

**AFTER THE SHOCKS:**

# Preventing long-term labour market scarring for youth



**Century  
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# About Century Initiative

Century Initiative is a national, non-partisan charity with a mission to enhance Canada's long-term prosperity, resiliency and global influence by responsibly growing the population of Canada to 100 million by 2100.

Century Initiative delivers its mission by leading, enabling and partnering on initiatives that support long-term thinking and planning in immigration, urban development, employment and entrepreneurship, early childhood supports, and education.

## ACKNOWLEDGMENTS

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# After the shocks: Preventing long-term labour market scarring for youth

## ECONOMIC SHOCKS AND YOUNG PEOPLE

A major economic downturn can leave considerable damage on people's lives. For some, this pain is short-lived, but for others there is a strong risk of lasting harm. Young people, and especially recent graduates, experience distinct challenges during and after downturns that can stay with them in the long term.

The immediate effects of economic shocks like recessions include job losses, and reduced hours and wages for young people. Over time, those short-term consequences compound, leaving a lasting impact on career earnings, job opportunities, labour market attachment, and career progression. These lasting consequences, known as "labour market scarring"<sup>1</sup>, can have significant downstream impacts on young people's well-being, economic inclusion, and capacity to build economic security and wealth. Further, for some young people, the challenges brought on by weak labour market conditions are intensified by barriers they already faced in school or when entering the workforce.

*In the case of the pandemic, sociodemographic factors, social isolation, cost of living, and housing affordability are all influencing young people's unique outcomes now and over time.*

Research from Canada and peer countries makes two things clear: many young people experience long-term economic scarring after economic shocks; and that pain is felt disproportionately by those young people who already faced barriers to successful entry into the workforce. But when shocks occur, whether those are recessions, pandemics, or transitions in particular sectors (e.g., the energy sector), dealing with the

short-term impacts tends to be of primary concern to policymakers. Job losses are easy to see and often demand a policy response, but the longer-term impacts – including on those who do not yet have a job to lose – can be even more consequential, even if they are less visible.

**Typical public policy responses focus on addressing the immediate impacts of economic shocks, but the more complex and longer-term impacts on young people also warrant policy responses.**<sup>2</sup> Canadian governments should lead a more concerted and coherent response to prevent scarring and minimize its impact on young people, drawing from recent experiences in Canada and other countries. This is an imperative not only for its impact on those affected but for the broader community given cross-cutting concerns about productivity, population aging, and labour market participation. Young people need to be supported to participate in the labour market to their highest potential to account for the lost productivity of our aging population.<sup>3</sup> It is important to make policy choices that increase the likelihood of young people emerging from economic shocks without permanent labour market scarring.

**This report focuses on the impacts of economic shocks on young people and the economy.** It draws on insights from the outcomes of shocks in the past, including the Great Recession, and the ongoing implications of the COVID-19 pandemic, to inform how we might address the scarring effects of COVID-19 and respond to shocks in the future. In particular, this report discusses some examples of the pandemic's unique and less predictable scarring effects on young people, including the impact of social distancing and shifts to online work or school, and how policies and programs can be designed to adapt to such unpredictable shifts in the labour market.

<sup>1</sup>Labour market scarring happens when a person has a negative experience associated with macroeconomic conditions (e.g., a recession) that leads to long-term negative impacts on that person's earnings and career opportunities over time.



## ABOUT THIS PROJECT

**Century Initiative (CI) is committed to enabling long-term thinking and a high quality of life for everyone.** Empowering young people to reach their full potential is essential to a more prosperous future society. This report builds on the results of CI's 2023 National Scorecard, which assesses 39 indicators that contribute to Canada's national prosperity and capacity to grow well.<sup>4</sup> The Scorecard identified **youth not in employment, education or training (NEET)**, the **employment rate**, and **income inequality** as areas that will require support to meet the needs of Canada's growing population.

The policy and program recommendations within this report have been informed by a literature review and jurisdictional scan to highlight existing policy gaps, and by facilitated workshop discussions with experts. While there are several definitions of youth and young people, in this report we primarily focus on ages 18-30, which is typically a point of early career with key transitions between school and work.

# The risks of long-term labour market scarring on youth

Regardless of labour market conditions, some young people have a harder time transitioning into the labour market than others and can experience extended periods out of work or training.

During an economic shock like a recession, challenges are heightened. **Young people graduating into a recession land lower-quality work with lower pay, which leads to labour market scarring – that is, lasting impacts on a person's earnings and career opportunities over time.**<sup>5</sup>

"Scarring" happens after a person is out of work, school, or training for some time, and that period away from work or education has long-term negative effects (i.e., scars) on their future job opportunities.<sup>6</sup> Scarring can be driven by a range of individual or economic circumstances, but it happens far more frequently after economic downturns.

