

Youth unemployment: Causes, consequences & Remedies

Niall O'Higgins
Università di Salerno
&
IZA, Bonn

Today

- **Who are The Youth? And, What is The Problem?**
- **Consequences of Youth Un/Non-employment**
- **What happened to Youth LMs during the recession**
- **Causes of youth unemployment**
 - **Primacy of Aggregate Demand, but Institutions Do Matter**
- **What to do about it?**
- **Concluding remarks**

Who are The Youth?

Standard definition = young people aged between 15 & 24 years old

- **Sense: captures those involved in the (School-to-Work) transition**
 - starting out on their ‘working’ lives
 - more generally, starting out in their ‘adult’ lives
- **Lower Age limit: minimum school leaving age**
- **Upper Age Limit: end of tertiary education**
- **Lately, arguments to raise both age limits**

N.B. Adults means Prime-aged Adults (25-49)

WHAT IS YOUTH UNEMPLOYMENT (& IS IT THE PROBLEM)?

The Unemployed are those who are:

- a) without work, i.e. not in paid employment or self-employment;**
- b) Currently available for work; and,**
- c) Actively seeking work.**

IS UNEMPLOYMENT THE PROBLEM?

a) Restrictive definition

- Ignores the Discouraged (**I tend to prefer the Jobless (NEET) Rate**)
- Doesn't necessarily give an accurate idea of the size and nature of youth transition problems
- The Duration of unemployment is also of particular significance

b) But also, lack of employment is not the the whole story

- **Job Quality**
 - In countries without little or no social protection, young people must find some survival strategy – unemployment is a luxury – underemployment, vulnerable employment
 - in higher income countries, ‘permanently’ insecure forms of employment are increasingly an issue.

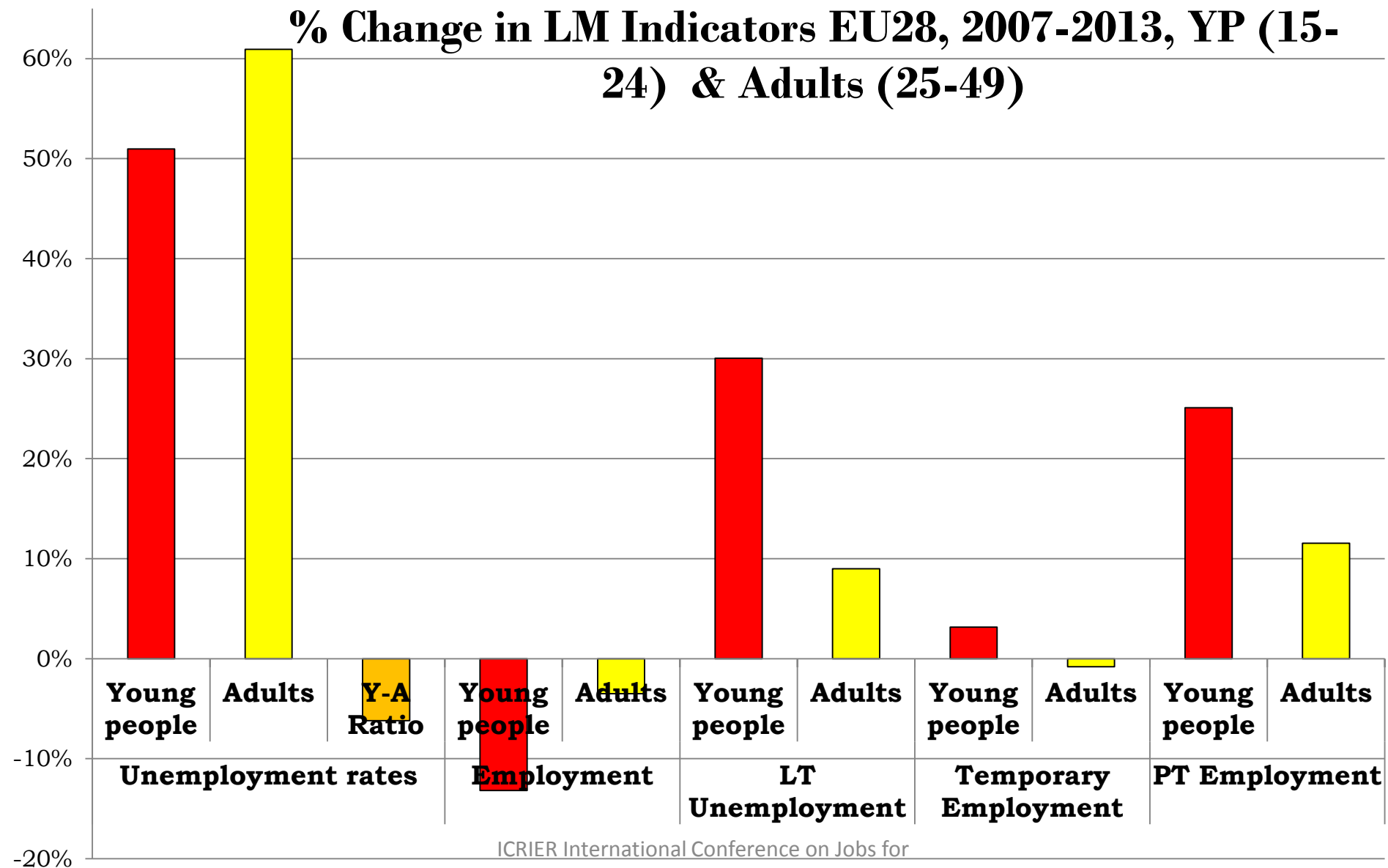
Consequences: Youth Un/Non-employment is Costly

