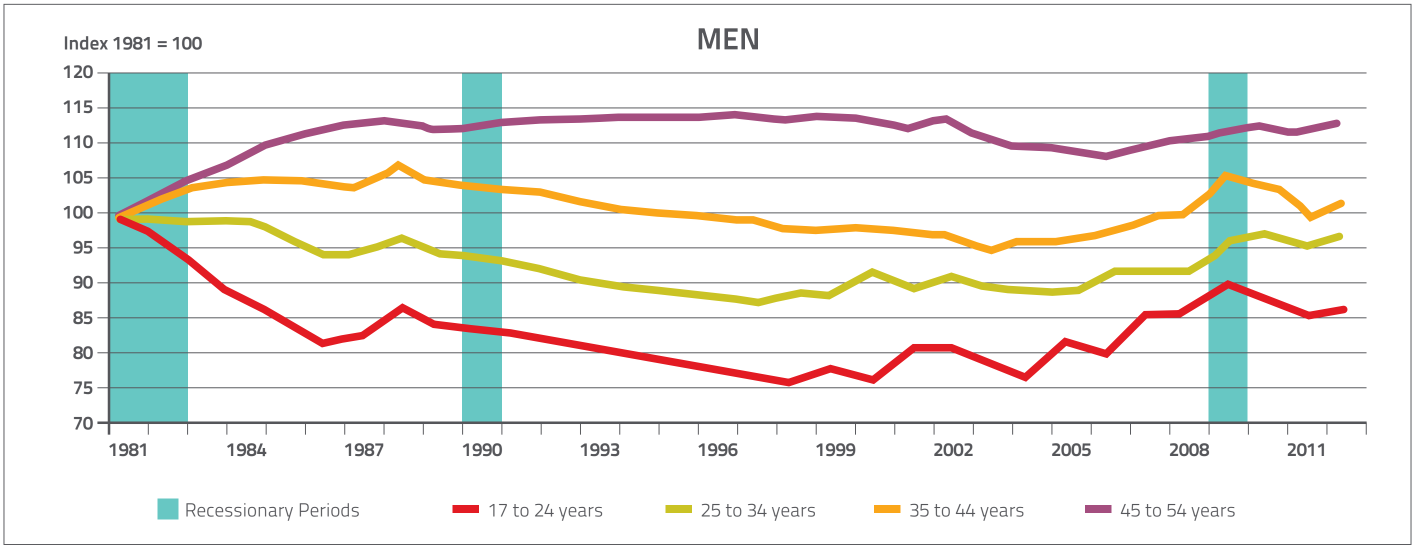
While these economic, fiscal and social ills are not unique to young people, unemployment spells early in a young person's work life can have lasting negative effects on productivity and employment opportunities.

[26] Christopher Ragan, "The Burden of a Slow Growth Recovery: Canadian Macro Policy After the Crisis," C.D. Howe Institute, Spring 2014.

[27] "Assessing the Long Term Cost of Youth Unemployment," TD Economics Special Report, January 2013.

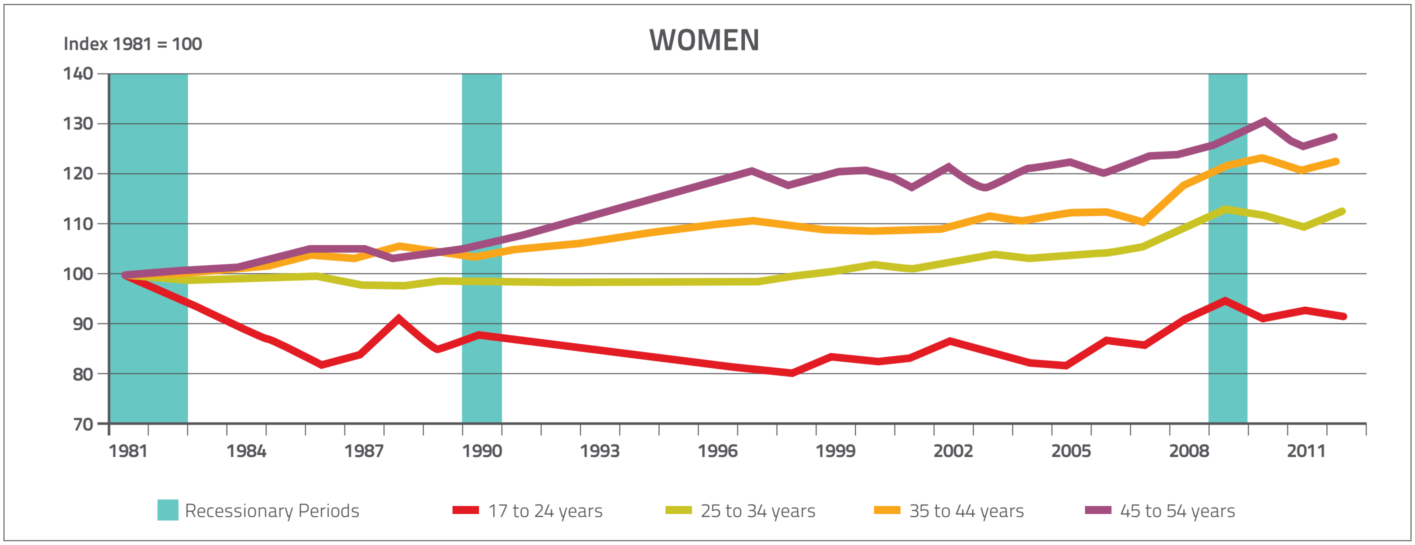
[28] Fiscal impact could be reconsidered a redistribution of income from taxpayers to benefit recipients rather than a "pure" economic loss.