An economic downturn widens existing socioeconomic gaps and weakens ties to the labour market for young people who may already be lacking social capital. Social capital was especially impacted during the COVID-19 pandemic, where education, training, employment, and networking opportunities were lost or shifted online.

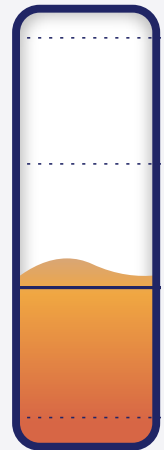
Indicator

**Youth not in employment, education or training (NEET)**

Direction Canada is trending

Needs Attention

In 2021, Canada's rate of youth NEET reach its highest level in over a decade. The impacts of the pandemic on youth could have lasting consequences for career trajectories and limit participation in society and the economy.



While there are common and consistent scarring effects following an economic shock, **the outcomes of each shock are also influenced by the existing challenges of the present day and by its distinguishing characteristics.**

In the case of Canada's most recent shock, the COVID-19 pandemic, three years after its onset we are experiencing a tight labour market, labour shortages in some industries, and businesses that are having a hard time hiring and retaining skilled employees.<sup>7</sup> This is a product of multiple factors. Notably, many workers chose to change career paths during the pandemic, which has resulted in growth in some industries and decline in others.<sup>8</sup> Older workers retiring during the pandemic have also contributed significantly to the tight labour market.

While high labour market demand in this case may reduce the depth and breadth of the risk of unemployment for some young people, it doesn't negate the risk entirely and has the potential to amplify equity gaps. Further, the pandemic's impact on earnings and cost of living may still leave scars in the long term. Rising inflation and cost of living has left many Canadians in a worse financial position, despite the tight labour market.<sup>9</sup> In particular, the rising cost of housing in Canada is unaffordable for many Canadians.<sup>10</sup>

Other distinguishing characteristics of the pandemic will shape outcomes for young people. For instance, extended school closures during the COVID-19 pandemic resulted in learning losses that could have long-term consequences.<sup>11</sup> Extended periods of isolation also had a profound impact on Canadians' mental health, particularly for young people.<sup>12</sup>

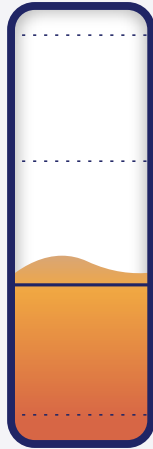
#### Indicator

### Income inequality

Direction Canada is trending

**Needs Attention**

In 2022, income inequality increased to pre-pandemic levels. Those in low-income brackets and young people were the most impacted by cost-of-living increases and were most likely to experience declines in disposable income and savings.



The pandemic also hit some industries harder than others by forcing businesses to shut down entirely for periods of time and making certain work (e.g., service and hospitality jobs) less appealing or available to young people who typically work in those sectors. While some industries rebounded after the initial impact of the pandemic, others like the tourism and hospitality sector did not.<sup>13</sup> The pandemic-driven shift to online work also fundamentally shifted the structure of employment in Canada.

Negative consequences of the pandemic were also greater for certain groups of Canadians. The employment gap for Black workers widened in the years following the pandemic,<sup>14</sup> and a disproportionate number of women and racialized youth experienced resume gaps caused by various pressures of the pandemic.<sup>15</sup>

While previous generations have suffered from the scarring effects of major economic downturns during their youth, **the long-term implications of the pandemic on young people are of particular concern given the pressing challenges of our present day.** Young people today are facing the lasting effects of the pandemic while grappling with challenges like the cost of living, the housing crisis, and accelerating climate impacts. For that reason, it is important to think about policy responses that will help to dampen the scars associated with the pandemic and mitigate scarring in the future. This will help to support young people today and in future generations to participate fully in a thriving economy—something of benefit to all generations in Canada.

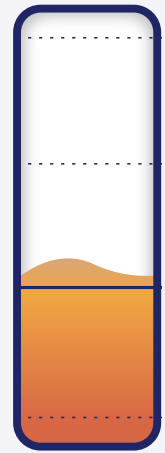
#### Indicator

### Employment rate

Direction Canada is trending

**Needs Attention**

In 2022, Indigenous peoples and Black Canadians were more likely to experience lowered levels of employment compared to Canadians overall. Additionally, LGBTQ2S+ Canadians faced significant inequities in the labour market during the pandemic, particularly due to the high proportion of youth within this population and the labour market challenges facing youth.



