



Redefining the youth unemployment in Europe

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1. Introduction

One of the most important impacts of the crisis was the increase of unemployment in several European countries, especially among the young. Youth unemployment prevails as the most important problem in the public discourse, while at the same time several initiatives have been launched at the national and EU level concerning young unemployed people aged between 15 and 24 years.

The paper at hand examines the impact of the crisis on European labour markets' performance, with a focus on youth unemployment. Moreover, it is argued that it is necessary to redefine the term "youth" in the labour market. For that purpose, it is considered appropriate to answer the following question: *are the members of the labour force aged between 15-19 and 20-24 more badly affected by the deterioration of the performance of the European labour market during the financial crisis, in comparison with older age groups?*

The paper is divided into four sections. Following the introduction (first section), section two presents the definition of youth unemployment and discusses the theoretical aspects of this phenomenon. Section three examines the impact of the crisis on the labour force aged 15-19 and 20-24 in comparison to older age groups. Finally, the fourth section presents the main conclusions and policy proposals.

2. Youth Unemployment: definition and theoretical aspects

According to the definition adopted by Eurostat, "*Youth unemployment rate is the percentage of the unemployed in the age group 15 to 24 years old compared to the total labour force (both employed and unemployed) in that age group*".¹ Frequently, the youth unemployment rate is higher than older age groups' unemployment rates, due to various reasons that could be summarised as follows (most of them are discussed in Eichorst et al. 2013: 7 and Bell and Blanchflower, 2011: 2):

I. Flows from unemployment to employment are weaker for young compared to older unemployed individuals

An employer decides to hire an additional employee based on the comparison between the employee's productivity and cost, i.e. the employee's wage. The employee's productivity depends, *inter alia*, on his or her own experience. The productivity of the older members of the workforce is usually higher compared to younger members, due to their longer experience, which makes them more likely to be hired. Employers' incentives to hire older members of the workforce would be mitigated if the minimum wage is linked to work experience, thus making the wage cost for older workers higher than that of younger workers.

¹http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Youth_unemployment
(24/08/2015)

Furthermore, experience is usually an essential “hard skill”, which a job-seeker must possess in order to find a job. But young people, with no experience when entering the labour market, find themselves in the “back of the queue” and bear the cost of this “experience trap”.

The information asymmetry problem, which influences employers’ decision to hire an employee, is stronger for inexperienced rather than for experienced members of the work force, hindering the formers’ employment prospects. Employers have lesser information about the ability of young inexperienced candidate workers to fill a job in comparison with an experienced one, who has worked in the past in a similar job.

In addition, young unemployed people are often financially protected members in their households, making it easier for them to reject a job, which does not correspond to their skills or preferences. On the contrary, it is more probable for the older unemployed to accept a job offer, due to their financial obligations, even if the job does not match their skills or is irrelevant to their preferences; thus, their transition from unemployment to employment is more likely in comparison to younger people.

II. Flows from employment to unemployment are stronger for young compared to older employees

Employers, especially during recessions, tend to dismiss younger rather than older employees, because statutory redundancy payment, which depends on seniority, is frequently lower for younger employees. Additionally, in several countries the majority of the young people work as temporary employees, which makes their employment more prone to the fluctuations of the labour market.