1. Loss of potential output and income.
2. Crime and anti-social behaviour.
3. Ill-health: physical and psychological.
4. Scarring: Future employment and Wage consequences

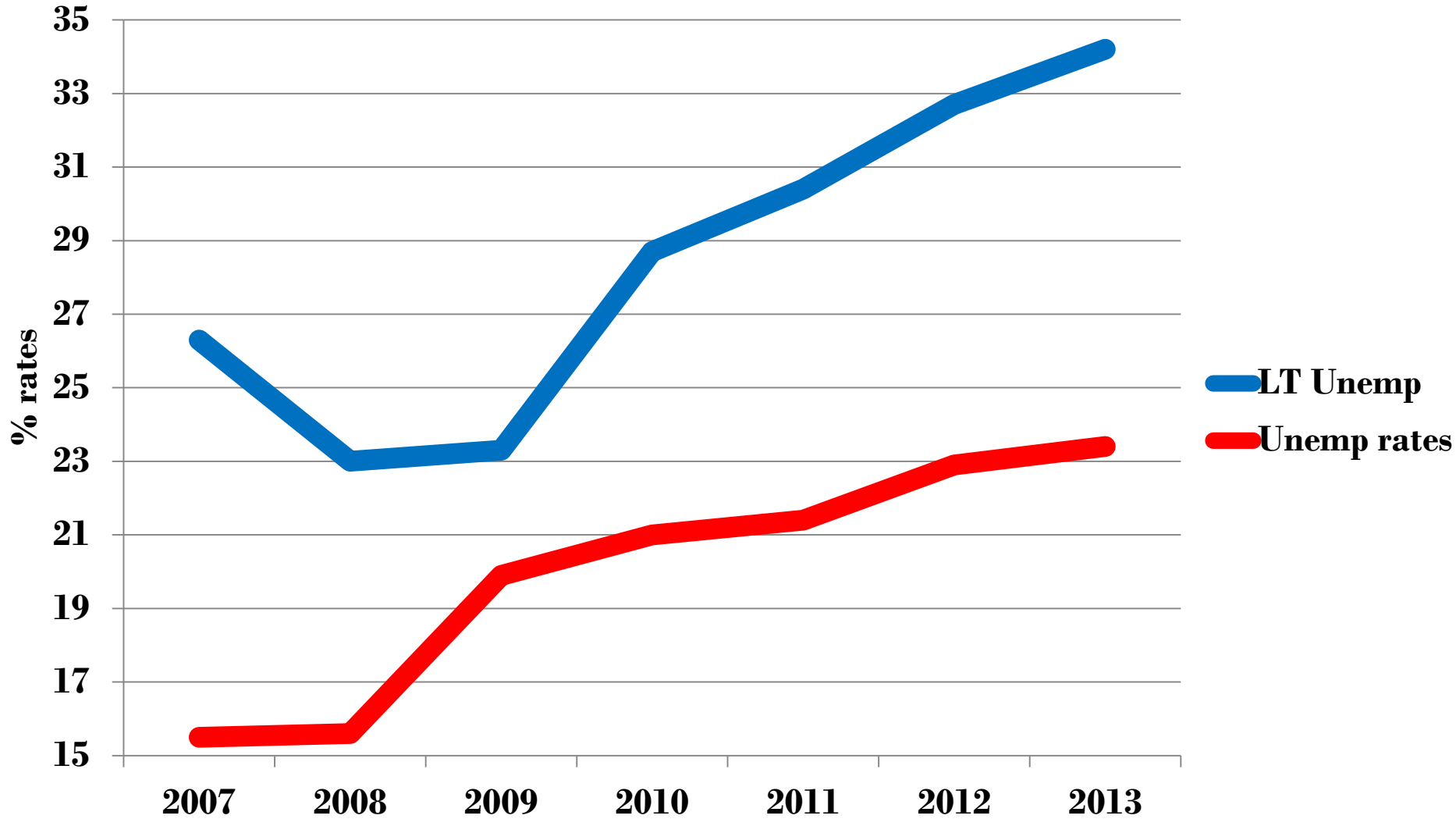
N.B. These negative consequences tend to increase more than proportionately with the time spent without work