Economic shocks will continue to happen, and the risk of labour market scarring on young people that follows warrants a planned response. **Without a response to these less visible long-term effects, those most significantly impacted by an economic shock — young people with pre-existing inequities and those hit hardest due to the unique nature of the shock — could be left at a disadvantage, more so than they have in the past.**<sup>16</sup> Beyond individual impacts, scarring can reduce efforts by Canadian governments, employers and community leaders towards gender and racial equity in the workplace, economic productivity, and collective well-being as a society.<sup>17</sup>

## IMPACTS OF LABOUR MARKET SCARRING OVER TIME

Economic shocks have consistent and lasting effects on young people, including:

### LOSSES IN EARNINGS POTENTIAL

A one percent increase in the provincial youth unemployment rate during the year of graduation is associated with a 0.7% decline in earnings for five years after graduation.<sup>18</sup> Another study in the U.S. found that graduating into a large recession reduced workers' average earnings by 10 per cent in their first year.<sup>19</sup>

### REDUCED QUALITY OF EMPLOYMENT

Higher skills requirements in a recession force young people to accept lower quality work with fewer training and professional growth opportunities, accounting for as much as 40-50 per cent of their ongoing loss in earnings.<sup>20</sup>

### SETBACKS FOR NEW GRADUATES

New graduates experience significant losses in earnings from being out of work. University graduates from typically lower-earning fields of study experience larger and longer lasting losses in earnings.<sup>21</sup>

### STIGMA TOWARDS RESUME GAPS

A range of experimental research shows documented discrimination against resume gaps.<sup>22 23</sup> In a recent U.S. experiment, adults had negative perceptions of applicants who were unemployed during the COVID-19 pandemic, regardless of the reason for their resume gap.<sup>24</sup> Canadians seeking to re-enter the labour force after a pandemic gap may experience similar discrimination from employers.

### REDUCED EQUITY AND SOCIAL INCLUSION

Resume gaps were more prevalent among young women and racialized youth during the pandemic; they may face further discrimination as they apply for job opportunities in the future, widening the equity gap.<sup>25</sup>

### RISKS TO WELL-BEING

A clear and significant mental health decline can occur during a period of unemployment, and those mental health effects often linger into a person's mid-life.<sup>26</sup>

### REDUCED SOCIAL CAPITAL

Periods away from work and school can weaken a young person's ties to the labour market. This is especially true for young people from low-income households and newcomers who may have fewer social ties.<sup>27</sup>

### CHALLENGES FOR YOUTH WITH PRE-EXISTING INEQUITIES

Economic shocks exacerbate pre-existing discrimination faced by racialized, Indigenous and/or LGBTQ2S+ young people, and challenges already faced by vulnerable groups of young people in the labour market.<sup>28 29 30</sup>

### REDUCED ECONOMIC PRODUCTIVITY

Long-lasting low labour market participation can leave lasting impacts on overall economic output, which influences everyone – not just those suffering the effects of labour market scarring.<sup>31</sup>



# The policy gap

Policy responses to the immediate impacts of an economic shock typically aim to maintain or create job opportunities and offer sector-specific support to hard-hit industries.

This short-term focus aligns with the realities of the business cycle; what makes sense in a downturn may not in “normal” times. For instance, the federal government’s COVID-19 response increased the number of placements and training opportunities for young people through initiatives like the Youth Employment and Skills Strategy. The federal government also made it easier for organizations to hire young people or maintain their positions through supports like the Canada Emergency Wage Subsidy.<sup>32</sup>

In the years that follow these shocks, **there are rarely targeted policy responses that support young people through the lasting consequences of labour market scarring.** This leaves young people to rely on existing programs and services that do not always meet their unique needs; these programs are either missing the support young people need after an economic shock, or have not adapted to recent changes in the labour market.

While there is room to improve government’s response to the short-term impacts of economic shocks, the most crucial policy gaps relate to the lasting impacts on young people and, in particular, how they manifest for youth facing multiple additional barriers. The following are policy gaps that heighten challenges for young people and leave the consequences of labour market scarring unchecked:

**There are limited supports available for young people undergoing career transitions.** This is especially true for young people out of education that can no longer access services offered by institutions. Career guidance supports from post-secondary institutions typically end when a person leaves college or university — at the time they would be the most useful.

