

## Global

### Youth unemployment: an important ongoing policy challenge

- Within the OECD countries, the youth unemployment rate is higher and cyclically more sensitive than the total unemployment rate.
- During economic downturns, the percentage of young people unemployed for more than one year increases.
- The negative impact of having been unemployed while young can stretch far into the future.

The cyclical upturn in recent years has led to a decline in the number of unemployed young people (aged 15-24 year) as a percentage of the young labour force<sup>1</sup> (Chart 1). In countries like Spain, Portugal and Ireland, this decline has been very significant, but it has followed a huge increase in the youth unemployment rate. In Italy, the increase has also been considerable, but the decline has just started. The chart also shows that across countries the youth unemployment rate was high even before the 2008 recession. In 2015, the ratio of youth unemployment rate to the total unemployment rate was on average 2.1 in the OECD and as well as for the eurozone. The ratio was the highest in Italy where the youth unemployment rate is three times the overall rate. Germany and the Netherlands had the lowest ratio (1.6 times)<sup>2</sup>, France was on the high side (2.4 times)<sup>3</sup>. Interestingly, across the phases of the business cycle, the ratio of youth unemployment rate to the unemployment rate of people aged 25 and over seems rather stable. The scatter plot in Chart 2 displays annual observations for 8 countries. The regression line, which shows the average relationship across countries and time, has a high explanatory power, and its slope (the beta coefficient) indicates that a 10 percentage point change in youth unemployment would be accompanied by a 3.5 percentage point change in the unemployment rate of people aged 25 and over. As can be seen in Table 1, there are quite a few differences in individual country's results, in particular with respect to the beta coefficient of the regressions. This coefficient can be considered to be a measure of the relative cyclical sensitivity of youth unemployment versus the

<sup>1</sup> The labour force, or currently active population, comprises all persons who fulfil the requirements for inclusion among the employed (civilian employment plus the armed forces) and the unemployed. The employed are defined as those who work for pay or profit for at least one hour a week or who have a job but are temporarily not at work due to illness, leave or industrial action. The unemployed are defined as people without work but actively seeking employment and currently available to start work (source: OECD).

<sup>2</sup> For Germany this is related to the "rather successful apprenticeship system that ensures a relatively smooth transition from school to work" (source: Scarpetta, S., A. Sonnet and T. Manfredi (2010), "Rising Youth Unemployment During the Crisis: How to Prevent Negative Long-term Consequences on a Generation?" OECD Social, Employment and Migration Working Papers, No.106).

<sup>3</sup> In addition there is a broader concept of 'youth not in employment, education or training' (NEET). For economic policy, this concept is not only the most relevant but also the most challenging in view of the fact that education is considered to be a key factor in improving the chances of finding a job. Not being in education? (an education programme) would make this task harder.

#### Youth unemployment, %

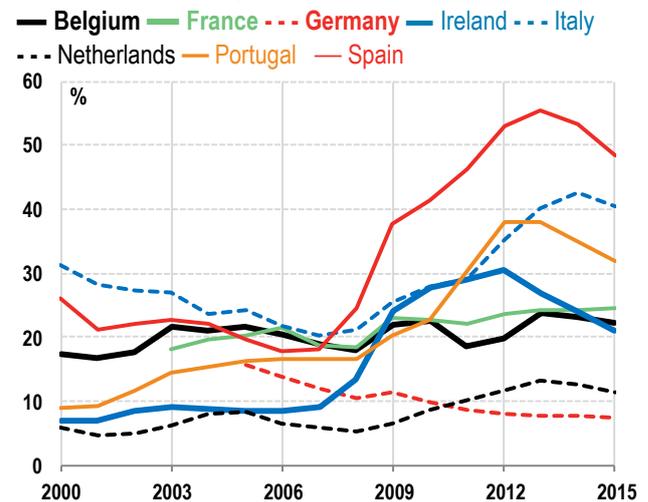


Chart 1

Source:OECD

#### Youth vs Adult, %

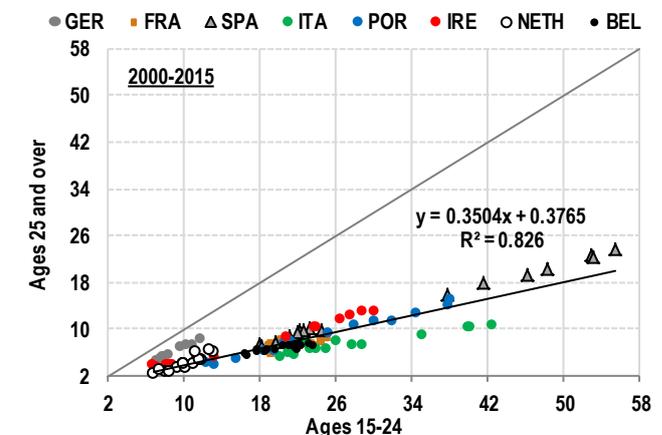


Chart 2

Sources: OECD, BNP Paribas

#### Result estimates

Germany	$y = 0.7805x - 1.1932$ $R^2 = 0.9907$ (*)
France	$y = 0.2389x + 2.5243$ $R^2 = 0.5169$ (*)
Spain	$y = 0.4273x - 0.2197$ $R^2 = 0.9963$ (*)
Italy	$y = 0.2181x + 1.2674$ $R^2 = 0.8955$ (*)
Portugal	$y = 0.4147x - 1.533$ $R^2 = 0.9903$ (*)
Ireland	$y = 0.429x - 0.028$ $R^2 = 0.9938$ (*)
Netherlands	$y = 0.6342x - 2.3618$ $R^2 = 0.8104$ (*)
Belgium	$y = 0.2257x + 1.9997$ $R^2 = 0.7977$ (*)