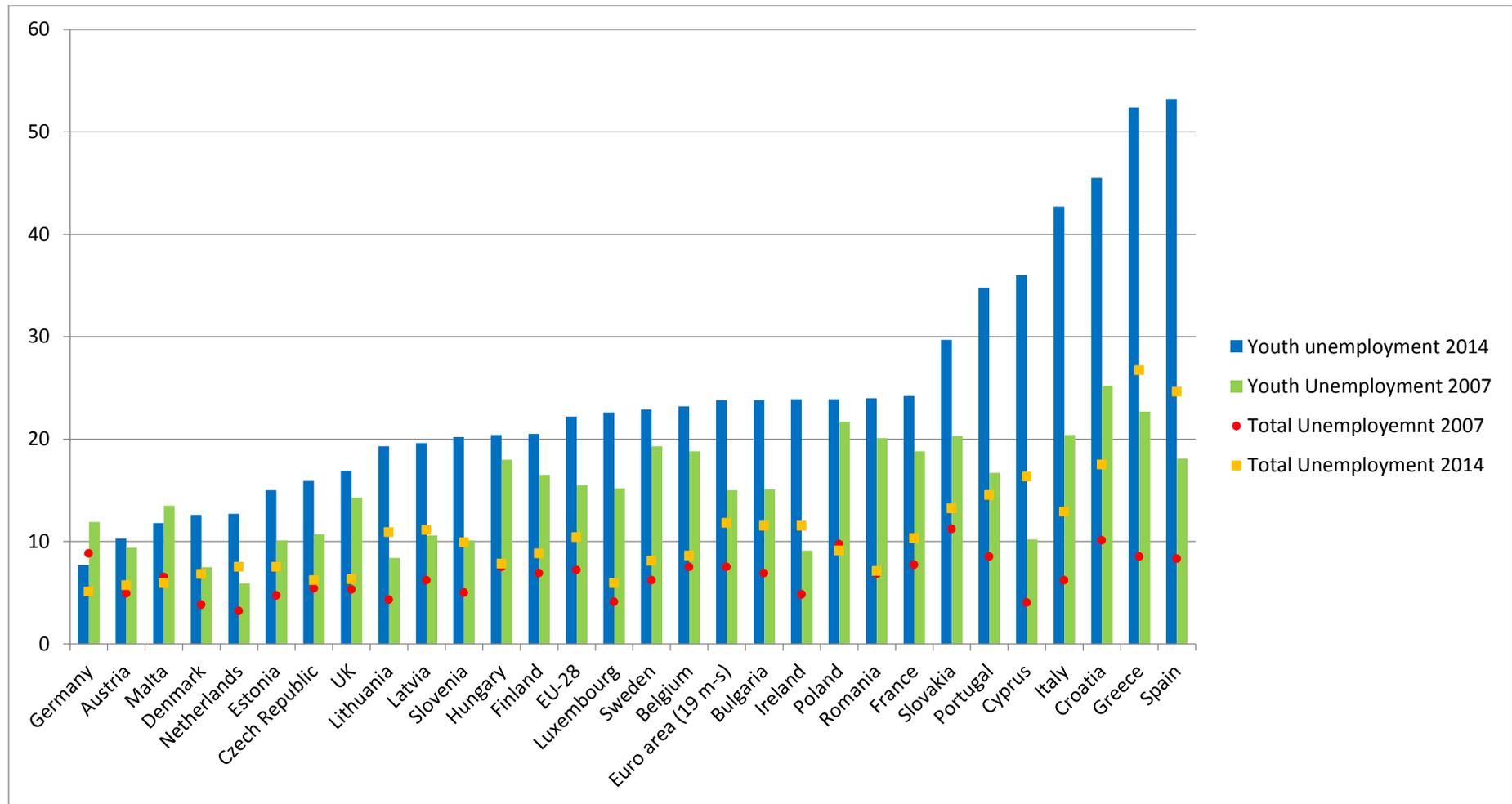
During recessions, when job vacancies are fewer and flows towards unemployment are stronger, the young are more likely to be the last to be employed and the first to be laid off.

3. Youth unemployment in Europe during the crisis

During the period 2007-2014, the EU-28 average youth unemployment rate, as a percentage of the labour force aged 15-24, increased from 15.5% to 22.2% (Graph 1). During the same period, the total unemployment rates increased in all EU-28 member states, except for Germany, Malta and Poland. Furthermore, Germany and Malta are the only EU-28 member states where the youth unemployment rates decreased from 2007 to 2014. At the country-level, youth unemployment rates in 2014 varied greatly among member-states: in Spain (53.2%), Greece (52.4%), Croatia (45.5%), Italy (42.7%), Cyprus (36.0%) and Portugal (34.8%) the youth unemployment rates were approximately above 35.0% of their labour force aged 15-24, while in Germany (7.7%), Austria (10.3%), Malta (11.8%), Denmark (12.6%), the Netherlands (12.7%), Estonia (15.0%), the United Kingdom (16.9%), Lithuania (19.3%), Latvia (19.6%), the youth unemployment rates were below 20.0%. Moreover, in 2014 the youth unemployment rates were more than double the total unemployment rates in all EU-28 member states, excluding Germany, Austria, Malta, Denmark, the Netherlands, Lithuania and Latvia.

