Youth Unemployment in the UK and Europe

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[Youth unemployment is] "perhaps the most pressing problem facing Europe at the present time.... It is highly regrettable that parts of the economic elite assume so little responsibility for the deplorable situation”
Angela Merkel, July 2013
Youth unemployment in the UK and Europe

• Issue

• Impacts

• Causes

• Policy Responses
Youth Unemployment in the EU

- Close to 6 million young people aged between 15 and 24 are unemployed in the EU

- In 2012 Q4 the youth unemployment rate in the EU was 23.2 per cent

- There are 7.5 million NEETs across the Union, representing 12.9% of young Europeans (aged between 15-24)
Geographic distribution of youth unemployment in Europe 2011
EU – Labour Market Status by Age

Source: Eurostat
Ratio of Unemployment to Population 15-24 Year Olds 2012

Source: Eurostat
UK - Unqualified Youth Experience More Likely to be Unemployed

Source: UK Labour Force Survey
Male youth has typically, but not universally, higher unemployment rates than female youth.

Data for Feb 2013
Source: Eurostat
Youth unemployment

Absolute or relative?

Structural or cyclical?
Youth unemployment –

High unemployment countries are not necessarily those with the largest structural youth unemployment problem.
Underemployment

Underemployment by age group, seasonally adjusted, 2001Q2-2013Q1

Source: UK Labour Force Survey, author's calculations

Impacts
Scarring – Persistence of Negative Experiences from Early Unemployment

• Mrotz and Savage. “Combining our semi-parametric estimates with a dynamic approximation to the lifecycle, we find that unemployment experienced as long ago as ten years continues to affect earnings adversely.

• Gregg. “We investigate the impact of unemployment during youth upon the wage of individuals up to twenty years later. We find a large and significant wage penalty [on youth], even after controlling for educational achievement, region of residence and a wealth of family and individual specific characteristics.

• Kahn. “I find large negative wage effects to graduating in a worse economy which persist for the entire period studied. I also find that cohorts who graduate in worse national economies are in lower level occupations, have slightly higher tenure and higher educational attainment. Taken as a whole the results suggest that the labor market consequences of graduating from college in a bad economy are large, negative and persistent.
Costs of scarring

• For the individual these include:
  – Higher probability of unemployment
  – Lower wages
  – Reduced well-being
  – Poorer health

• For society,
  – Negative health outcomes, negative behaviours and associated fiscal costs
  – “In 2012, the total cost to the economy of youth unemployment at its current levels in terms of lost output is likely to be £10.7 billion.” ACEVO: Commission on Youth Unemployment

• Not much known about the process of scarring

• Behavioral economics perspective - How is scarring linked to psychological state? e.g. optimism/expectations?
The Young Unemployed Lack Confidence About the Future

Confidence about future work/employment

Source: Prince’s Trust

n= 2036
Change in Life Satisfaction 2008-2012 among 15-24 year olds

GREECE
SLOVENIA
SPAIN
ITALY
FINLAND
PORTUGAL
HUNGARY
CZECH REP
CYPRUS (R
AUSTRIA
NETHERLANDS
GERMANY
BELGIUM
ESTONIA
POLAND
BULGARIA
LITUANIA
ROMANIA
IRELAND
LATVIA
FRANCE
DENMARK
GREAT BRITAIN
SWEDEN
SLOVAKIA

Change in Life Satisfaction 2008-2012 (4 point scale)
Lower wages not improving employment chances of the young

Change in Employee Weekly Wages by Age Group 2004-2012 (nominal)

Real wages have become more sensitive to unemployment

Source: Office of National Statistics
Migration: Ireland

Net migration flow reversed after the crisis

Young most likely to leave

Source: Irish Statistical Office
Co-residence mitigates costs in high unemployment countries

Rates of inter-generational co-residence in European Countries.

Financial costs

• At its current rates, in 2012 youth unemployment will cost the exchequer £4.8 billion (more than the budget for further education for 16- to- 19-year-olds in England) and cost the economy £10.7 billion in lost output.