What happened During the Recession in Europe

% Change in LM Indicators EU28, 2007-2013, YP (15-24) & Adults (25-49)

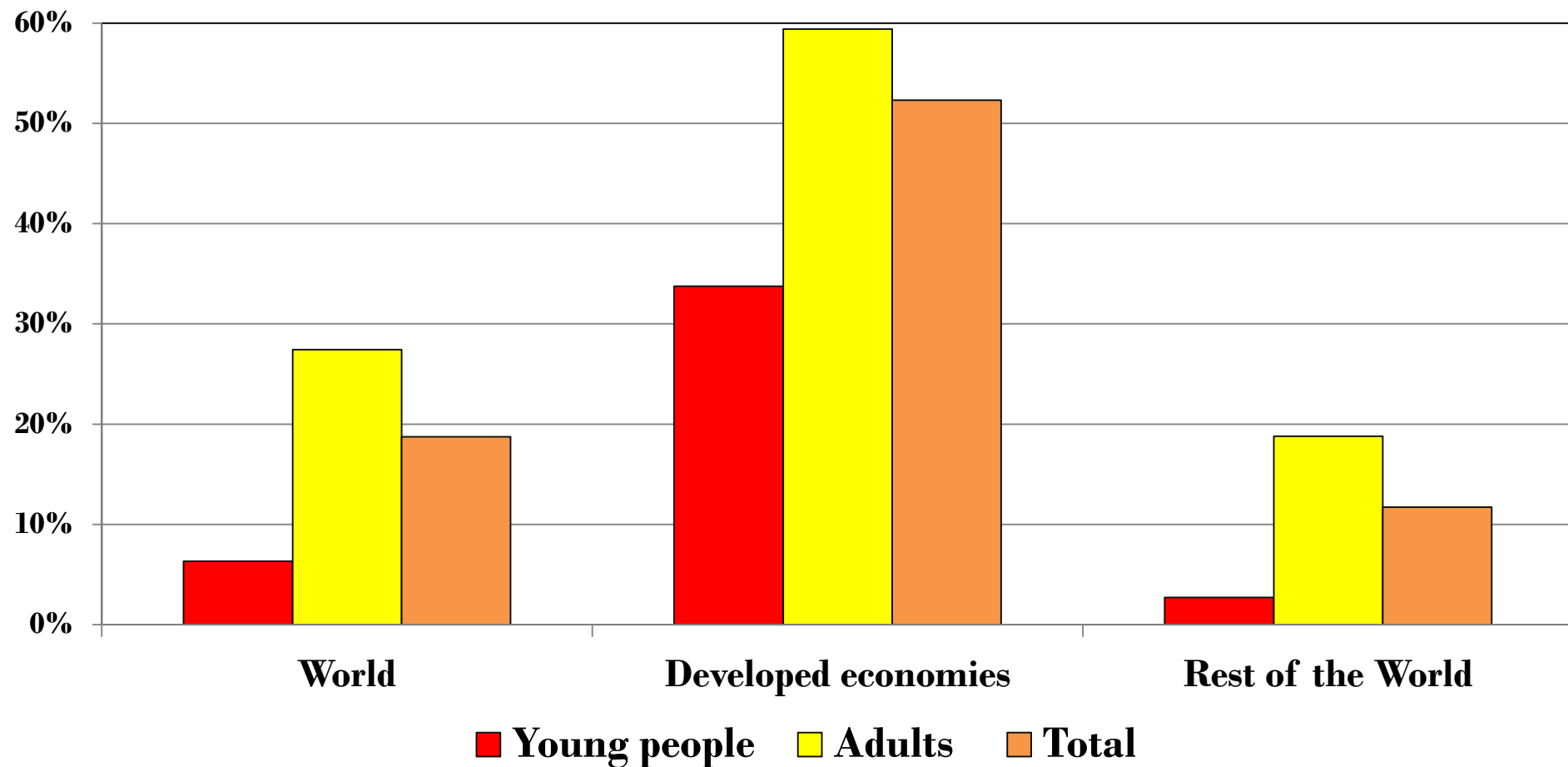


What happened II: Long term and Total (Youth) Unemployment rates (EU28)