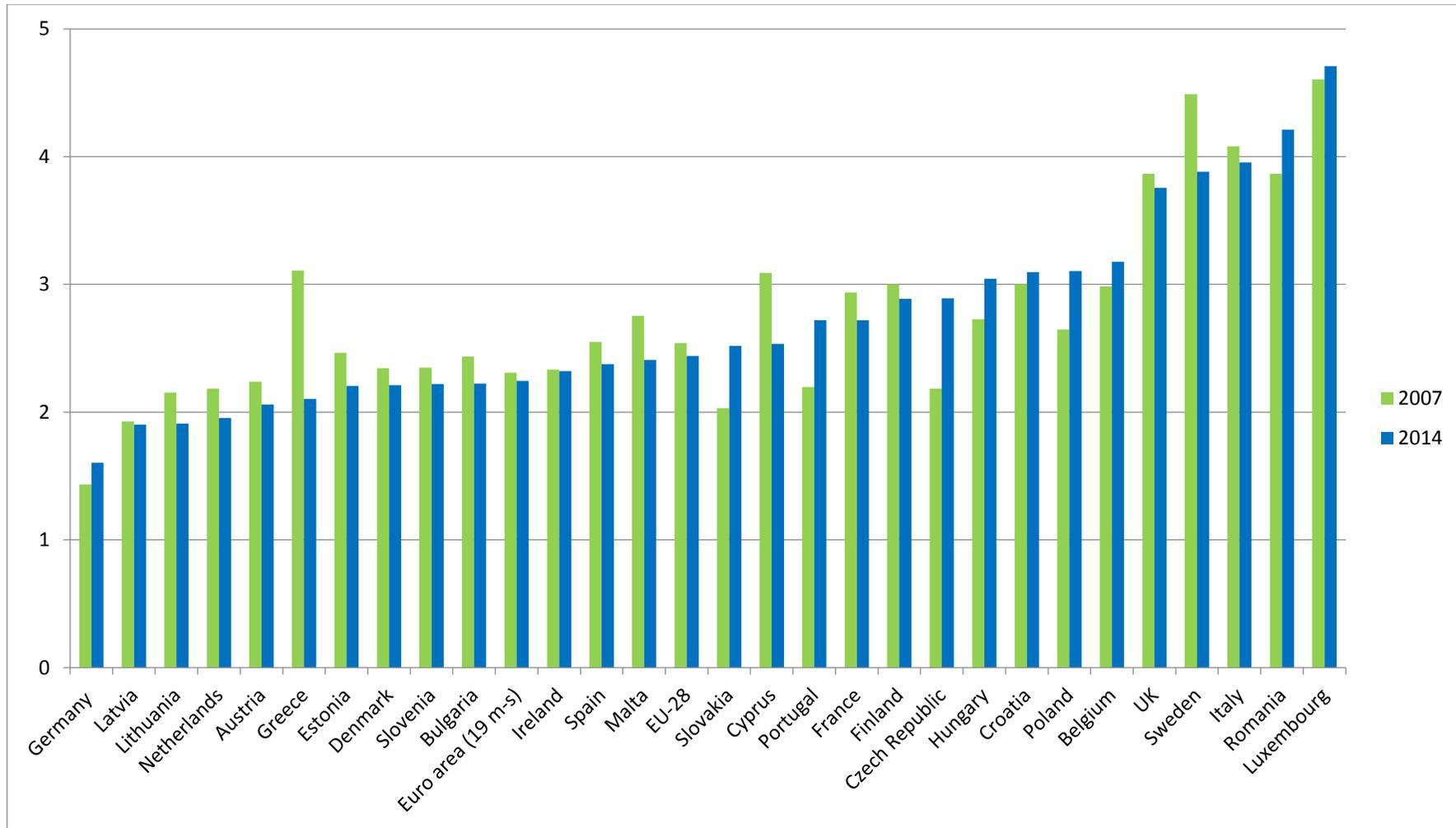
Graph 2 displays the ratio between youth and adult unemployment rates. In 2007, the ratio ranged from 1.4 (Germany) to 4.6 (Luxemburg), while in 2014 from 1.6 (Germany) to 4.7 (Luxemburg). This means that unemployment rates were higher among the young even prior to the crisis. Furthermore, considering that in the period 2007-2014 the ratio between youth and adult unemployment rates either decreased or remained almost stable in all EU member-states, apart from the Czech Republic, Portugal, Slovakia, Poland, Romania and Hungary where the ratio substantially increased, we could argue that the increase in unemployment in the EU-28 was mainly the result of adult rather than of youth unemployment rates' increase.

Graph 1: Total unemployment and youth unemployment rates (2007, 2017)



Source: Eurostat

Graph 2: Ratio between youth (15-24) and adult unemployment (25-64)



Source: Eurostat, author's calculations

Most young people aged 15-24 have not yet entered the labour force, as they remain enrolled in the education system. This could explain why the youth unemployment rate, which is the percentage of unemployed aged 15-24 to the total labour force of the same age, is generally higher compared with other age groups (Eichorst et al. 2013: 4). On the contrary, the youth unemployment ratio, which is the number of unemployed aged 15-24 divided by the population of that age, is a more reliable indicator, especially when we want to compare the problem of unemployment between different age groups.

$$\text{Unemployment rate (for age group } x) = \frac{\text{people unemployed in age group } x}{\text{people in labour force in age group } x} \quad (1)$$

$$\text{Unemployment ratio (for age group } x) = \frac{\text{people unemployed in age group } x}{\text{total population of age group } x} \quad (2)$$

As we can see from equations 1 and 2, the only difference between unemployment rate and unemployment ratio lies in the denominators: in the case of unemployment rate, the denominator is the active population (people in labour force), whereas in the case of unemployment ratio the denominator is the total population. By definition, the unemployment ratio is equal or lesser than the unemployment rate. Moreover, the greater the difference between active population and total population of a specific age group, the greater will the difference between unemployment rate and unemployment ratio for that age group be.