**Navigating the evolving training marketplace can be challenging for young people.**<sup>33</sup> Canada’s training and learning marketplace offers a wide range of options for young people looking to obtain the skills required for in-demand jobs, but the breadth of options available on various platforms can make the marketplace overwhelming and difficult for young people to navigate.<sup>34</sup>

**Some groups of young people lack access to opportunities to build their networks.** Some young people, including newcomers and those from low-income families, have fewer workforce ties than others, limiting their capacity to draw on social capital to secure a job.<sup>35</sup> When a young person spends a period out of work, school or training, their connections to the labour market grow weaker.<sup>36</sup> The COVID-19 pandemic and a shift to online work and learning has widened this gap.

**Young people lose access to mental health services when they are unemployed and out of school.** Poor mental health is both a consequence of and a contributor to labour market scarring—there are clear declines in mental health during periods of unemployment.<sup>37</sup> People at any age suffer when they can not access care like mental health services when they may need it most, as benefit coverage is typically tied to work or school. But the problem is even more acute for young people that are less likely to have coverage even when employed, less likely to have family coverage through a partner, and less means to pay out of pocket even while they lose access to benefits like pharmacare and mental health services after they graduate and age out of provincial healthcare plans and their guardian’s insurance plan.

**Existing career services and training programs are often outdated.** Young people just entering the labour market are not eligible for some unemployment programs or supports like Employment Insurance (EI) training programs. In other cases, career services are not designed with today’s youth and the changing nature of the labour market in mind.



Governments are aware of these challenges and have taken some steps to address them through efforts like expansions to the Student Work Placement Program and funding for the Canadian Apprenticeship Strategy. Some larger organizations are also aware of these challenges and have taken steps to support networking and entry level work for young people.

But these efforts have not been enough to prevent the scars that have hurt Canada's prosperity and deepened inequities. We can do better — **governments, employers,**

**and community organizations today can learn from shocks of the past, including the recent and ongoing impacts of the COVID-19 pandemic, to implement policies and programs that minimize the risk of scarring from the pandemic and from future economic shocks.** And we must do better — an aging population makes it more urgent to ensure all young people are supported to reach their full potential.

## Policy recommendations

When responding to economic shocks, it is critical to consider long-term potential impacts on young people to prevent labour market scarring on youth.

To respond well and quickly, **government should have a strong set of flexible, evidence-based policies and programs that can be scaled up to support young people when economic shocks occur.**

The structure of our workforce and the opportunities available to young people will continue to be shaped by sectoral shifts, digitization, changes in skills demands, and the unique impacts of economic shocks. For that reason, supports for young people over the longer-term should be adaptable to labour market forces and relevant over time.

**To mitigate the harm of long-term labour market scarring on youth, Canada needs responses from all levels of government, employers, and the community.** We need a mix of policy tools that cut across the economic cycle so that people aren't left behind. That includes policies focused on:



**Bridging the opportunity gap** through skills development and social capital.



**Supporting a smooth transition into the workforce** to reduce the risk of long stretches outside work or education.



**Expanding access to career support services to navigate shifts** in the labour market, the structure of the economy, and in-demand skills.



**Creating new opportunities for young people** to engage in the labour market following economic shocks.



**Funding long-term evidence generation and infrastructure** to measure the impact of programs and design policies for future economic shocks.



## BRIDGING THE OPPORTUNITY GAP THROUGH SKILLS DEVELOPMENT AND SOCIAL CAPITAL

### EVIDENCE

Young people have better outcomes and lower risk of labour market scarring if they have connections to the labour market and in-demand skills, including “soft skills” (i.e., social and emotional intelligence, problem solving and critical thinking), which can help them adapt to shifts in the labour market.<sup>38</sup> Some groups, including newcomers and young people from low-income households, have less access to opportunities to develop those skills and build their networks compared to their counterparts with greater access to opportunities due to their family’s wealth and social capital. Initiatives that aim to reduce those opportunity gaps have long-lasting impacts and can bridge the social capital gap.

### POTENTIAL RESPONSES

#### ***Encourage employers and other organizations to create opportunities for youth to network, job shadow, connect with mentors, and build their social capital.***

Young people make choices about education and training in part based on the opportunities they see and the people in their network. More employers and other organizations can support youth with networking and mentorship opportunities, in particular those targeted to more vulnerable groups of young people (e.g., racialized youth or those from low-income households) and youth NEET. Where these programs exist, young people should be alerted to the initiative and its benefits, and efforts to scale up the initiatives should be made following a downturn. Federal and provincial governments could also explore incentives for businesses and other organizations to offer opportunities for mentorship and community building, with an emphasis on ensuring the benefits of social networks are distributed more equitably across communities. This approach could include partnering with community groups, industry associations, and local chambers of commerce.