Chart 8: **Median real hourly wage of full-time workers, 1981-2012**



Source: Statistics Canada

Chart 9: **Median real hourly wage of full-time workers, 1981-2012**



Source: Statistics Canada

1.7 Employment Conditions: Are Young People Better Off Today?

Looking beyond the unemployed, a key indicator of youth employment conditions are the wages they earn as workers. Recent reports by Statistics Canada have shown that while real wages appear to have improved for younger workers over the last decade, men and women between the ages of 17 and 24 earned respectively 13% and 8% less in 2012 than their counterparts in 1981 (Charts 8 and 9).[29] Since the onset of the recession, real wages for men and women aged 17 to 24 have declined by more than 3%, more than any other age group. In fact most other age groups (with the exception of men aged 35 to 44) have sustained real wage increases since 2009.

[29] Given the small percentage of 15 to 16 year olds that have full-time employment, Statistics Canada chooses to exclude this cohort from its youth wage statistics. (Source: Diane Galarneau, René Morissette and Jeannine Usalcas, "What has Changed for Young People in Canada?", *Insights on Society*, July 2013.

One concerning trend emerging is that the real wages of men aged 25 to 34 has also declined more than 3% since 1981. In a study on wages and full-time employment rates, researchers at Statistics Canada found that the average real weekly wages of young male workers with a bachelor's degree (aged 20 to 34) declined by 1.5% (it increased moderately for women 4.3%). Conversely, the average real weekly wages of those with high-school diplomas increased by 8.5% and 11% for men and women respectively. According to the writers of the report, higher education is still associated with better labour market outcomes, whether it is in reference to pay rates or full-time employment rates, but the wage differential between skilled and unskilled youth appears to be narrowing.

2 AREAS OF IMPROVEMENT IN HIGHER EDUCATION AND EMERGING TRENDS IN YOUTH UNDEREMPLOYMENT

2.1 Education a vital component to maintaining a quality of labour

In a globalized business environment underpinned by a knowledge-based economy, quality of labour is one of the key influencing factors in a firm's decisions regarding the locations of its production and related business processes. The stages of production established domestically by firms are critical as those activities dictate quality of jobs, level of income, and overall living standards.[30]

Investment in education is viewed as the main vehicle for protecting the quality of labour over the long run. By international standards, Canada compares favorably investing 6.6% of its GDP on education – higher than the OECD average of 6.3%.[31] The World Economic Forum ranks Canada second worldwide (behind Finland) in terms of the education component (granted this assessment captures primary, secondary and post-secondary education levels) of its human capital investment.[32]

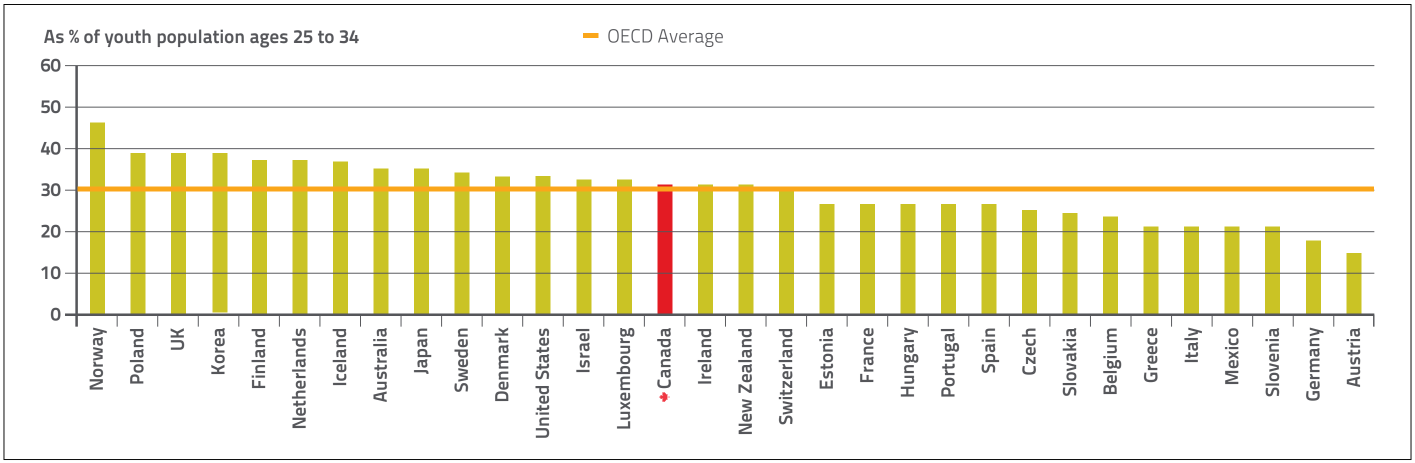
In terms of post-secondary attainment levels, Canada's attainment rate among 25 to 34 year olds is estimated at 57% (ranking only second to Japan), considerably higher than the OECD average (39%), the United States (43%) and Europe (36%).[33] From 2000 to 2011, Canada also experienced an average annual growth rate of 1.5% in university/college attainment for 25 to 34 year olds, which compares favorably to the United States (1.1%) and the OECD (-2.8%). Canada's strength lies in its college attainment rate for 25 to 34 year olds (26%) scoring much higher than the OECD average (10%) and the United States (10%).

Looking only at the attainment rate for university level education for 25 to 34 year olds, Canada's score (31%) is on par with the OECD average (30%), but falls behind a number of countries, including the United States (33%) (Chart 8). While Canada's rate of university attainment is not abysmal (most countries have a university attainment rate under 40%), one should take note that a number of countries are turning out a higher percentage of young university graduates (relative to the size of their population) than Canada. If Canada is looking for areas to improve its education record, increasing university attainment levels appears relevant.

