

YOUTH UNEMPLOYMENT IN THE CZECH REPUBLIC

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Abstract

Unemployment of young people is one of the key problems of the contemporary Czech labour market. Unemployment of young people is associated with considerable costs both for the unemployed and for the whole society. In some respects, the unemployment of young people has more significant negative impacts than unemployment of other age groups. The recent economic recession, which had two phases in the Czech Republic, effected the growth of youth unemployment. The average unemployment rate of young people greatly exceeds the average unemployment rate of other age groups. Even within groups of young people, however, are noticeable differences. The article deals with unemployment of young people by gender and by level of education. Also among young people in the Czech Republic it is true that the higher level of education is connected with lower average unemployment rate. Next to the unemployment rate of young people, the article also focuses on long-term unemployment. It appears that the rate of occurrence of long-term unemployment among young people is lower than in other age groups. Unemployed youth became long-term unemployed to a lesser extent than did other age groups in the Czech Republic. It appears that young people had a higher frequency of unemployment, but its length was shorter on average.

Key words: economic crises, long-term unemployment, unemployment rate

JEL Code: J64, E32

Introduction

The problem of unemployment among young people became a priority for professionals, but also politicians and the media especially in relation to the significant increase of the youth unemployment rate due to the economic recession that hit the European Union in 2008 - 2009 and the following debt crisis in some Member States. According to the European Commission, more than 5.5 million young people are currently unemployed in the European Union, which represents nearly 24% of the unemployment rate. In some states, e.g. Greece and Spain, however, the unemployment rate of young people exceeds 50%. More than 7.5

million people aged 15 to 24 years old are not employed, not in education and not in training (NEETs) (European Commission 2014).

The European Union is aware of the seriousness of youth unemployment and in 2012 it came with the Youth Employment Package, which includes the Youth Guarantee, which means that all young people under 25 - whether registered with employment services or not – get a good-quality, concrete offer within 4 months of them leaving formal education or becoming unemployed (*European Commission 2014b*).

Also in the Czech Republic, youth unemployment has become a serious problem in the labour market, which was deepened by two phases of the economic downturn. The Czech Ministry of Labour and Social Affairs prepared programs to reduce the unemployment rate of young people and increase their employment and employability. In this context, we can mention e.g. the internship program for young people (MLSA 2014).

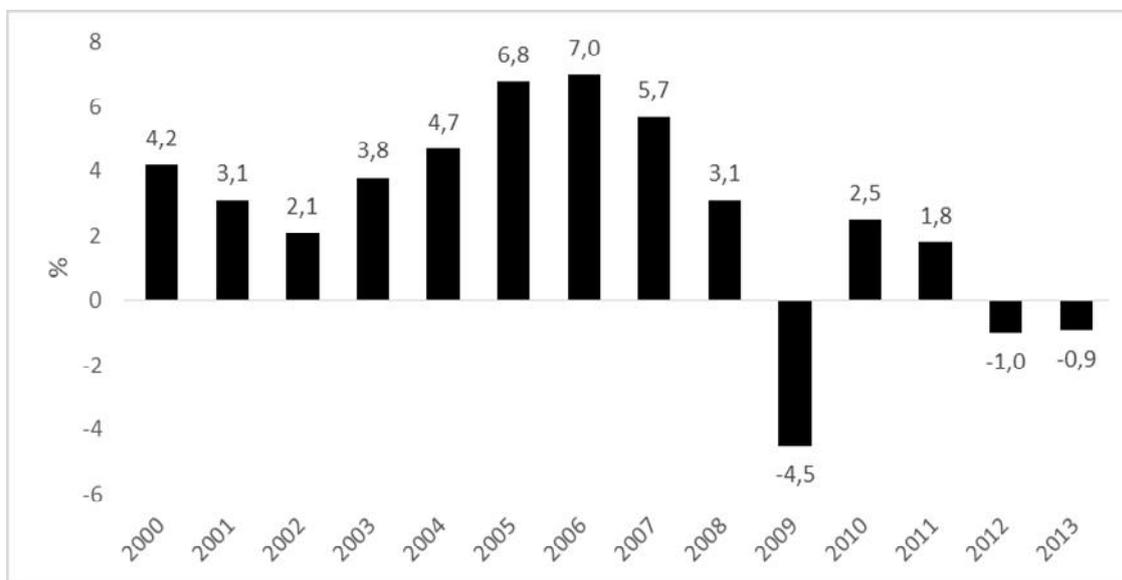
Unemployment in general and especially long-term unemployment is associated with significant negative impacts (see *Gregg, Tominey 2005 and Mroz, Savage, 2006*). For estimates of the cost of an unemployed person from the perspective of public finance, the article by Čadil, Pavelka, Kaňková, Vorlíček: *Odhad nákladů nezaměstnanosti z pohledu veřejných rozpočtů (Čadil, Pavelka, Kaňková, Vorlíček, 2011)* can be used.

