

YOUTH UNEMPLOYMENT

– PROBLEM OF THE EUROPEAN LABOR MARKET

Marcela Palíšková

Abstract

Young workers (15-24 years) are the most affected by the consequences of the economic crisis and the subsequent recession. There is the highest risk group in terms of unemployment on the European labor market. The youth-unemployment rate is persistently significantly higher than average unemployment rate. The European Union is working to reduce youth-unemployment rate in line with the main EU target of achieving a 75 % employment rate for the working-age population. Main framework is the Europe 2020, a strategy for smart, sustainable and inclusive growth, especially Youth on the Move – it is comprehensive package of policy initiatives on education and employment for young people in Europe. Furthermore, the European Commission adopted a series measures to tackle youth unemployment. Key initiatives include: Youth Employment Package (2012), Youth Employment Initiative (2013) and also communication Working together for Europe's young people – A call to action on youth unemployment (2013). The article is focused on the main causes of unemployment including youth-unemployment. It is looking for answers to questions: There are effective tools to reduce the unemployment rate? What is the importance of education for better employment of young people in the labor market?

Key words: EU labor market, youth unemployment, education, employability

JEL Code: J 21, J 24

Introduction

Financial crisis and subsequent economic recession have serious economic and social consequences for the European labour market. The average unemployment rate still persist stable at a high level. Unfortunately, the most affected by the consequences of the crisis are young people. Especially in some countries they have been hit particularly hard.

According to Eurostat in January 2014, 5.556 million young people (under 25) were unemployment in the EU28, of whom 3.539 million were in the euro area. Compared with

January 2013, youth unemployment rate decreased slightly by 171 000 in the EU28 and by 87 000 in the euro area. In January 2014, the youth unemployment rate was 23.4% in the EU28 and 24.0% in the euro area (23.7% and 24.1% in January 2013) (in detail see Crouch, 2012, Gulan 2013, Chung, Bekker, Houwing 2020)

However, differences among the Member States are enormous. In January 2014, the lowest youth unemployment rates were recorded in Germany (7.6%), Austria (10.5%) and the Netherlands (11.1%), while the highest in Greece (59.0% in November 2013), Spain (54.6%) and Croatia (49.8% in the fourth quarter of 2013).¹

1 Policy initiatives of the European Union

The European Union aims to reduce youth unemployment and increase the youth employment rate in accordance with the main EU target of achieving a 75% employment rate for the working-age population. Main framework is the *Europe 2020*,² a strategy for smart, sustainable and inclusive growth, especially *Youth on the Move* – it is comprehensive package of policy initiatives on education and employment for young people in Europe, at European and national level. It aims to improve young people’s education and employability and to increase the youth-employment rate by:

- making education and training more relevant to young people’s needs,
- encouraging more of them to take advantage of EU grants to study or train in another country,
- supporting EU countries to take measures simplifying the transition from education to work.

Moreover, in the years 2011–2013 the European Commission (EC) adopted a series measures to tackle youth unemployment. Key initiatives include: Youth Employment Package (2012), Youth Employment Initiative (2013) and especially communication from the Commission *Working together for Europe’s young people – A call to action on youth unemployment* (2013). This document contains the following recommendations:³

- “the implementation of the Youth Guarantee,

¹ Eurostat: News release euro indicators, 30/2014, 28 February 2014. <http://epp.eurostat.ec.europa.eu/cache/ITY-PUBLIC/3-28022014-AP/EN/3-28022014-AP-EN.PDF>.

² EC: Europe 2020. A European strategy for smart, sustainable and inclusive growth. <http://ec.europa.eu/research/era/docs/en/investing-in-research-european-commission-europe-2020-2010.pdf>.

³ EC: Working together for Europe’s young people. A call to action on youth unemployment. Brussels, 06. 19. 2013. COM(2013) 447 final. http://ec.europa.eu/europe2020/pdf/youth_en.pdf.