#### ***Scale employer-sponsored training models to promote soft skill development in young people entering the workforce.***

Employers across sectors are increasingly prioritizing soft skills in candidates and have identified a “skills gap” in soft skills among new graduates. Typically, businesses place the onus of soft skill development on prospective employees and educational institutions. However, in addition to supporting the development of soft skills at a young age, businesses should also consider investing in training new hires.<sup>39 40 41</sup> Businesses should explore partnerships with educators or employer-sponsored training that gives young people the opportunity to learn through experience and ensure that soft skills development initiatives match the skills needs identified by employers, building on the early success of dual-client upskilling models (i.e., models that serve both the employer and the individual for technical skills).<sup>42</sup> Following an economic shock, employer-sponsored on-the-job training can help bridge the skills and opportunities gaps between groups of young people.

## SUPPORTING A SMOOTH TRANSITION INTO THE WORKFORCE TO REDUCE THE RISK OF LONG STRETCHES OUTSIDE WORK OR EDUCATION

### EVIDENCE

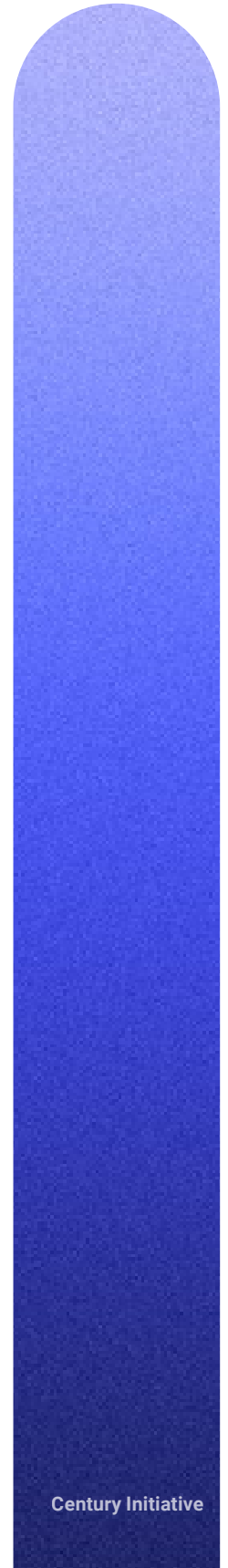
The transition from school to work is a period of uncertainty for young people where they are at high risk of labour market scarring. This is especially true for young people who face additional socioeconomic and discriminatory barriers, including racialized, Indigenous, and LGBTQ2S+ youth.<sup>43</sup> Even where that transition is often not clearcut – young people working part-time through school for example – it is a time when many young people face barriers to steady employment.<sup>44</sup> A smooth work transition shapes a young person's ability and willingness to change jobs and grow a successful career later in life.<sup>45</sup> A greater emphasis on supports for this transition should be made when economic shocks make this transition more challenging.

### POTENTIAL RESPONSES

#### ***Create more opportunities for students to gain work exposure and relevant work experience while studying in secondary and post-secondary education.***

This could include a greater emphasis on experiential learning to give students opportunities to become familiar with the workforce before they graduate; enhanced flexibilities around timing and scheduling for employers to create more opportunities through the Student Work Placement Program; and new partnerships between institutions and employers of all sizes to give students across disciplines work-integrated learning opportunities.<sup>46</sup> The frameworks for these experiences, including co-op and summer job placements, apprenticeships, internships, and applied research projects, already exist and should be scaled up and strengthened to allow more young people to benefit, particularly outside the technical roles where they are currently concentrated.

***Ensure young people do not lose access to mental health services after they graduate.*** Unemployed young people suffer clear mental health costs at a time when they typically lose access to mental health services through school or their parents. Workers across all industries are more likely to lack access to benefits now given the increasing prevalence of contract-based and gig work. A portable benefits plan would be an opportunity to ensure all people, including young people, have the option to receive mental health services.<sup>47</sup> Several models are currently being explored by the Ontario government, and young people could be considered as an early target population for the new plan.<sup>48</sup> Increased access to mental health services should be met with an increase in trained mental health professionals. Additionally, the federal government could explore expanding access to the publicly-funded virtual mental health resources provided during the pandemic, post-secondary institutions could allow graduates to buy into benefits plans post-graduation, employers could prioritize mental health benefits for all workers, and other union or sector-based approaches could be explored to increase coverage across the labour force.