1 Economic cycle and unemployment rate

The Czech economy has recently undergone an economic cycle. Figure 1 shows the annual development of real GDP. After a slight slowdown in 2002, real output in the coming years accelerated its growth rate. Acceleration of economic growth was certainly connected, among other things, with the accession of the Czech Republic to the European Union, which contributed to a greater openness of foreign markets for Czech goods. In addition, at that time, also the economic situation of major trading partners of the Czech Republic was positive, and last but not least, there was an effect of investment incentives, which led to higher fixed capital formation. Rapid growth in 2005 - 2007 shifted the Czech economy significantly above its potential, which was reflected in the lack of adequate labour force, which was associated with the growth of labour immigration and wage growth. In the second half of 2008, the signs of the global financial crisis began to be gradually seen in the Czech economy. Its full impact on the Czech Republic can be seen in 2009, when the Czech economy fell by 4.5% and stepped into the first phase of its recession. A slight recovery in the following year, which was associated with an increase in exports and gross fixed capital formation, was not

long. After a slowdown of the growth rate of GDP in 2011, the Czech economy again returned back into a recession. In addition to external causes, this second phase had its roots inside the Czech economy. The Czech government implemented a very restrictive policy, which had a negative impact on household consumption and also on investment spending.

Fig. 1: Real GDP of the Czech Republic



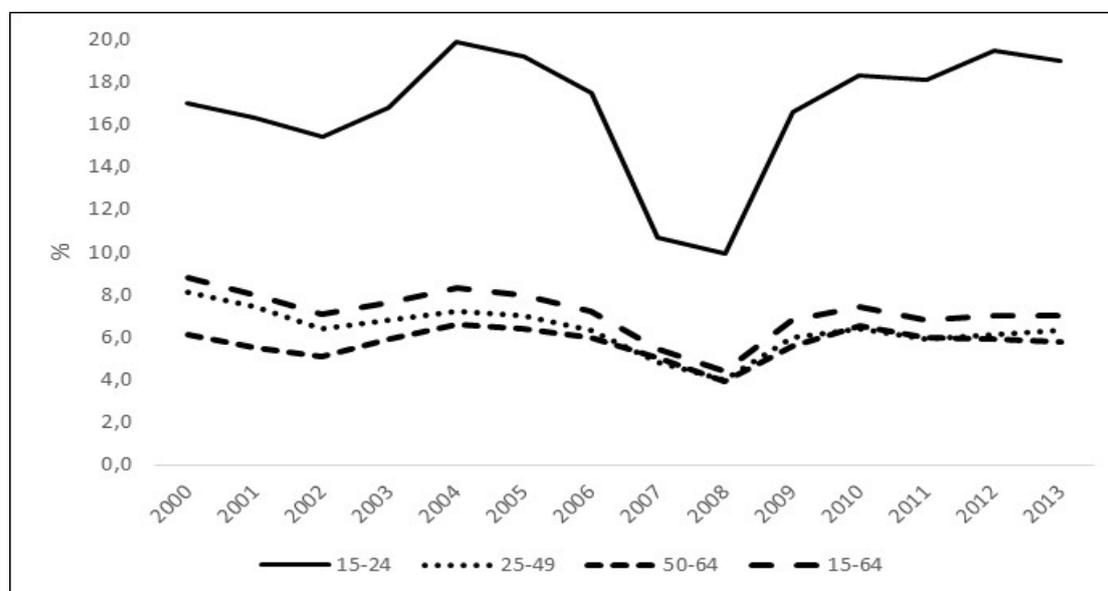
Source: Eurostat (20. 8. 2014)