As shown in Table 1, in 2014, the unemployment rates for age groups 15-19 (26.7%), 20-24 (20.9%) and 15-24 (22.2%) were the highest compared with those of the other age groups. On the contrary, taking the unemployment ratio into account, we could argue that youths aged 15-24 (9.2%) are not affected by unemployment more strongly than the other age groups. In addition, we can observe that the difference between the unemployment rate and unemployment ratio in the EU is impressively wide among the age groups 15-19 (unemployment rate: 26.7%, unemployment ratio: 5.4%), 20-24 (unemployment rate: 20.9%, unemployment ratio: 12.8%) and 15-24 (unemployment rate: 22.2%, unemployment ratio: 9.2%); on the other hand, the differences are very small in the other age groups. This is due to the fact that divergences between total and active population are greater for the youth rather than for adults.

The above differences could also be explained by the high inactivity rates among the youth.² As shown in Graph 3, the average inactivity rate for the age group 15-19 (inactive people aged 15-19 as a percentage of the total population aged 15-19) is 79.9% in the EU-28. Additionally, the inactivity rates among age groups 15-19 and 15-24 are higher than 80.0% and almost 60.0% respectively for all countries, excluding the Netherlands, Denmark, Austria, the United Kingdom, Sweden, Finland, Germany and Malta.

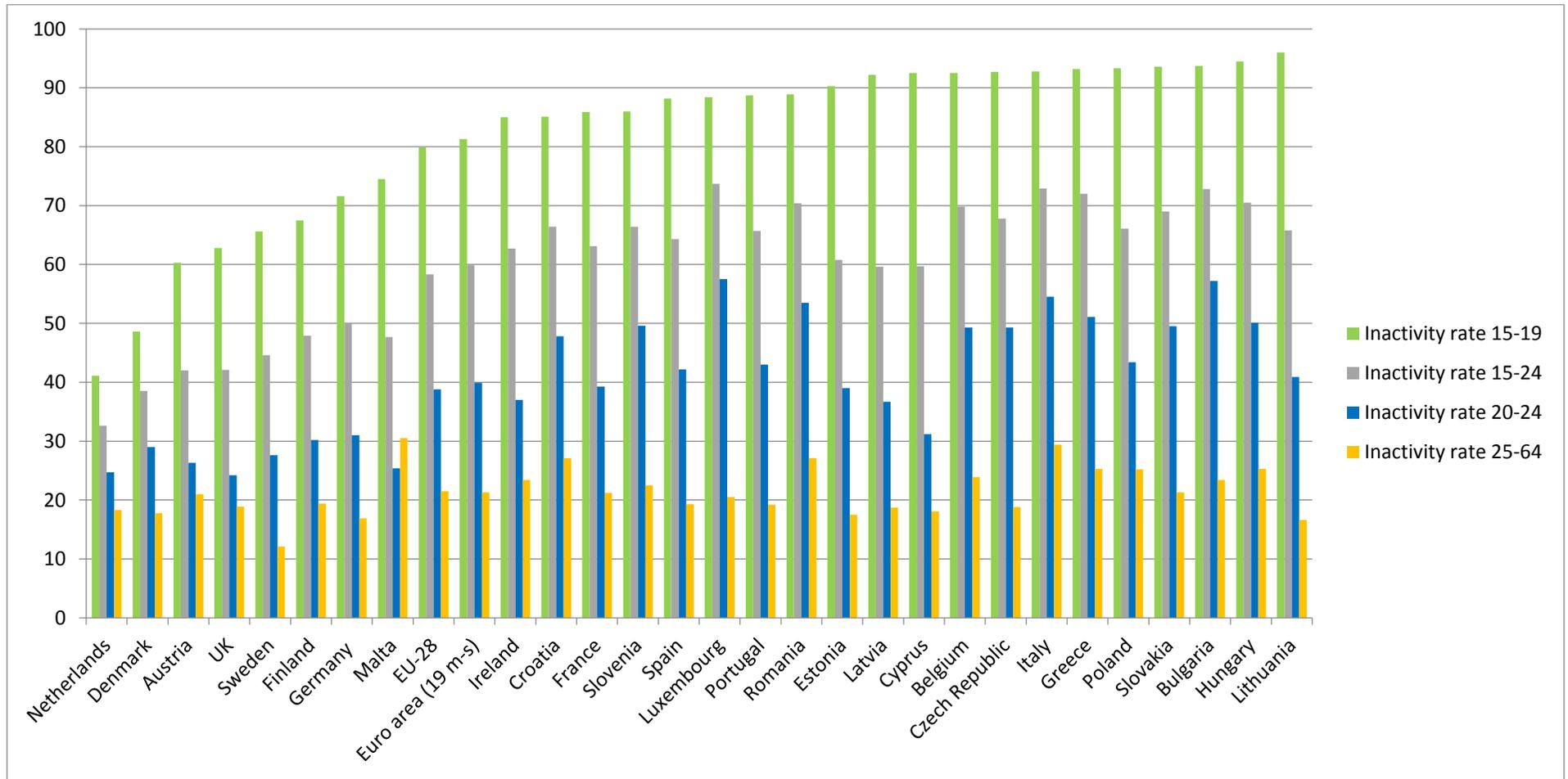
² According to the Eurostat's and ILO's definition "A person is economically inactive if he or she is not part of the labour force. So inactive people are neither employed nor unemployed. The inactive population can include pre-school children, school children, students, pensioners and housewives or -men, for example, provided that they are not working at all and not available or looking for work either; some of these may be of working-age". See here: <http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Inactive> (01/09/2015).