**Explore sector-based training approaches to create more entry-level career pathways that don't require post-secondary degrees.**

Sector-based training programs can engage a range of employers, including small- and mid-sized employers that are less likely to design their own entry-level training, to build a strong talent pool. These types of programs are geared towards specific sectors where young people can earn a decent wage in an entry-level position. For instance, there are a range of sector-based training programs for the energy sector, through organizations like Efficiency Canada, and hospitality workers, through hubs like the Hospitality Workers Training Centre, that work with employers to help young people develop skills and transition into the sector. Participants are typically referred directly to employers after completing the training, and programs may also offer additional support services to support students through the program.<sup>49</sup> Following a downturn, federal and provincial governments should consider supporting and scaling up sector-based training programs that can be modeled after successes in sectors like mining and energy; these programs have the potential to match the skills needs of employers with employees and support successful transitions into well-paying jobs for young people.<sup>50 51 52</sup>

## **EXPANDING ACCESS TO CAREER SUPPORT SERVICES TO NAVIGATE SHIFTS IN THE LABOUR MARKET, THE STRUCTURE OF THE ECONOMY, AND IN-DEMAND SKILLS**

### **EVIDENCE**

Young people would benefit from career guidance and training opportunities beyond their first entry into the workforce. However, most career supports are targeted at people still in training or at a time of initial job loss. Young people that are no longer connected to an institution lose access to career services when they could still benefit from them. Longer-term access to career guidance and training opportunities can help young people to transition from one job to another and adapt to the consequences of economic shocks, shifts in skills demand, and the changing nature of work.<sup>53</sup> Career development support has been highlighted as having an important role in the recovery from COVID-19 globally.<sup>54</sup> While efforts have been made in various countries, there is no adequate model of a lifelong career guidance system to point to.<sup>55</sup>

### **POTENTIAL RESPONSES**

**Offer career guidance for people throughout all phases of their professional lives by expanding the scope of existing employment services.**

After accepting lesser-quality work during an economic downturn, young people could benefit from career and training guidance to meet their full potential and have access to the same training opportunities as their peers in higher-quality jobs. The existing network of employment services in Canada primarily serve to train and support out-of-work Canadians. Canadians typically have access to career guidance at two points in their lives: first through the education system, and second through EI if they lose their jobs.<sup>56</sup> This leaves a gap in support for working Canadians. With an expanded scope, employment services could be available to support more Canadians through career transitions, especially given new and evolving trends in the labour market: more frequent employer and career transitions, and new opportunities demanding different skills requirements.<sup>57 58</sup>

**Prepare career practitioners with new navigation tools and coaching so they can guide young people through the training marketplace and help young people make informed decisions about their next learning program.**

Engaging in learning programs (e.g., formal post-secondary education, targeted skills training, and diploma or certificate programs) throughout an economic downturn is a positive way for young people to remain engaged while unemployed and/or to account for training opportunities lost at the time. However, choosing a program that is poor-quality or the wrong fit can waste young people's time and money. One way to support young people with that choice is through the development of online navigation tools that can sort and compare available training and learning programs for people. This should be paired with in-person guidance from career practitioners and include investments in developing and promoting up-to-date resources for career practitioners to help young people navigate the training marketplace.<sup>59</sup> This could include government funding for learning resources (e.g., training modules, in-person learning sessions) as well as investments by the career practitioners' employers (school boards, post-secondary institutions, and community employment services).

**Expand eligibility of training vouchers to include career guidance services.**

The federal government has endeavored to offset the cost of training with approaches like the Canada Training Credit — a refundable tax credit for training fees — but career guidance services have not been included as an eligible expense for the credit. Other jurisdictions such as Belgium and the Netherlands allow training vouchers (i.e., public funds allocated for career training) to be spent on career guidance services, and have seen this approach significantly increase demand for career guidance services.<sup>60 61</sup> With expanded eligibility, government would have a mechanism to subsidize the cost of both training programs and career guidance paid for by employers or individuals, and the vouchers could be scaled up when needed, such as following an economic shock. During a downturn, government could also allow young people to "borrow forward" from future years of existing training credits and increase the share of eligible expenses covered by the credit.

**Expand and align eligibility requirements for public programs to ensure young people can access the career support they need.**

The ability of career and training service providers to support young people is often constrained by the different requirements across departments and governments. As mentioned previously, most support is targeted to people who have recently lost their jobs (e.g., those claiming EI), excluding young people who are employed or self-employed.<sup>62</sup> The government has modestly broadened eligibility for programs under Labour Market Development Agreements (LMDAs) to support employed workers, including non-EI recipients, but more can be done to support a wider range of working adults with lifelong learning programs. As the federal government continues its review of EI, skills training, and youth programming, they should consider transformative opportunities to expand entry points to career services and upskilling, such as dedicated funding for career services regardless of employment or educational status.