However, and as the next section of this paper demonstrates (section 2.2), increasing university attainment writ large (i.e., indiscriminately across all disciplines) may not be optimal from a human capital investment standpoint. A more targeted approach may be warranted as certain fields exhibit a large concentration of graduates, which may be leading to an excess supply in some cases. The end result is that graduates in disciplines with large concentration of students are experiencing greater difficulty finding work that is aligned with their qualifications. It therefore becomes imperative that any effort to increase university attainment levels be targeted in certain fields/disciplines to avoid exacerbating underemployment trends in certain sectors.

30 Youth Unemployment in Canada: Challenging Conventional Thinking? Certified General Accountants Association of Canada, September 2012.
31 Based on data collected by the OEDC as of 2009. Source: "Education Indicators in Canada: An International Perspective," Statistics Canada and Council of Ministers of Education, January 2014.
32 For more on the World Economic Forum's ranking system for human capital investment, please see section 5.
33 Education at a Glance 2013: OECD indicators, June 2013.

Chart 10: **Percentage of population that has attained university education (2011)**



Source: OECD database

2.2 Canadian youth underemployment: an important determinant in the erosion of labour quality

While Canada's university attainment levels could be improved, are current university graduates finding the right jobs that fit their qualifications? A university graduate that is not applying the skills obtained in an optimal fashion can be viewed as wasteful from a human capital perspective. These effects of underemployment can be more subtle than those caused by unemployment, yet can be just as pernicious to protecting the quality of labour and long-term economic growth. In terms of incidences of overqualification for the entire working age population, Canada does not compare favorably relative to other OECD countries. More specific to youth, national indicators of youth underemployment have remained stable over recent decades, but some segments of the university educated youth population appear more vulnerable – including youth with a degree in humanities and educated immigrants. Other recent trends, such as the number of part-time youth workers being at an all-time, are also a concern.

Underemployment can be detrimental to a country's quality of labour as it does not allow an individual to work in his or her desired capacity, whether in terms of the level of skills and experience that can be offered by that worker or the hours worked. As noted in a recent report by the Certified General Accountants Association of Canada (CGA Canada), "the unemployment rate is a highly visible economic indicator attracting extensive media and policy attention. Conversely, there is no such thing as an "underemployment rate" and the consequences of underemployment often remain undetected by the policy radar."[34]

For youth, the consequences of underemployment may be particularly harmful as longitudinal studies of young people who faced long spells of underemployment (and unemployment) in precarious, low-wage, no-benefit jobs have shown that they struggle to catch up with older workers and peers and face persistently lower earnings.[35] At the macroeconomic level, underemployment reduces GDP growth through the waste of human capital and/or reduction in productivity.

Recent international skill-based surveys have shown that Canada does not compare favorably to other countries when it comes to underemployment. Results from the OECD's 2012 Adult Skills Survey revealed that 27% of Canadian workers reported to have qualifications exceeding those deemed necessary to get their job (Chart 9).[36] By this measure, Canada ranked poorly compared to other OECD countries, with a notably higher level of overqualification than the OECD average (21%) and the U.S. (19%). The study also showed that the likelihood of over-skilling, or instances of

[34] "Youth Unemployment in Canada: Challenging Conventional Thinking?", Certified General Accountants Association of Canada, 2012.
[35] Karen Foster, Youth employment and un(der) employment in Canada: More than a Temporary Problem?, Behind the Numbers, Canadian Centre for Policy Alternatives, October 2012.
[36] The Survey of Adult Skills (PIAAC) covered 157,000 respondents across 24 OECD member countries.

Chart 11: **Incidence of overqualification by country (2012)**

Source: OECD, Survey of Adult Skills 2012

overqualification, declines with age suggesting that young people are more vulnerable.[37]

National statistics on the overqualification of recent university graduates, which more youth specific than the OECD survey, tell a more nuanced story. A recent study by Statistics Canada revealed that over the last 20 years an increasing number of university graduates aged 25 to 34 worked in 'professional' occupations.[38] The same study showed that recent university graduates working in sub-optimal jobs given their level of education had not notably increased from 1991 to 2011. Today, approximately 18% of men and women with a university degree aged 25 to 34 worked in occupations usually requiring a high school education or less and about 40% worked in jobs requiring a college-level education or less. These levels cannot be compared to other countries, and as a result it is difficult to gauge whether Canada is doing well on a relative basis. However, the fact that these rates have remained stable over the last 20 years have led many commentators to view it as an indication that underemployment among young people is not deteriorating on a national level.

However, some segments of recent university graduates appear to be experiencing greater difficulty finding work that is aligned with their qualifications. According to Statistics Canada, close to one third of working men and women with a university degree in humanities (i.e., history, literature, philosophy) and close to 25% of those in social and behavioral sciences were employed in occupations requiring a high school education or less, that is close to three times the rate of those graduating in the field of education and twice the rate of graduates in architecture, engineering and health related fields. What is particularly concerning about these findings is that humanities and social/behavioral sciences had the highest number of bachelor degree enrollments in 2011, and are among the top fields of study that contributed to the growth of bachelor degree enrollments over the latest decade (Chart 10).