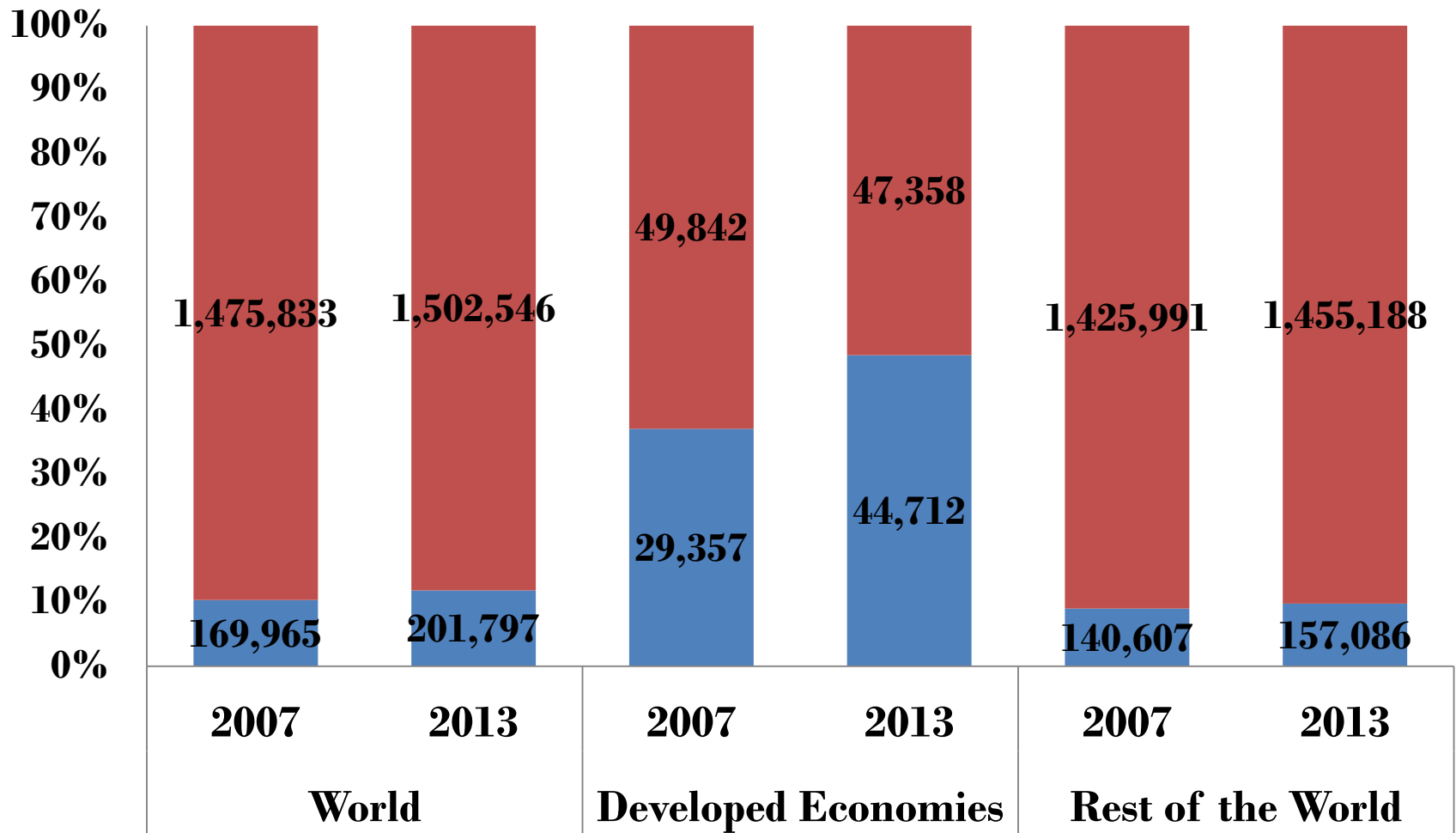


& in the 'Rest of the World'

% Change in unemployment by age, 2007-2013



& what about vulnerable employment?