## CREATING NEW OPPORTUNITIES FOR YOUNG PEOPLE TO ENGAGE IN THE LABOUR MARKET FOLLOWING ECONOMIC SHOCKS

### EVIDENCE

Spending a period out of work and school as a young person can make future efforts to engage in the labour market a challenge, especially if those efforts are combined with health and financial hardship or discrimination. Keeping young people engaged in work or learning opportunities and supporting youth NEET through employment and educational opportunities can help to limit that period of disconnection and support reconnection.<sup>63</sup> Policy priorities after an economic shock, including the pandemic, should continue to focus on keeping workers engaged with the labour market to minimize the risk of scarring in the long term.<sup>64</sup> Policy responses focused on limiting job separations and reallocating workers were used in other countries, including the United Kingdom, successfully during the pandemic and can be improved to make an even greater impact in the future.<sup>65</sup>

### POTENTIAL RESPONSES

#### ***Create new employment opportunities directly through public and civic engagement.***

Building beyond the subsidized Canada Summer Jobs program, public sector and community organizations can ramp up opportunities for young people to engage in work experience. Modern civic service job creation programs for youth can support projects of lasting public benefit, prevent resume gaps, and combat civic disengagement among young people during an economic downturn.<sup>66</sup> Canada can leverage existing mechanisms for this type of engagement, including the Canada Service Corps and the Federal Student Work Experience Program, or explore the creation of more ambitious voluntary service programs at the national, provincial or community level to actively create opportunities while advancing community priorities.<sup>67 68</sup> Following an economic shock, the federal government could consider expanding funding for national voluntary service programs similar to those in the U.S. like AmeriCorps and YouthBuild; these programs could give youth NEET opportunities to work on socially beneficial projects (e.g., building more affordable housing) while building their own skills, building interest in areas like skilled trades, earning a wage, and benefitting from other aspects of the program like education stipends or other allowances.<sup>69</sup>

#### ***Prevent job losses and resume gaps through time-limited and thoughtfully designed wage subsidies.***

Evidence suggests that wage subsidies can have a stabilizing effect on unemployment of young people during times of economic downturn, with some evidence suggesting that this positive effect persists through economic recovery.<sup>70 71 72</sup> However, it is important that they are tapered appropriately during labour market recovery due to their large cost. Another common criticism of wage subsidies is that they can incentivize organizations to cycle through new graduates rather than growing talent in the long term. Thoughtful design, such as tapered subsidies over time and expanded eligibility criteria, could encourage organizations to grow young talent within their organizations. Wage subsidies are currently an eligible category for a variety of federally and provincially funded employment initiatives, and the pandemic saw an economy-wide experiment with the Canada Emergency Wage Subsidy. A focused wage subsidy program for youth designed to mitigate some of the challenges of previous programs could be funded by federal or provincial governments to lower the risk of youth labour market scarring and scale in response to economic shocks.

## FUNDING LONG-TERM EVIDENCE GENERATION AND DATA INFRASTRUCTURE TO MEASURE THE IMPACT OF PROGRAMS AND DESIGN POLICIES FOR FUTURE ECONOMIC SHOCKS

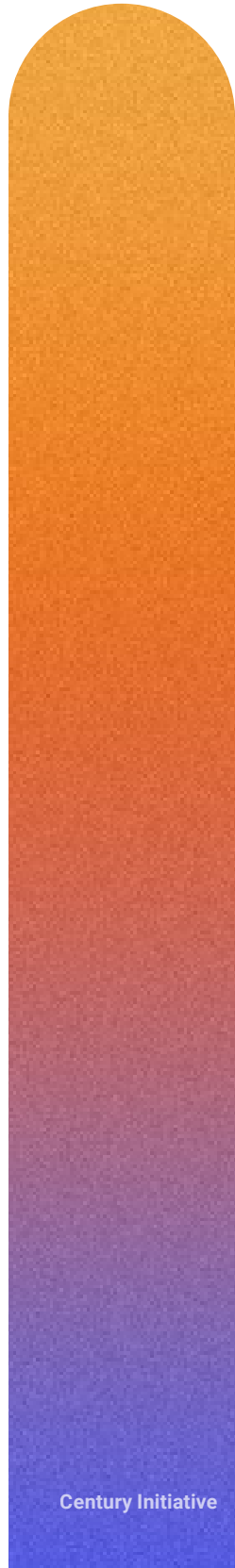
### EVIDENCE

Interventions to reduce the risk of labour market scarring should be guided by evidence. Proactive responses need to be guided by good indicators related to youth employment and lessons learned from previous economic shocks. Not every thoughtfully-designed program has the intended outcome – for example a 2022 long-term study of a range of promising U.S. job training programs found only one had long-term earnings impacts.<sup>73</sup> Developing stronger policy responses to labour market scarring relies on the data infrastructure to measure the actual impacts of scarring and the policies and programs designed to mitigate it.