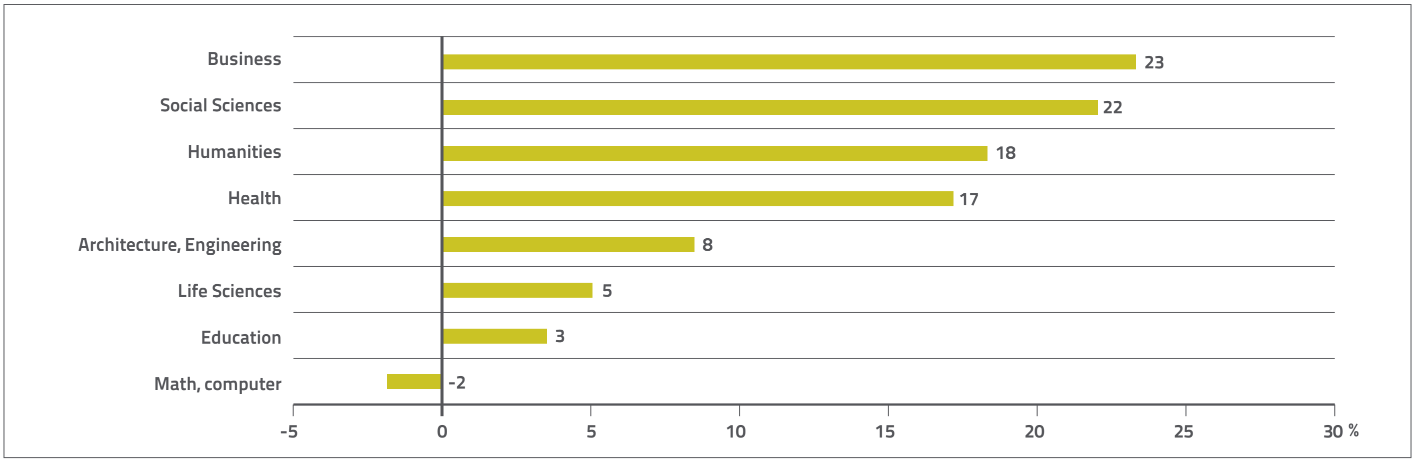
Another segment of the university educated population that appears vulnerable to be underemployed is young immigrants. Among university-educated immigrants aged 25 to 34 who did not graduate in Canada or the U.S., a staggering 43% of women and 35% of men worked in occupations requiring a high school education or less. This trend is particularly troubling given that 20% of Canadians with either a college diploma or a bachelor's degree are immigrants.[39] That share rises with the level of education with half of all PhD holders in Canada being foreign-born.

[37] It should be noted that OECD survey results are based on the self-reported views of workers, not the employer, at the time of the interview (prior to hiring). The potential for some respondent biases should therefore not be overlooked. The survey specifically asks about the qualifications required to obtain the job at the time of the interview, which may not necessarily be the same as the requirements demanded of the respondents when they were hired. Despite these caveats, these results illustrate both the demand for workers with post-secondary education and the level of complexity of jobs, as perceived by currently employed workers.

[38] In 2011, 28% of women and 18% of men worked in professional occupations compared to 18% and 13% for these respective groups in 1991. (Source: Overqualification among recent university graduates in Canada, Insights on Canadian Society, Statistics Canada, April 2014).

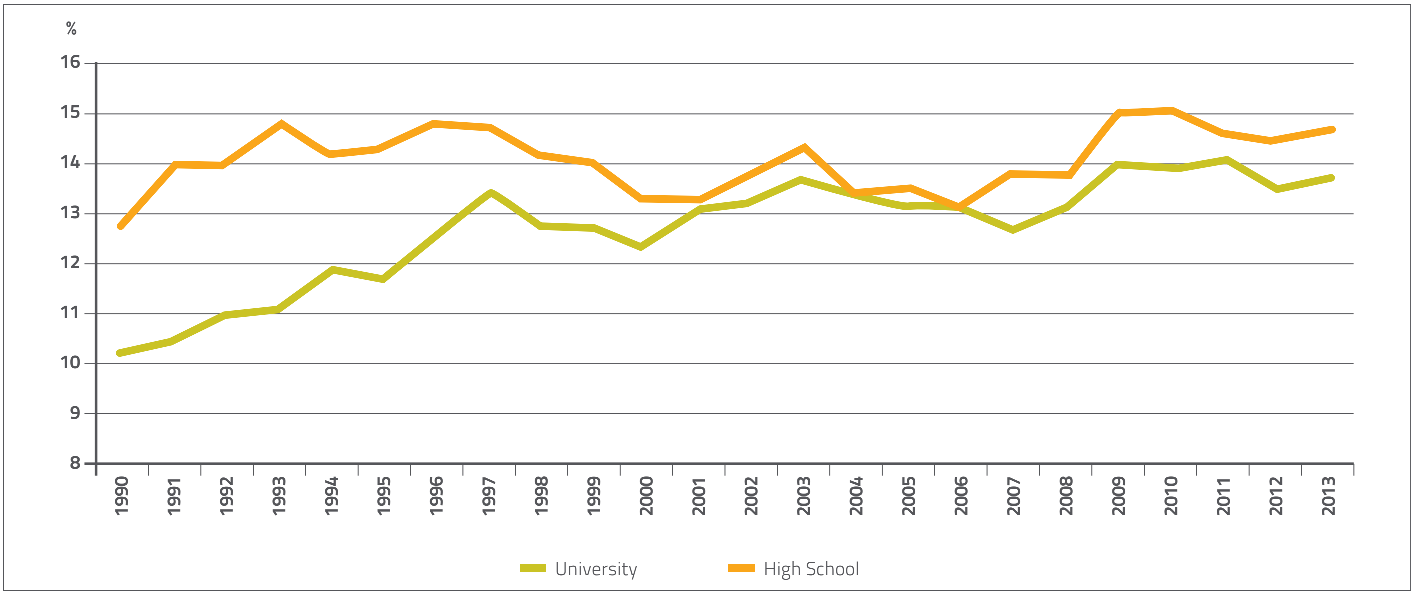
[39] Benjamin Tal and Emanuella Enenajor, "Degree of Success: The Payoff to Higher Education in Canada", *CIBC Economics*, Aug 2013.