The development of the real gross domestic product had an obvious impact on the labour market. Figure 2 shows the unemployment rate by age groups. For all age groups, a similar cyclical development is evident. After an initial drop, the unemployment rate increased in 2004. Rapid economic growth was associated with a decrease in the unemployment rate. The lowest unemployment rate was reached for all age groups in 2008. Due to the first phase of the recession, the unemployment rate rose significantly in 2009 - 2010. In the oldest age group there was a regular annual slow decline in the unemployment rate from 2010. For the remaining two age groups, there were fluctuations in the unemployment rate in both directions after 2010.

From figure 2 it is clear that the group of young people, i.e. people aged 15-24 years, had the highest rate of unemployment for a long time. Between 2004 – 2008, the unemployment rate of the youngest group fell by 10 percentage points, from 19.9% to 9.9%. Due to the economic recession, unemployment returned essentially to its original level and it was 19.0% in 2013. It is interesting to look at the unemployment rate of young people by gender. In 2004, the unemployment rate of young men was higher by 3.5 percentage point than of young women (21.5% vs. 17.9%). In 2008, however, the unemployment rate of young

men and women basically settled and amounted to 9.8% and 9.9% respectively. As a result of the recession, the unemployment rate of both sexes increased, but finally in 2013 young men had a lower unemployment rate by 0.8 percentage point in comparison with young women.

Fig. 2: The unemployment rate in the Czech Republic – age groups



Source: Eurostat (20. 8. 2014)

1.1 Youth unemployment and levels of education

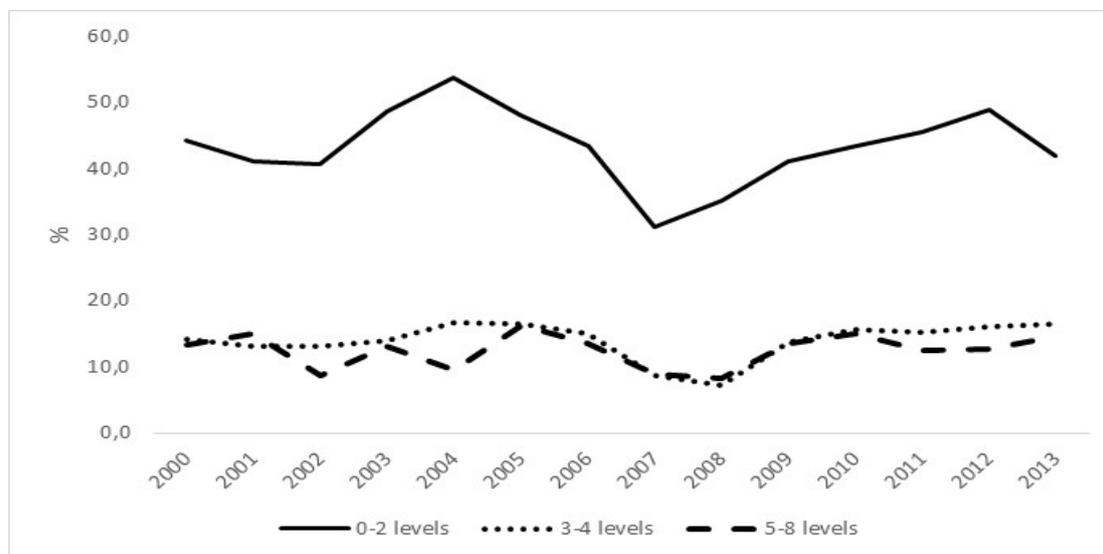
Traditionally it is stated that young people and people with low education levels have the highest rate of unemployment. Young people show a significantly higher rate of unemployment in the Czech Republic in comparison with the rest of the population. Moreover, it is clear from the preceding chapters that variability in the unemployment rate is also higher in comparison with other age groups.