### POTENTIAL RESPONSES

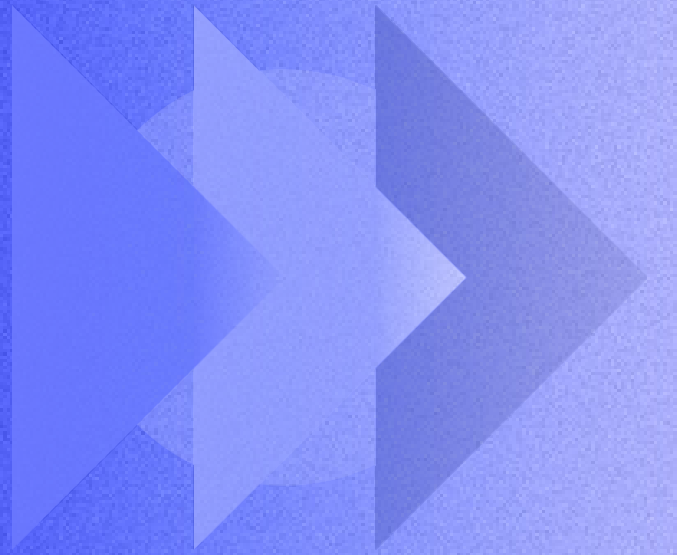
**Build a stronger evidence base around labour market scarring across different demographics.** Government bodies like Statistics Canada and Employment and Social Development Canada could improve the collection, use and sharing of data and evidence disaggregated by age and all other socio-demographic characteristics, including socio-economic status and geographic area, gender, race and ethnicity, Indigeneity, migrant status, and (dis)ability status.<sup>74</sup> In addition, initiatives like the LMIC Data Hub, which brings Canadian labour market information together in one place, should continue and incorporate this new evidence.<sup>75</sup> This data could be used by governments and other organizations to evaluate the efficacy of labour market scarring mitigation policies and to inform future iterations.

**Design programs that fund evidence generation and innovation, and reward long-term outcomes.** Most programs are funded based on the number of people that participate, not on outcomes. To encourage responses that will effectively mitigate long-term labour market scarring, funders could experiment with outcomes-based funding models with a particular emphasis on long-term outcomes. Federal support for the Future Skills Centre has provided an investment in testing and evaluating new and innovative approaches to skills development with a focus on outcomes. However, this only represents a small slice of labour market programming in Canada. In addition to these experiments, federal and provincial governments along with community service providers and employers (such as RBC's Future Launch) can commit to investing in actionable evidence about outcomes across their whole portfolios of labour market programming. This should include measuring longer-term outcomes in a way that captures potential labour market scarring. It should also include funds dedicated to innovation, experimentation, and measurement, so that programs can be improved rather than funds limited to traditional retroactive evaluations that help decide whether to fund again in the future.





# Designing for the long-term



*Supporting young people through economic downturns will help to ensure that those who graduate into shocks or are in the early stages of their careers during shocks are not left behind in the long-term.*

Young people suffer disproportionately from economic shocks, losing out on earnings, employment, experience, skills, and training. The typical approach to dealing with economic shocks does not consider the unique and vulnerable situations that young people are in during these downturns and often leads to long-term labour market scarring. In the case of the pandemic, sociodemographic factors, social isolation, cost of living, and housing affordability are all influencing young people's unique outcomes now and over time. Supporting young people through economic downturns will help to ensure that those who graduate into shocks or are in the early stages of their careers during shocks are not left behind in the long term. Efforts by governments and employers must focus on programs and initiatives that strengthen individuals' capacity to perform in the labour market in the long term following these downturns.

This report has outlined the consequences of long-term labour market scarring that occurs after economic shocks like the COVID-19 pandemic. These impacts not only have devastating individual effects on well-being and lifetime earnings, but they also impact our overall prosperity and productivity because people are not participating in the labour market at their highest potential. Most responses to shocks are designed to address short-term economic impacts, but we need more concerted focus on the long-term. Some of the most important changes that need to be made include our overall approach to labour market programming, which requires collaboration and a commitment from government, industry, and non-profit organizations to decrease the impact of scarring following the pandemic and during future economic shocks.

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