Chart 12: **Sources of growth in bachelor degree enrollments (2001-2011)**



Source: Statistics Canada, CIBC Economics

Chart 13: **Share of part-time employment in total employment**



Source: Statistics Canada

Measuring underemployment is not limited to the issue of whether an individual is overqualified for the job at hand. In addition to ascending to a job that meets an individual's level of skill attainment, workers must also be working to their full capacity. Recent trends reveal that the share of part-time workers among university-educated Canadians rose from 10.4% in the 1990s to 13.7% in 2013, with the gap relative to high school graduates narrowing from 3.5% to 1% since the early 1990s (Chart 10). Looking more broadly at part-time employment trends (beyond the level of education attainment), about 22% of 15 to 19 year olds and 14% of those aged 20-24 who are non-students in the labour force are working on a part-time basis, representing a record high for both age groups. In addition, about 70% of these youth working part-time are doing so involuntary, a rate not experienced since 1997 and which has been increasing over the past years.[40]

Like unemployment, a degree of underemployment is always expected in the labour market as some mismatch between a worker's skills and those demanded by his or her job is

[40] Benjamin Tal, "Dimensions of Youth Employment in Canada", *CIBC Economics*, June 2013.

inevitable.[41] Requirements regarding skills and qualifications are never fixed as technological progress, organizational change, and demands of customers evolve over time. Young people who have just earned a degree may be especially prone to take jobs temporarily that do not necessarily fully match their qualifications and skills. However, this should not overshadow the need to shed more light on the issue of youth underemployment in Canada. More extensive data collection and monitoring should be undertaken to improve understanding of the causes and consequence of youth underemployment as this will better instruct the appropriate level of public policy responses.

[41] Skills mismatch needs to be distinguished from aggregate balances or imbalances in the supply of and demand for different types of qualifications and skills in the labour market, such as skill shortages or the over/under supply of people with different education qualifications. A balance between the supply of and demand for workers at a given qualification level does not guarantee that individual workers will be matched to jobs that require the level of education they have attained. A high level of mismatch at the individual level does not imply any particular level of imbalance between aggregate supply and demand.

3 YOUTH ENTREPRENEURSHIP IN CANADA, UNTAPPED POTENTIAL REMAINS

3.1 Combating youth unemployment and underemployment through entrepreneurship

For a country as economically diversified as Canada with youth unemployment and underemployment that vary in their cause and severity by region, youth entrepreneurship presents itself as a powerful engine for local job creation, which can keep capital circulating in communities.[42] A study by the World Bank examined a variety of employment programs of some 90 countries ranked entrepreneurship promotion measures by public authorities as having the highest positive impact on employment creation.[43]

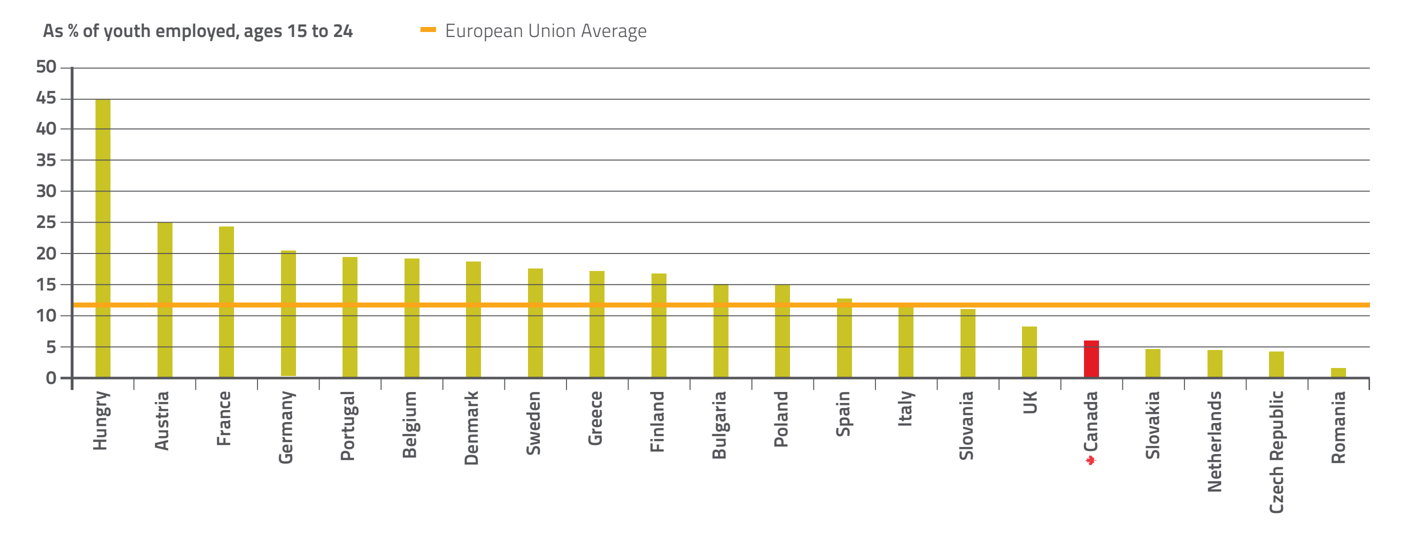
Entrepreneurs and small businesses are the backbone of the Canadian economy and important drivers of innovation, job creation and economic growth. As recently noted in an Ernest & Young report, 21st century jobs that need to be created in OECD countries will come neither from large corporations nor governments, but mainly from entrepreneurs.[44] Canadian statistics on small businesses point to evidence supporting the trend highlighted by Ernest & Young.[45] As of December 2012, there were over one million small businesses operating in Canada (firms with 99 employees or less) employing close to 70% of the total private sector labour force and contributing up to 41% to Canada's GDP.[46] According to Industry Canada, small businesses have created over 100,000 jobs, on average, between 2002 and 2012, accounting for almost 78% of all private sector jobs created during this period. Of those small businesses, close to 5% are classified as high-growth firms and are responsible for 45% of new job creation in Canada. Studies looking at G20 countries showed that small-medium sized businesses (SMEs) also add jobs at about twice the rate of their larger rivals and are more likely than larger companies to recruit previously unemployed individuals, especially relevant for young people looking for their first job.[47] Small businesses are also important innovators accounting for 31% of total research and development expenditures in 2009. From 2009 to 2011, the highest percentage of small and medium-sized firms that innovated were found in manufacturing; knowledge-based industries; and professional, scientific and technical services.[48]