■ Unemployment ('000s)

■ Vulnerable Employment ('000s)

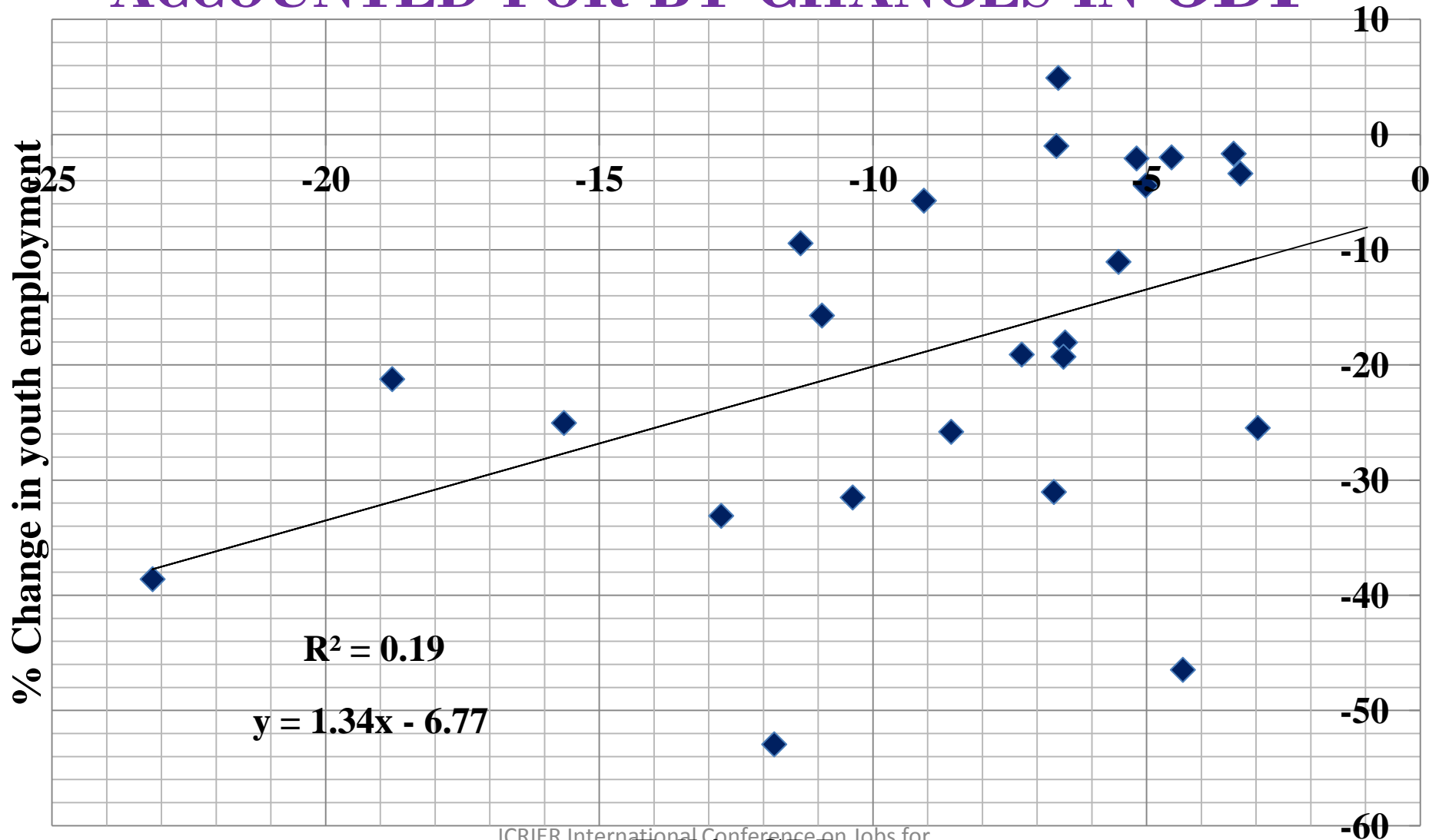
What Causes Youth Un/non-employment?