Figure 3 analyses in detail a group of young people by level of education. It is evident that the highest level of unemployment among young people belongs to those who have the lowest education level. The unemployment rate of young people with secondary education and with university education do not deviate significantly from each other, although young people with a higher education level tend to have slightly lower unemployment rates. However, it should be noted that the proportion of people with a higher level of education among young people is relatively low.

All young people regardless of education level showed the highest unemployment rate in 2004. That year, the group of young people with basic education had an unemployment rate

of almost 54%, which was 3.2 times more than young people with medium levels of education and 5.7 times more than young people with university education.

Fig. 3: Youth unemployment rate in the Czech Republic – levels of education



Source: Eurostat (20. 8. 2014)

Young people with primary education reached the lowest unemployment rate in 2007, a year earlier than the other two groups. This difference can be explained by the fact that at the first sign of problems with sales and possibly negative expectations for the future (due to negative economic information from other countries) companies began to reduce the number of employees who worked in manual or ancillary professions. Employers began to reduce their educated workforce later, when the downturn was confirmed. On the other hand, last year, the unemployment rate of young people with basic education declined (from 48.9% to 41.9%), but the unemployment rate of young people with higher education increased.

1.2 Long-term unemployment

Figure 4 shows the incidence of long-term unemployment by age groups in the Czech Republic. The incidence rate represents the percentage of long-term unemployed in the total number of unemployed (always for this age group).

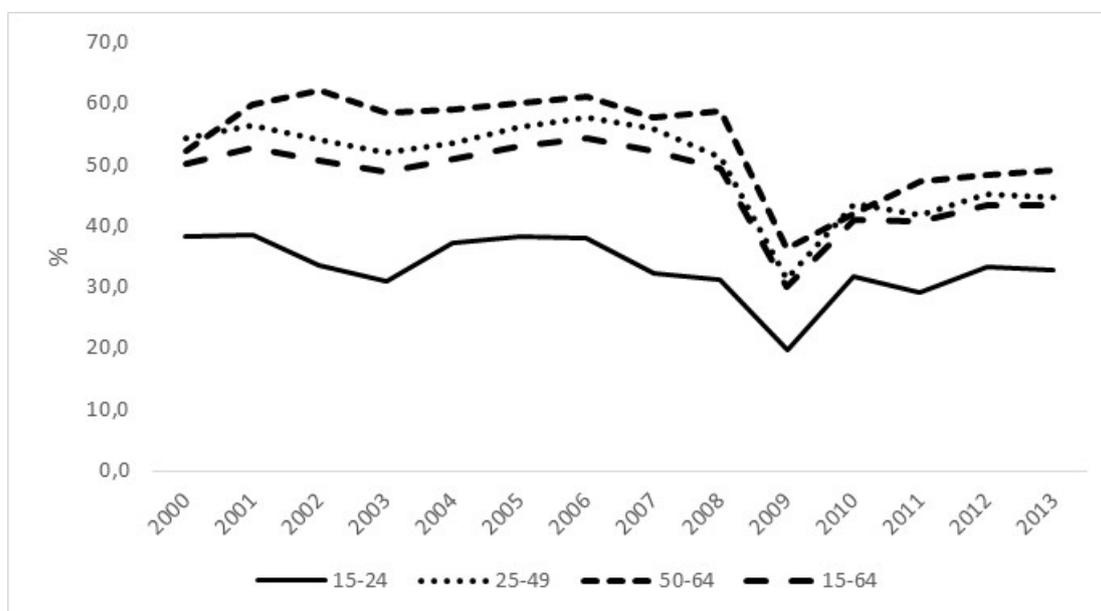
As mentioned above, the duration of unemployment deepens the negative effects on unemployed people and the whole society. Young people are at the beginning of their economic activity. The high incidence of long-term unemployment in this group represents a significant risk because some of these young people have never been employed. So they did not create work habits and some of them even create an awareness that "no work is normal."

Long-term unemployed young people can become frustrated by their status, and there is a high risk of radicalization (Pavelka, Löster, Makovsky, Langhamrová 2011).

The second age group are people in the main stage of their economic activity. Income of the people in this age group is often a source of coverage for the basic needs of the whole family. The last group consists of persons rather at the end of economic activity. The existence of long-term unemployment among older people increases the risk of social exclusion and the associated risk of dropping under the poverty line.