Young entrepreneurs in Canada appear to be important contributors to innovation as firms headed by those under 39 tend to be concentrated in knowledge-based industries. What's more, TD economists point out that firms led by young people typically record higher growth rates versus all SMEs (although they have on average lower net values).[49]

More importantly, fostering a culture of entrepreneurship among young Canadians may also help smooth out the exit of older business owners in coming years, a transition which, if not well planned, may increase overall downside risks to the economy. Research by CIBC economics has revealed that over 50% of small business owners will retire over the next decade, with close to 60% having yet to discuss their succession plan with family or business partners.[50] Firms that will change ownership in the coming years employ over 2 million workers and represent close to 15% of GDP. While CIBC economists have framed this in terms of a macroeconomic crisis, it also

42 Lisa Von Sturmer, "To Change the World, We need to Invest in Young Entrepreneurs", *Globe & Mail*, 7 August 2013.
43 Betcherman, Gordon et al. "A Review of the Interventions to Support Young Workers: Findings of the Youth Employment Inventory", Discussion Paper nº 0715, World Bank, October 2007.
44 "Entrepreneurs Speak Out: A Call to Action for G20 Governments", *Ernest & Young Global Limited*, 2011.
45 Ibid.
46 "Key Small Business Statistics", *Industry Canada (SME Research and Statistics)*, August 2013.
47 "Do SMEs create more and better jobs?", *EIM Business & Policy Research*, 2011.
48 Op. cite, *Industry Canada (SME Research and Statistics)*, August 2013.
49 Sonya Gulati, "Canada's Small and Medium-Sized Business Owners: Diverse Society in a Microcosm," Special Report, TD Economics, October 2012.
50 Benjamin Tal, Inadequate Business Succession Planning – A Growing Macroeconomic Risk, CIBC Economics, November 2012.

Chart 14: **Proportion of self-employed with at least one paid employee (2010)**



*U.S. data not comparable to European and Canadian data Statistics as U.S. Bureau of Labour Statistics considers self-employed invidivuals as employees of their company.

Source: OECD & European Commission Policy Brief on Youth Entrepreneurship 2013 (data from Eurostat and Statistics Canada)

represents an opportunity for young people with the right entrepreneurial training and mentoring to fill the void that will be left by older business owners.

3.2 Youth entrepreneurship in Canada punching below its weight

Recent national surveys have shown that the entrepreneurial spirit among young people is alive and well in Canada. However, young entrepreneurs still represent a small share of small-medium size businesses (SMEs) in this country and their share of SME ownership appears to be declining.

In August 2013, a survey conducted by Angus Reid (sponsored by Intuit Canada) of more than 1,000 Canadians showed that 16% of those aged 18 to 33 expressed an intention to pursue their entrepreneurial ambitions within the next 12 months, compared with 8% for respondents in other age groups.[51] Even if 10% of those 18 to 33 surveyed were able to channel their ambition into an actual business, it would represent the creation of 120,000 enterprises, very close to matching the annual average of start-ups in Canada, which is estimated at 150,000. In a follow-up survey sponsored by Intuit Canada, it was shown that 64% of aspiring young entrepreneurs had undertaken some preparation in starting their own business, including market research, visiting entrepreneur-related websites, taking business courses or writing a business plan.

Despite these signs of growing interest in starting a business, young entrepreneurs under 30 and those 30 to 39 years of age represented only 1.6% and 10.6% of SME owners in Canada, respectively. Perhaps more worrisome is the fact that these percentages of SME ownership by young people has declined since 2004, falling by close to 5% in the case of SME owners aged 30 to 39.[52] Compared to other G20 countries, Canada appears to be a laggard when it comes to youth entrepreneurship. Looking at the proportion of self-employed (with one paid employee), Canada's self-employment rate was estimated to be 6%, well below the European average at 12% (Chart 12).

[51] "StartUp Generation: How Millennials are Remaking the Canadian Economy", *Intuit QuickBooks*, 2013 and Misty Harris, "Millennials doubly likely to pursue entrepreneurship", *Canada.com*, 9 October 2013.

[52] "Key Small Business Statistics", *Industry Canada (SME Research and Statistics)*, August 2013.

3.3 What are the barriers and challenges faced by young entrepreneurs in Canada?

In Canada, entrepreneurs appear to operate in one of the most supportive environments across the G20. As a result, Canada exhibits a higher level of new business activity and start-ups compared to other G20 countries.[53] Yet young Canadians who are looking to start a business appear to face notable barriers, especially in access to financing, training and mentoring.