- **Variations in Aggregate Demand**

But,

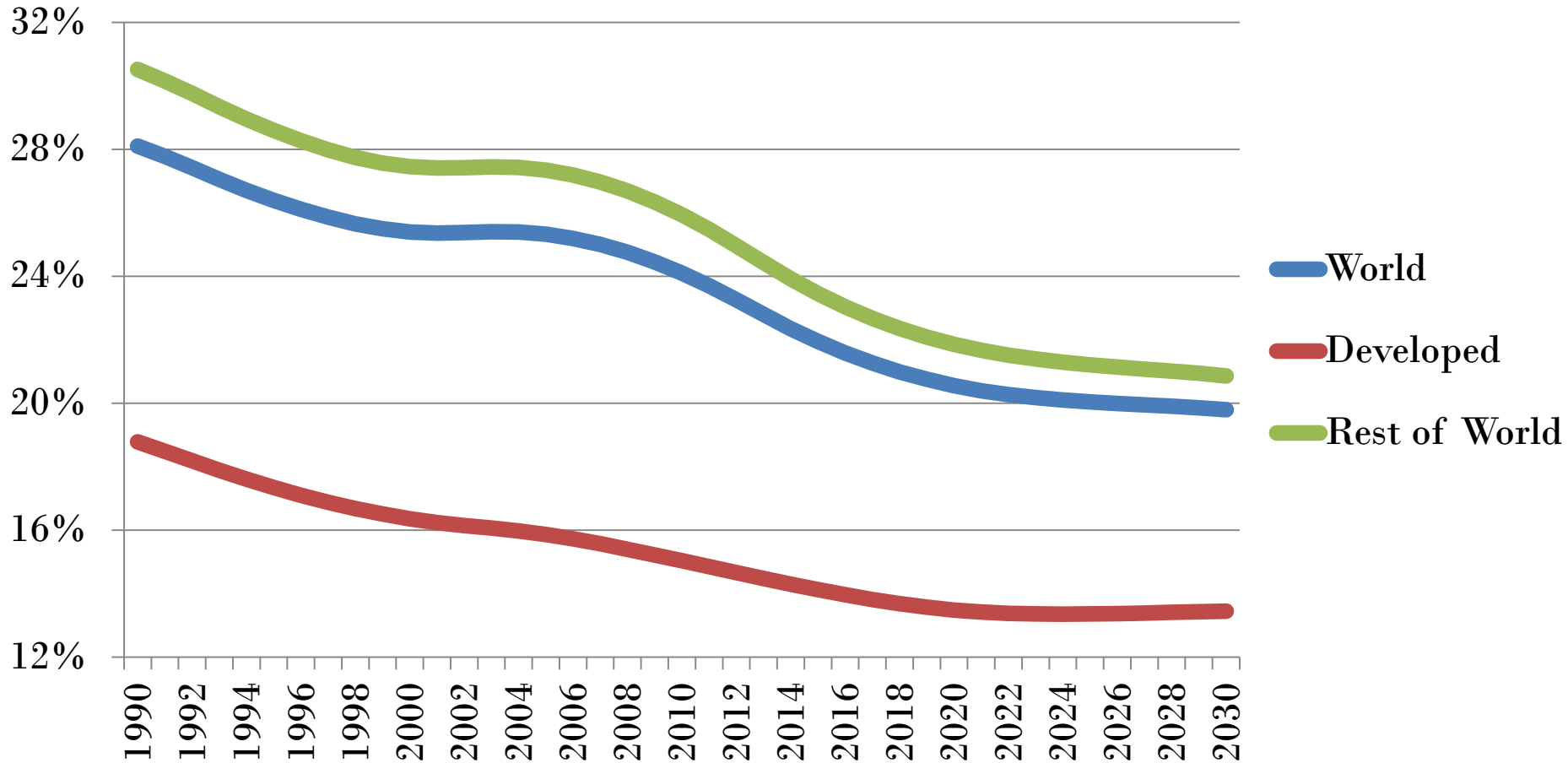
- **This is not the whole story (Institutions Matter)**
- **& What about the size of the youth cohort?**
- **& Wages?**
- **& Employment Protection Legislation?**
- **& Skills/Experience?**