From Figure 4 it is apparent that young people in the Czech Republic had significantly lower incidence rates than the other two age groups. A considerable amount of attention is devoted to long-term unemployed young people by the government. Very often young people return to the educational process, either returning to school or various forms of retraining. From the definition of long-term unemployment it is obvious that the peak usually occurs later than the peak of total unemployment. In 2005, the incidence of long-term unemployment rate was 38.3%, which was 14.7 percentage points less than the average for the whole Czech Republic. The oldest group of economically active people traditionally has the highest incidence of long-term unemployment.

Fig. 4: Long-term unemployment incidence in the Czech Republic – age group



Source: Eurostat (20. 8. 2014)

All age groups have the lowest incidence of long-term unemployment in 2009. The incidence of long-term unemployment among young people between 2005 and 2009

decreased by 18.5 percentage points, by 24.7 percentage points in the group aged 25-49 years and by 23.8 percentage points in the age group 50 - 64 years. The main reason for such a significant decline in the incidence of long-term unemployment was a rapid growth of "new" unemployed due to the economic recession. Subsequent weak economic growth, which continued with the recession of the last two years, did not absorb a considerable portion of the unemployed and those were gradually becoming long-term unemployed.

As indicated above, a part of the unemployed cannot find a new job and gradually moves to long-term unemployment. Table. 1 shows the results of a regression analysis of the relationship between unemployment rate and the incidence of long-term unemployment. More specifically, the analysis used the annual changes of both variables, and in the case of the incidence of long-term unemployment, a one year delay was used. A linear model for all age groups shows that the dependence of changes in the incidence of long-term unemployment on changes in the total unemployment rate is statistically significant at the 10% significance level.

Tab. 1: Regression analysis – relationship between unemployment rates and long-term unemployment incidence

	age groups			
	15 - 24	25 - 49	50 - 64	15 - 64
Correlation Coefficient	0,56212596	0,66309718	0,5796462	0,65343883
R-squared (%)	31,5985591	43,969787	33,5989721	42,698231
Intercept	-0,7124196	-0,0995364	-0,8170894	-0,164877
Slope	1,05961429	5,30278174	4,97463617	4,06748695

Correlation coefficients for all three age groups show a moderate direct relationship, i.e. that the growth of total unemployment causes, with a one year delay, the growth of the incidence of long-term unemployment.

For the youngest age group it is true that, if the total unemployment rate rises by 1 percentage point, the incidence of long-term unemployment increases with a year's delay by 1.06 percentage points. However, according to the value of the coefficient of determination, the model explains only 31.6% of variables.

The coefficient of determination for the age group 25-49 years is slightly higher, 44%. For this age group it is true that, if the total unemployment rate rises by 1 percentage point,

the incidence of long-term unemployment increases with a year's delay by 5.3 percentage points.

For the oldest age group aged 50 -64 years it is true that, if the total unemployment rate rises by 1 percentage point, the incidence of long-term unemployment increases with a year's delay by 5 percentage points. However, the model, according to the value of the coefficient of determination, explains only 33.6% of variables.

Conclusion

Unemployment of young people represents in the Czech Republic a major problem which was particularly enhanced by the recent economic recession. The average unemployment rate of young people in the period 2000 - 2013 was 16.7%, which is 2.4 times higher than the average of the whole Czech Republic. The remaining age groups (25-49 years and 50 -64 years) had an average unemployment rate lower than the national average for the same period.

In a detailed view on the unemployment of young people it is evident that the higher the level of education of these people, the lower their average unemployment rate. The group of young people with a basic education had an average unemployment rate of 43.4% for the period 2000 – 2013, whereas the group with a secondary education had 13.9% and the group with university education 12.5%.

Regarding the incidence of long-term unemployment, young people had significantly lower values than other age groups. In the period 2000 – 2013, young people had an average rate of incidence of long-term unemployment of 33.2%, while those aged 25-49 years had 49.8%, and those aged 50-64 years had 53.7%. From the above regression analysis it is also evident that, with a one year delay, the change in the overall unemployment rate has the lowest effect on changes in the incidence rate of long-term unemployment exclusively in the group of young people.

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