By introducing a scoring metrics on the "pillars" of entrepreneurship across G20 countries, Ernest & Young provides a model that helps identify areas of relative strength, but also weakness, by country and where opportunities for improvement lie (Table 1).[54] Canada scores particularly high in the areas of access to funding (i.e., IPO market activity, domestic credit to private sector, venture capital availability, level of M&A deal value, noted improvements in crowdfunding, angel investing, etc.), entrepreneurship culture (i.e., low cost of insolvency, R&D spending, high agreement among entrepreneurs that Canada's business culture encourages entrepreneurship), and tax/regulation (i.e., low cost to start a business, low labour costs, low tax rate, less time spent on tax issues etc.). Despite being highly ranked in certain areas, such as access to funding, some weaknesses were acknowledged by Ernest & Young. For instance, sources of venture capital and private equity investment were recognized as improving, but bank finance remained weak.

Canada's ranking appears more lackluster when it comes to the pillar of education/training, and falls below average on measurements of "coordinated support" between government and the private sector to provide assistance to entrepreneurs. In the case of education and training, Canada scores above average on metrics such as public spending on education, as well as on the teaching of entrepreneurial skills in schools and post-secondary institutions.[55] Where Canada appears to fall short is on education and training focused specifically on the needs of entrepreneurs, such as how entrepreneurs should deal with investors (e.g. structuring a pitch), mentoring programs, business incubators/accelerators' services.[56] Such low scores in the area of education and training relate to the area of "coordinated support" where 44% of Canadian entrepreneurs surveyed by Ernest & Young are calling on the government to do more in terms of supporting entrepreneurship, especially in the provision of mentoring programs (with corporate and non-government mentors), business incubators by universities, and availability of informal networks. The role of government in the support of entrepreneurship was the sector for which entrepreneurs were most critical.[57]

[53] The Power of Three: Together, governments, entrepreneurs and corporations can spur growth across the G20, The EY G20 Entrepreneurship Barometer 2013, Ernest & Young, 2013.

[54] The model is composed of qualitative information (from EY's survey of more than 1,500 entrepreneurs) and quantitative data based upon entrepreneurial conditions across the G20 economies. For each pillar, excluding coordinated support, this information is weighted 50-50 between qualitative and quantitative inputs. For coordinated support, given a lack of quantitative indicators, this is based solely upon survey responses. (Source: The Power of Three: Together, governments, entrepreneurs and corporations can spur growth across the G20, The EY G20 Entrepreneurship Barometer 2013, Ernest & Young, 2013).

[55] According to a survey by Ernest & Young, 44% of entrepreneurs surveyed from Canada have observed improvements in access to entrepreneurial programs in within colleges and universities.

[56] Known for guiding new businesses in their early stages, incubators/accelerators are programs/resources that offer things such as business support, office space, seed funding (in the case of accelerators) and mentors to young businesses in order to increase their overall chances for success.

[57] Ernest & Young notes that such a negative score may not be abnormal as other countries ranking highly in access to funding, tax and regulation, etc. tend to score lower in the pillar pertaining to "coordinated support". Ernest & Young notes that entrepreneurs in countries have a supportive environment for starting a new business look for greater levels of support and assistance across the board.

Table 1: **Ernest & Young entrepreneurship barometer, rankings table (2013)**

RANKING	ACCESS TO FUNDING	ENTREPRENEURSHIP CULTURE	TAX AND REGULATION	EDUCATION AND TRAINING	COORDINATED SUPPORT
1	United States	United States	Saudi Arabia	France	Russia
2	United Kingdom	South Korea	Canada	Australia	Mexico
3	China	Canada	South Korea	United States	Brazil
4	Canada	Japan	United Kingdom	South Korea	Indonesia
5	Australia	Australia	South Africa	EU	India
6	South Africa	United Kingdom	Japan	United Kingdom	China
7	Japan	Germany	Germany	Germany	Turkey
8	South Korea	EU	Australia	Argentina	South Africa
9	Brazil	France	Russia	Canada	Argentina
10	Indonesia	Russia	EU	Brazil	Germany
11	India	India	Turkey	South Africa	France
12	EU	Brazil	Indonesia	Saudi Arabia	Saudi Arabia
13	Saudi Arabia	Italy	United States	Italy	EU
14	Germany	South Africa	Mexico	Russia	South Korea
15	Russia	Turkey	France	Mexico	Australia
16	France	Argentina	China	Japan	Canada
17	Turkey	Mexico	Brazil	Turkey	United Kingdom
18	Mexico	China	Italy	China	Japan
19	Italy	Indonesia	India	Indonesia	Italy
20	Argentina	Saudi Arabia	Argentina	India	United States

Source: Ernest & Young G20 Entrepreneurship Barometer 2013

For young Canadian entrepreneurs, several of the areas of weakness highlighted by Ernest & Young in Canada's startup ecosystem (i.e., bank funding, mentorship, access to business incubators/accelerators) are important to their success. Most critical to young entrepreneurs are access to training and mentoring. From these learning opportunities, young people can understand how and where to tap into funding networks and improve their overall success rate.[58] Mentoring and training may also be the area where government can provide the most effective support to young entrepreneurs.