Table 1: Unemployment rates* (un.rate) and unemployment ratios** (un.ratio) by age group (2014)

	15-19		20-24		15-24		25-29		30-34		35-39		40-44		45-49		50-54		55-59		60-64	
	Un. rate	Un. ratio	Un. rate	Un. ratio	Un. rate	Un. ratio	Un. rate	Un. ratio	Un. rate	Un. ratio	Un. rate	Un. ratio	Un. rate	Un. ratio	Un. rate	Un. ratio	Un. rate	Un. ratio	Un. rate	Un. ratio	Un. Rate	Un. ratio
Belgium	33.6	2.5	21.8	11.1	23.2	7.0	11.9	10.2	8.6	7.6	7.6	6.7	7.1	6.3	5.3	4.6	5.5	4.4	5.9	3.7	3.7	0.9
Bulgaria	43.6	2.7	21.6	9.2	23.8	6.5	14.4	10.8	11.4	9.3	9.8	8.5	9.4	8.3	9.3	7.9	9.6	7.9	11.5	8.5	11.9	4.8
Czech Republic	36.8	2.7	13.6	6.9	15.9	5.1	7.4	6.0	6.6	5.4	5.5	4.9	4.4	4.1	5.0	4.8	5.0	4.7	5.5	4.4	3.7	1.2
Denmark	14.5	7.5	11.3	8.0	12.6	7.8	9.5	7.6	7.3	6.3	4.9	4.4	5.2	4.7	4.5	4.0	4.9	4.2	5.2	4.2	4.2	2.1
Germany	8.7	2.5	7.4	5.1	7.7	3.9	6.1	5.1	5.5	4.8	4.7	4.1	4.1	3.7	3.9	3.5	4.3	3.7	4.7	3.8	5.8	3.2
Estonia	27.4	2.6	13.5	8.2	15.0	5.8	9.2	7.7	7.7	6.6	7.1	6.3	5.2	4.7	6.7	6.0	7.0	6.0	6.5	5.2	3.7	2.1
Ireland	32.4	4.9	21.6	13.6	23.9	8.9	15.2	12.2	10.1	8.5	9	7.6	9.8	7.9	9.7	7.7	9.2	7.0	9.5	6.4	9.0	4.3
Greece	61.8	4.2	51.1	25.0	52.4	14.7	40.8	34.9	30.1	26.8	24.7	21.7	21.7	18.8	21.1	17.5	19.8	14.5	18.4	9.9	14.9	4.2
Spain	68.6	8.1	50.3	29.1	53.2	19.0	30.3	26.3	24.0	21.9	21.1	19.1	21.1	18.7	21.7	18.6	20.6	16.6	21.5	14.7	16.9	6.7
France	33.2	4.7	22.0	13.4	24.2	8.9	14.4	12.4	10.6	9.3	8.8	7.8	7.9	7.1	7.6	6.7	6.6	5.7	7.7	5.7	6.7	1.8
Croatia	63.0	9.4	40.5	21.2	45.5	15.3	22.7	18.9	16.5	15.0	14.9	13.6	11.8	10.1	13.3	10.5	12.5	9.4	11.9	6.4	10.8	2.9
Italy	65.7	4.7	39.3	17.9	42.7	11.6	23.6	15.9	14.6	11.4	11.2	8.9	10.1	8.1	9.1	7.1	7.7	5.8	6.0	3.8	4.4	1.4
Cyprus	53.3	3.9	34.3	23.6	36.0	14.5	19.9	17.9	13.8	12.7	10.3	9.5	10.5	9.1	13.0	11.4	14.1	11.5	16.0	11.0	16.8	7.2