CROSS-COUNTRY DIFFERENCES NOT (FULLY) ACCOUNTED FOR BY CHANGES IN GDP



Youth cohort crowding?

Young people (15-24) as a % of the working age population



(Minimum) Wages?

Evidence that high (minimum) wages cause youth unemployment is **extremely weak**

For the most part, MW found to have a **small or zero negative employment effect**

- **Wide variations in the effects of MW on youth LM outcomes (in particular on youth (un)employment) across countries**
- **Very few analyses look at interaction of MW with other LMIs**
 - 1) **Very heterogeneous effects across countries (Bookman, 2009, Neumark & Wascher, 2007)**
 - 2) **Co-ordinated Collective bargaining & higher replacement ratios (UE bens) reduce any negative effects of MW (Bookman)**
 - 3) **Strong EPL increases negative effects of MW wages (Bookman)**
Strong EPL reduces negative effects of MW wages (N&Wa)

AND,

- **many positive effects of MW – on household incomes, Training;**

Employment Protection Legislation (EPL)?

- Empirical studies generally found little or no negative effects of EPL on youth employment
- Evidence from the recession (O'Higgins, 2012, 2014)
 - generally supportive of the idea that youth disemployment effects of recession least severe in less flexible labour markets, with no evidence to support the idea that youth employment grows faster in more flexible LMs
- More relevant is a protected entry point for young people – e.g. Dual Apprenticeship system

N.B. too little known about interactions amongst LMIs

Tax wedge

Tax wedge = Gap between wages received by workers and labour costs paid by employers

One of the few variables which has consistently been found to have a strong positive impact on youth unemployment (e.g. Jimeno & Rodriguez-Palenzuela, 2002), and negative impact on youth employment (Bassanini & Duval, 2006; Bertola et al. 2007)

What to do about it?

- **Educational systems: Protected entry point** – e.g. Dual apprenticeship systems – but not easily transferable
- **Active Labour Market Programmes** – remedial – effectiveness varies greatly according to a number of factors:
 - *Comprehensive interventions*
 - *Job Search Assistance*
 - *Training vs. employment subsidies*
 - *On-the-job training*
 - *Public vs. Private*
 - *Business Cycle*
 - *Targetting*
 - *Social partner involvement*
 - *Timing of evaluation*
- **Encouraging Youth Entrepreneurship?**

Concluding remarks

- Youth un/non-employment is a serious problem – primarily because of its longer-term consequences
- Mainly caused by inadequate demand, but, institutions matter – more work needed on how institutions interact with each other
- Most effective approach involves protected entry – but requires a series of conditions
- ALMPs vary greatly in their effectiveness - ditto on more research