As recently noted by *Startup Canada*, the smaller pools of risk capital (i.e., venture capital and angel investors) relative to the U.S. is a systemic issue and cannot be solved by direct government funding as risks of this magnitude are not always a productive and responsible use of public funds.[59] This is not to say that government should not be involved in providing financing support. In fact, the government is fairly active in this area as exemplified by the $400 million Venture Capital Action Plan and the broader lending activities undertaken by the Business Development Bank (BDC), which fills an important financing gap for SMEs left by financial institutions. Youth entrepreneurs can receive support through the aforementioned initiatives but also through the Canadian Youth Business Foundation which offers startup funding.[60] Work can still be done in collaboration with provincial levels of government to improve tax incentives and support new models of financing (such as crowdfunding) by ensuring a flexible yet adequate regulatory regime, but overall significant increases in government financial support for startups may be a losing proposition for tax payers and may not be the most effective way for government to support young entrepreneurs.

If training and mentoring represent the best avenues for government support, what type of assistance is currently lacking in this area? While education and training in entrepreneurship have improved in higher education institutions, Canada, as underscored by Ernest & Young,

[58] Citing research from Reseau Entreprendre Paris (2013) and Ernest & Young (June 2013), the Canadian Youth Business Foundation states that 88% of entrepreneurs who have mentors survive in business, compared with only 50% for those without mentors.

[59] Victoria Lennox, Startup Canada Blueprints, Startup Canada, 2012.

[60] In 2013, it was announced that the Canadian Youth Business Foundation $18 million in federal funding over two years.

is weaker on facilitating mentoring opportunities with corporate and non-government mentors.[61] Mentorship initiatives sponsored by the Canadian Youth Business Foundation (CYBF) appear to having a degree of success in matching young entrepreneurs with corporate volunteer mentors, but its reach remains limited with only 5600 young entrepreneurs having benefited from the program in its first two-years. This is not a criticism of the work undertaken by CYBF but rather an observation on the scale of the program and its likely impact on a national level. Another important source of training and mentoring for entrepreneurs are business incubators and accelerators in Canada, which have recently received an allocation by the federal government of $60 million over five years to help improve "outstanding and high-potential incubator and accelerator organizations." Despite the increase in funding, it remains unclear how young entrepreneurs are accessing these services, especially from remote areas. According to the Evidence Network, there were 150 business incubators and accelerators in operation in Canada as of 2012, with over 87% concentrated in BC, Alberta, Ontario and Quebec, with the four largest cities (Toronto, Vancouver, Montreal and Calgary) home to a third of business incubators and half of business accelerators.[62] More specifically related to youth, there does not appear to be statistics available on the number of young entrepreneurs (under the age of 39) accessing business incubators and accelerators, and it is therefore difficult to assess with any certainty the extent to which this demographic is benefiting from these services.

[61] According to Industry Canada, 98% of higher education institutions now offer at least one course in entrepreneurship (Source: Parsley C. and M. Weerasinghe, The Teaching and Practive of Entrepreneurship within Canadian Higher Education Institutions, Industry Canada, 2010).

[62] A Study of Business Incubators and Accelerators in Canada, the Evidence Network, October 2012.

CONCLUSION

There is no question that young people are among those segments of the population to have been disproportionately affected by the latest recession. In that light, a more aggressive policy response is needed to protect labour quality in Canada, especially among young people, given that long spells of unemployment and underemployment can have scarring effects on wages and productivity. While Canada gets high grades for education and competitiveness based on international benchmarks, it must not fall into a state of complacency, and should use the policy tools necessary to reverse deteriorating labour market conditions affecting young Canadians.

Part of the deterioration in labour market conditions experienced by young people since the 2008 recession are cyclical in nature, but structural factors appear to be taking root, especially among 15 to 19 year olds. And while the youth labour market for this age cohort appears weak on a national level, conditions are disproportionately bleaker in certain regions of the country, with only a few provinces displaying encouraging trends. In addition, there are segments within the larger youth population (15-24 years of age), most notably recent immigrants and Aboriginal youth, which are experiencing notably harsher employment conditions.

Worrying trends are also emerging in terms of youth underemployment. While university graduates working in sub-optimal jobs given their level of education has not notably increased over the last 20 years (although exceptions hold for recent immigrants and university graduates holding humanities and social science degrees), a record number of young people are employed on a part-time basis with an increasing number doing so on an involuntary basis.

There is reason to be hopeful that improving economic growth supported by increasing exports and investment will have a positive impact on youth labour market conditions nation-wide, but economic uncertainty continues to plague these forecasts. It is still unclear whether an improving macroeconomic environment will fully resolve the structural employment factors currently affecting young people. Given the immediate and future cost associated with youth unemployment, waiting for economic uncertainty to dissipate before taking policy action may prove more detrimental than acting preemptively.

For this reason, a more aggressive policy response, in collaboration with other stakeholders – including industry, other levels of government and civil society – should lay the foundation of a national human capital strategy with a focus on youth to hedge against a scenario where the macro economy continues to exhibit slow growth. In doing so, policy makers should avoid using blunt policy responses given that certain cohorts or segments of the youth population appear more vulnerable than others. Moreover, current and past governments have not been inactive on youth employment issues insofar as over $8 billion of youth-related jobs[63], training and internship programs are in existence. The question is how effective are these programs, and to what extent are they tailored to changing dynamics in youth unemployment and underemployment? There is a need to avoid duplication, while protecting what is currently deemed effective.

An important component of a youth focused human capital strategy should include policy options that bolster the presence and support of young entrepreneurs in Canada. While the entrepreneurial spirit among young people is alive and well in this country, young entrepreneurs still represent a small share of small-medium size businesses (SMEs) and their share of SME ownership appears to be declining. If Canada is to increase its number of young entrepreneurs, it needs to create better learning opportunities through training and mentoring programs. More can and should be done in terms of government support in this area.

[63] There is no aggregate figure of youth-related program spending provided in the federal budget. This is an estimation based on a list of youth internship and employment programs as well as entrepreneurship financing available through various federal departments.

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