Latvia	33.3	2.6	18.4	11.7	19.6	7.9	10.7	9.2	10.5	9.2	12.3	10.8	8.5	7.5	10.6	9.3	9.7	8.2	11.3	8.9	6.8	3.0
Lithuania	-	-	18.5	10.9	19.3	6.6	11.0	9.8	9.0	8.3	9.5	8.6	11	9.9	10.1	9.2	9.0	7.8	11.5	9.0	9.0	4.1
Luxembourg	26.2	2.9	21.6	9.1	22.6	5.9	7.7	6.8	4.8	4.4	3.6	3.2	5.8	5.2	3.7	3.2	3.9	3.3	4.8	3.0	-	-
Hungary	38.4	2.1	18.7	9.3	20.4	6.0	9.4	7.6	7.5	6.2	6.4	5.5	6.4	5.7	5.8	5.1	5.8	4.8	6.0	4.0	7.6	1.6
Malta	22.2	5.7	8.8	6.5	11.8	6.1	5.8	5.2	3.8	3.2	4.5	3.7	4.1	3.4	3.8	2.8	5.9	3.8	6.6	3.6	6.0	1.4
Netherlands	15.8	9.3	10.5	7.9	12.7	8.6	7.2	6.2	5.9	5.2	5.9	5.3	6.4	5.5	5.5	4.8	6.4	5.4	7.2	5.5	8.6	4.5
Austria	11.4	4.5	9.8	7.2	10.3	6.0	7.2	6.1	6.5	5.8	5.2	4.7	4.4	3.9	4.0	3.6	4.5	3.8	4.4	2.9	-	-
Poland	35.9	2.4	22.7	12.9	23.9	8.1	11.8	10.0	8.0	6.9	6.7	5.9	6.8	6.0	6.9	5.9	7.0	5.5	7.4	4.5	5.5	1.5
Portugal	49.0	5.6	32.0	18.2	34.8	11.9	18.3	15.9	13.3	12.3	11.4	10.5	12	10.9	11.2	9.9	11.6	9.5	14.5	9.8	11.8	5.0
Romania	34.2	3.8	21.8	10.1	24.0	7.1	10.5	8.3	5.5	4.6	5.5	4.6	4.9	4.2	5.5	4.6	4.9	3.7	3.9	2.2	2.1	0.6
Slovenia	17.0	2.4	21.0	10.5	20.2	6.8	18.1	15.0	11.3	10.5	7.2	6.8	6.4	6.0	6.8	6.2	7.7	6.6	8.8	4.9	4.7	0.9
Slovakia	56.3	3.6	27.0	13.7	29.7	9.2	16.1	13.0	15.4	12.8	9.7	8.6	9.4	8.8	10.2	9.4	11.7	10.2	11.8	8.9	6.0	1.3
Finland	29.4	9.5	16.8	11.7	20.5	10.7	10.1	8.2	7.3	6.0	5.9	5.2	7	6.3	6.0	5.4	6.8	6.0	7.2	5.8	7.3	3.5
Sweden	36.0	12.4	17.9	12.9	22.9	12.7	9.1	7.8	6.3	5.8	5.8	5.4	5.1	4.7	4.7	4.4	5.1	4.5	5.2	4.5	5.7	4.0
UK	26.3	9.8	13.0	9.8	16.9	9.8	6.9	5.9	4.4	3.8	4.7	4.1	3.9	3.4	3.8	3.3	3.8	3.2	4.2	3.2	3.7	1.9
Euro Area (19 m-s)	25.7	4.8	23.2	13.9	23.8	9.5	13.4	13.1	12.6	10.9	10.9	9.5	10.0	8.7	9.2	7.9	8.6	7.1	8.7	6.3	7.7	3.0
EU-28	26.7	5.4	20.9	12.8	22.2	9.2	11.2	11.2	10.5	9.0	9.2	8.1	8.5	7.4	8.0	6.9	7.6	6.3	7.7	5.5	6.7	2.6

Sources: *Eurostat, **Eurostat, author's calculations

Graph 3: Inactivity rate by age group (2014)