(\*) t-stat is significant at the 5%,  $y =$  Ages 25 and over  $x =$  Ages 15-24

Table1

Source: BNP Paribas



unemployment rate of those aged 25 and over. A low coefficient means that youth unemployment is more sensitive to the cyclical environment than the unemployment rate of the rest of the labour force. France, Italy and Belgium are in this case. The difference in cyclicity is the lowest in Germany. To explore this topic further, Chart 3 shows whether countries that witnessed a big increase in youth unemployment during the downturn have seen it shrink significantly as growth recovers. There does seem to be a relationship, though it is clearly not proportional: the decline in unemployment following its peak level is only 40% of the increase following the previous cyclical trough in unemployment. There is, however, an important caveat: the timing of the peak level of youth unemployment is obviously country-specific so when the peak has been reached only recently, the comparison between 'increase from trough to peak' versus 'decline since peak' will be biased. Finally, one observes that during periods of negative or very slow growth, the percentage of young people who have been unemployed for more than one year increases. Despite a recent decline in this percentage on the back of a decline in the unemployment rate, it remains high in many countries (Chart 4).

Different explanations have been provided as to why youth unemployment rises so much during economic downturns<sup>4</sup>: young people tend to have less job protection, many of them may work on temporary contracts, they have gained less work experience, companies may have invested less in their training than for staff who have been with the company for a long time, severance pay will probably be lower, young people may be more inclined to resign voluntarily, entering the labour market when growth is lacklustre may be difficult for younger people when they have limited experience and in a recession companies first stop recruiting people before laying off staff.

Despite the recent improvement in the labour market environment, a high level of the overall unemployment rate remains a key challenge for economic policy in many OECD countries, particularly in Europe. Reducing unemployment not only has a positive impact on growth of household income, spending and more broadly GDP, it also has a favourable influence on public finances, improves the feeling of well-being of the people concerned and reduces inequality. These arguments are, of course, also applicable to youth unemployment, but other issues play a role as well. They are generally referred to as the 'scarring effect' of youth unemployment: empirical research shows that the experience of being unemployed when young increases the risk of being unemployed again later on in one's career. It weighs on the development of human capital (building experience, training, career progression). Signaling effects (to potential employers when applying for a job) also play a role. Research shows that these scars still manifest themselves many years later<sup>5</sup>.

<sup>4</sup> The list of explanatory factors is essentially based on Dennis Görlich, Ignat Stepanok and Fares Al-Hussami (2013), Youth Unemployment in Europe and the World: Causes, Consequences and Solutions, Kiel Policy Brief n° 59

<sup>5</sup> Source: Scarpetta, S., A. Sonnet and T. Manfredi (2010) as mentioned in footnote 3.

### Youth unemployment, %

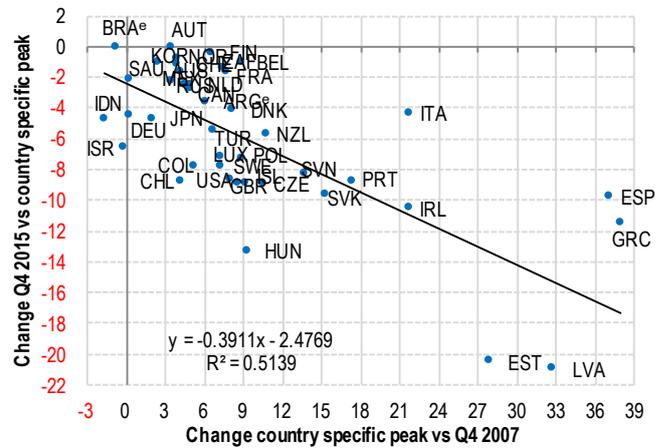


Chart 3

Source: OECD

### Long-term youth unemployment rate

(as a percentage of the number of young unemployed people)

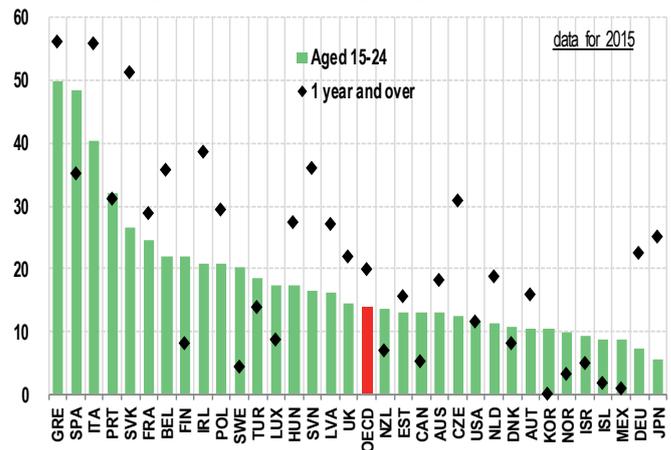


Chart 4

Sources: OECD, BNP Paribas