• The costs are not just temporary. The scarring effects of youth unemployment at its current levels will ratchet up further future costs of £2.9 billion per year for the exchequer (equivalent to the entire annual budget for Jobcentre Plus) and £6.3 billion p.a. for the economy in lost output. The net present value of the cost to the Treasury, even looking only a decade ahead, is approximately £28 billion.
Causes
Causes of Youth Unemployment in the EU

- Weak demand
- Some countries have labour markets that give excessive security to older workers and not enough security to the young
- Vocational training is inadequate in almost all countries, with the exception of Germany
- Insufficient labour mobility across the EU
- Structural changes that have reduced relative demand for less-skilled labour
  - 1) globalization, including rising imports of goods and services, offshoring of production activities, and immigration;
  - 2) skill-biased technological change,
Policy responses
UK policy has been characterised by …

• … a lack of vision for the ‘forgotten half’ of young people who are not destined for university or a high quality apprenticeship post-16

• … a failure to address the different expectations of employers and job applicants
  – “Employers are from Mars, young people are from Venus”
UK policy has been characterised by ... 

- ... a lack of understanding of changes in recruitment processes
  
  - “word of mouth recruitment disadvantages young people without the right networks and contacts. But this is on the rise and is now the number one method of recruiting. Unless recruitment becomes less about who you know and more about what you know and what you can do, employers risk missing out on a rich and diverse talent pool.”

  **UKCES March 2013**

- .. failing to address the experience trap
  
  - “I can’t get a job because I don’t have experience, and I can’t get experience because I don’t have a job”
UK Policy Measures

• The Youth Contract is a set of measures aimed at easing the labour market disadvantage felt by a significant proportion of young people. It consists of five main elements:

1. wage incentive payments,
2. additional work experience places,
3. additional apprenticeship grants,
4. more Jobcentre Plus (JCP) adviser support and careers guidance,
5. payment-by-results initiative for 16–17 year-olds who are not in education, employment or training (NEETs).
UK Youth Contract – Initial Evaluation

- From April 2012, the Youth Contract includes funding for wage incentive payments of up to £2,275 to employers when they recruit an 18 to 24-year-old from the Work Programme or who have been claiming for six months
  - Potential gap in provision for 16-17 year-olds
  - Payment under the scheme of £2,200 per NEET may be too low to enable delivery of the intensive interventions often required by the most disadvantaged NEETs
  - Will not reach its intended volumes unless local authorities engage fully with it
The EU Youth Guarantee

• all young Europeans receive a good quality offer of employment, continued education, an apprenticeship or a traineeship within four months of leaving school or becoming unemployed.
July 2013 EU Initiative

**Macro**
- Sustainable reduction of youth unemployment above all depends on the implementation of structural reforms
- Need for a coordinated policy to support aggregate demand and increase productive investments

**Micro**
- Measures aiming to catch up on school-leaving qualifications (drop-outs)
- Measures to acquire vocational qualifications
- Temporary wage subsidies
- Loans with beneficial terms
- In-company internships
- Career entry support programmes
- Increasing and using the willingness to be mobile
Youth Employment Initiative (July 2013)

• Aimed at implementing the Youth Guarantee

• Up to EUR 2.5 bn may be frontloaded in 2014 and 2015, as part of the annual budgetary procedure, for specified policy objectives relating to youth employment, research, ERASMUS in particular for apprenticeships, and SMEs.

• These amounts shall be fully offset against appropriations within and/or between headings in order to leave unchanged the total annual ceilings for the period 2014-2020 and the total allocation per heading or sub-heading over the period.

• Applies to EU regions with youth unemployment rates above 25%.
Klaus Zimmerman on the German training model

“The apprenticeship system is really one gigantic microeconomic management exercise that involves all the relevant stakeholders in society.

It spans from young people and their teachers to the local companies and small businesses, chambers of commerce, industry associations, commercial banks, to trade schools, technical universities and multinational companies. Indeed, the core lesson from Germany is that this is not a top-down approach, but really a bottom up one. Every company, every school principal, every mayor, every non-governmental organization, and every church can make a difference. It is the focus to detail and a keen interest in young people’s future path that counts the most—not lofty white papers or grandiose policy announcements issued in the national capital.” Jobs and Development Blog
Thanks!