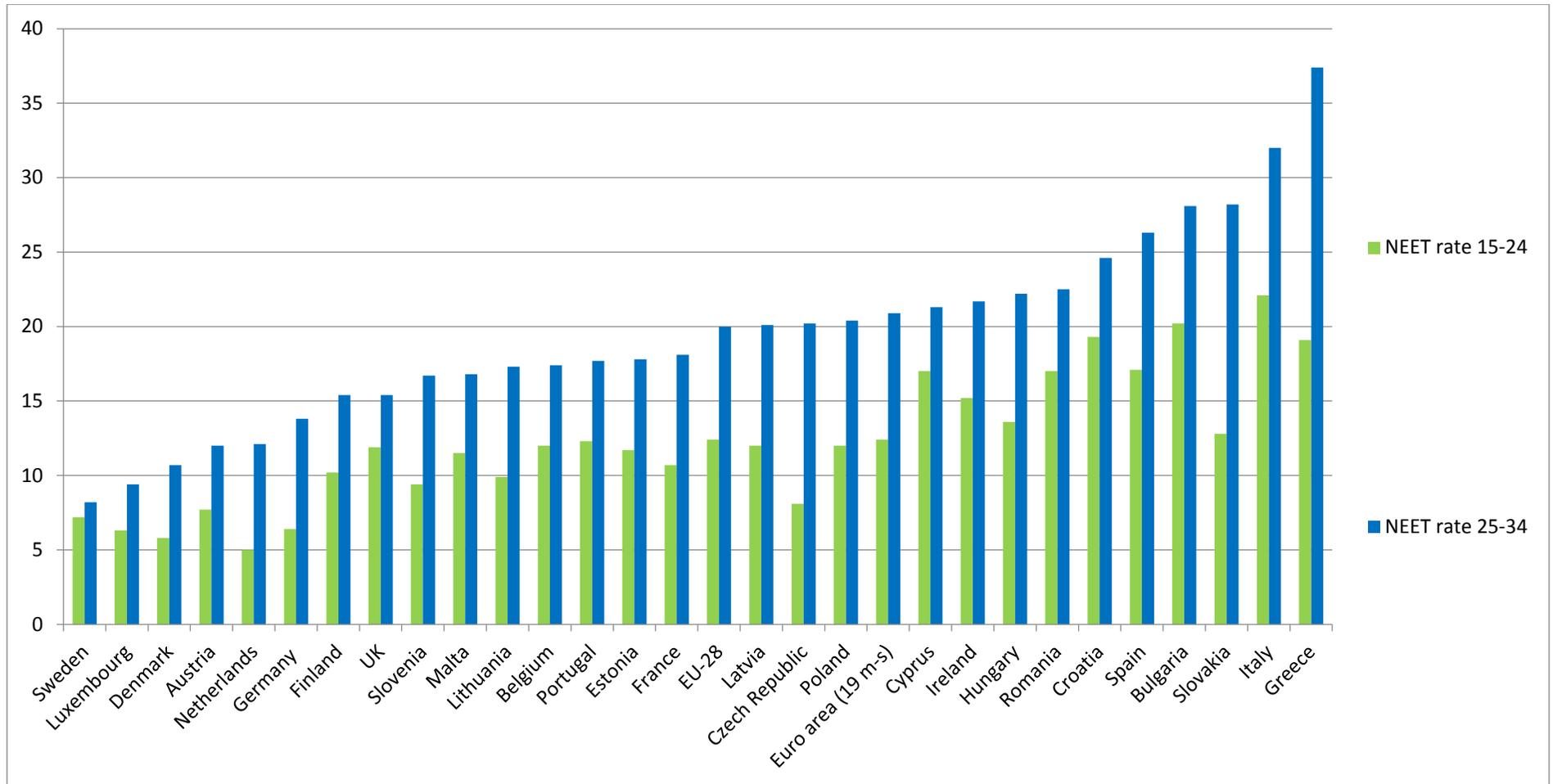
Source: Eurostat

Another indicator regarding the position of the young people in the labour market, which is often used in existing literature, is young people Neither in Employment nor in Education and Training, the so called NEET rate (*inter alia*, see Dolado, 2015, Quintini and Martin, 2006). The indicator's numerator includes persons of a given age group who are not employed (i.e. unemployed or inactive) and who are not enrolled in education or training system, whereas the indicator's denominator is the total population of the same age group.³ In 2014, the average EU-28 NEET rate for the age group 15-24 was 12.4% (Graph 4). At the country-level, there is a group of EU member-states where the NEET rate for the age group 15-24 is approximately below 10.0%, which includes the Netherlands (5.0%), Denmark (5.8%), Luxemburg (6.3%), Germany (6.4%), Sweden (7.2%), Austria (7.7%), the Czech Republic (8.1%), Slovenia (9.4%), Lithuania (9.9%) and Finland (10.2%), and another group where the NEET rate is approximately equal or higher than 20.0%, which includes Greece (19.1%), Croatia (19.3%), Bulgaria (20.2%) and Italy (22.1%). In addition, as shown in Graph 4, in all EU member-states the NEET rate for the age group 25-34 is higher than the one for the age group 15-24. Consequently, we could argue that the problem of unemployment and inactivity is stronger for the age group 25-34 rather than for the age group 15-24. Furthermore, there are widespread differences regarding the NEET rate at the country-level: there is a group of countries where the NEET rate for the age group 25-34 is below 15.0%, including Sweden (8.2%), Luxemburg (9.4%), Denmark (10.7%), Austria (12.0%), the Netherlands (12.1%), Germany (13.8%), Finland, and another group where the NEET rate is higher than approximately 25%, including Croatia (24.6%), Spain (26.3%), Bulgaria (28.1%), Slovakia (28.2%), Italy (32.0%) and Greece (37.4%).

It should be noted that in 2012, the total economic loss in the EU concerning young people who were Neither in Employment nor in Education and Training was €162 billion or 1.26% of EU GDP (Eurofound, 2014: 5-7). This includes not only the public finance cost (unemployment benefits, sickness and disability benefits and education-related allowances), but also the recourse cost, which contains lost earnings due to unemployment or inactivity of the European youth.

³ See Eurostat's definition here: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Young_people_neither_in_employment_nor_in_education_and_training_\(NEET\)](http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Young_people_neither_in_employment_nor_in_education_and_training_(NEET)) (01/09/2015).

Graph 4: Young people Neither in Employment Education and Training (NEET rate, 2014)



Source: Eurostat

4. Concluding remarks and policy implications

The conclusions of the above analysis could be summarised as follows:

- During the crisis, both youth and total unemployment rates increased in most EU member-states. At the same time, there are widespread differences regarding youth unemployment rates among EU member-states.
- In the EU, unemployment rates were higher for the youth rather than for adults, even before the onset of the crisis.
- The rise of unemployment in the EU was mainly the result of adult rather than of youth unemployment rates' increase.
- Taking into consideration specific other indicators, such as the unemployment ratio or the NEET rate, we could argue that unemployment does not have a much more pronounced effect on the youth rather than on older age groups. This could be explained by the high inactivity rates among the youth.
- There are widespread differences in the NEET rate among EU member-states for the age groups 15-24 and 25-34.

The EU has taken several initiatives to tackle youth unemployment, such as the Youth Guarantee Scheme and the Youth Employment Initiative. Under the Youth Guarantee Scheme, the EU and its member-states have to ensure that all young people under 25 get a good-quality offer, such as a job, apprenticeship, traineeship or continued education, within four months of leaving formal education or becoming unemployed.⁴ The aim of the Youth Employment Initiative is to provide support to young people under 25 who are Neither in Employment nor in Education and Training, including long-term unemployed young people or those not registered as job-seekers and living in regions where youth unemployment was higher than 25% in 2012.⁵

In order to tackle youth unemployment, more initiatives should be taken both at the EU and at the country-levels. First of all, it is crucial to redefine the term “youth” in the context of the labour market. Most young people remain in the education system for more years than they did in the past. Moreover, as mentioned in the previous section, the NEET rate is higher in the age group 25-34 than in the age group 15-24. Therefore, young people aged 25-34 should also be included among the target group of EU initiatives to tackle youth unemployment.

As mentioned above, youth unemployment is more responsive to business cycles, because young people are more likely to be the first to be laid off during economic recession and the last to be employed during economic recovery. In addition, youth unemployment can hamper young people's future employment prospects and earnings (Matsaganis, 2015: 79, Eichorst et al., 2013:7, O' Higgins 2015: 1) through, *inter alia*, human capital (deterioration of their skills, forgone work experience) or signaling effects (i.e. prolonged unemployment is a signal of low productivity for potential employers) (Scarpetta et al. 2010: 15-16). Thus, the current recession could result in “lost generations” in some EU countries. Therefore, the EU

⁴ <http://ec.europa.eu/social/main.jsp?catId=1079>

⁵ <http://ec.europa.eu/social/main.jsp?catId=1176&langId=en>

and especially the Eurozone should immediately contribute to the stabilisation of economies which are still in recession.

Many initiatives should also be taken at the country-level in order to tackle youth unemployment, through the improvement of the transition from education-to-work (and not only from school to work), which includes two stages:

1. Exit from education and training systems

Governments have to ensure that everyone leaving the education or training system has already gained the minimum skills needed in the labour market. This could be achieved through the reform of education or training systems, using forecasts for future labour market needs.

2. Entry into the labour market

At this stage, the governments have to ensure that all young people will remain active in the labour market. This could be achieved either by finding a job or by remaining available for employment (training or education). To this end, the labour market should be reformed so as to:

- Allow the unemployed to fill immediately vacant jobs. Measures that improve job search assistance could substantially contribute towards this direction.
- Abolish the barriers or disincentives that hinder youth employment, such as institutional rigidities and lack of experience. Structural reforms and Active Labour Market Policies should contribute towards this direction.
- Eliminate the risk of discouraging the young, while in the job search process, through for example Active Labour Market Policies.

It should be noted that there is not a list of reforms or policies that fits every labour market. However, we can argue that the implementation of a comprehensive reform strategy against youth unemployment is a better option than the implementation of piecemeal reforms. In addition, European governments have to avoid the implementation of reforms “at the margin”, which should cause labour market segmentation, instead of fostering youth employment.

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