- investment in young people through the European Social Fund,
- the front-loading of the Youth Employment Initiative,
- support for intra-EU labour mobility with EURES,
- steps to ease the transition from education to work by boosting the supply of high-quality apprenticeships and traineeships and addressing skills shortages,
- an acceleration of reforms to deliver a genuine EU labour market in the longer run,
- measure to support job creation in the immediate term, especially by SMEs, and to incentivize the hiring of young people.”

It must be underlined that the European Social Fund in particular will have a key role to play in supporting young people and implementing these measures.

In this context it should be noted also the *Social Agenda* (the issue from February 2014),⁴ which is focused on youth employment. Social Agenda emphasizes the need for a new approach to employment, social and inclusion policy to promote young employment: *a combination of urgent, highly targeted measures supporting young people directly and of longer term structural reforms.*

2 Young people – victims of the economic recession

Available statistical data show that young people are most affected by the consequences of the economic crisis and subsequent recession. While in the year 2008, the young unemployment rate was 15.8% in the EU27 from the year 2009 is above 20%. In the year 2011 this indicator rose to 21.4% and to 22.8% in 2012. And the trend was still upward yet. In January 2014 the young unemployment rate reached the level of 23.4% in the EU28 and 24.0% in the euro area. But in comparison with the year 2013 the situation has improved slightly.

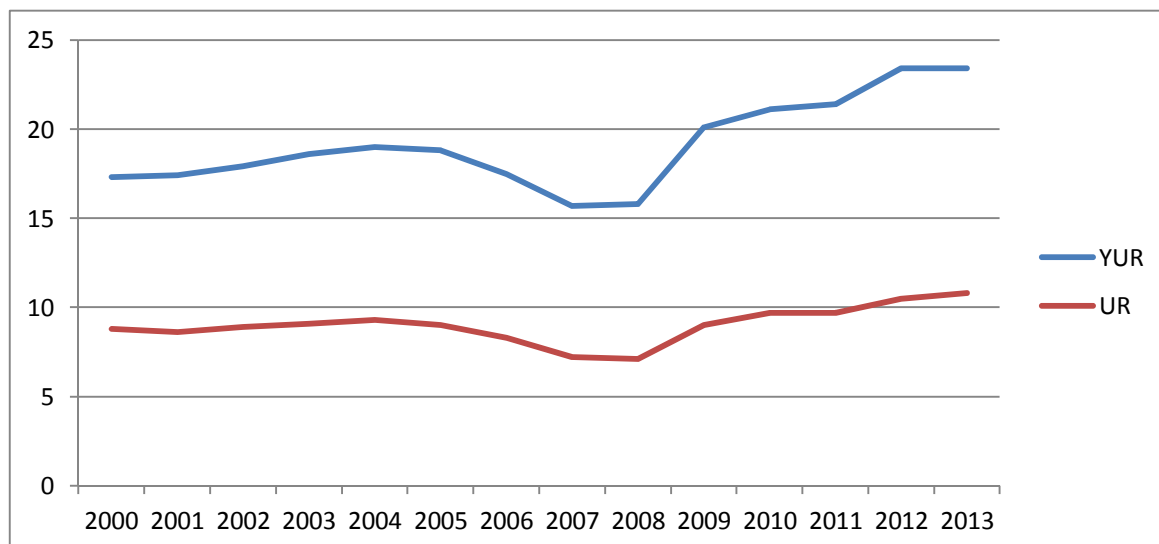
In all, 7.5 million young people between 15 and 24 years are not employed, not in education and not in training (so-called NEETs). More than one in five young people on the European labour market cannot find the job (in Greece and Spain it is one in two). The overall employment rates for young people fell three times as much as for adults in the last four years.

Figure 1 below shows the comparison of the unemployment rate and the young unemployment rate in the EU. It's clearly seen that the young unemployment rate rose in the

⁴ EC: Social Agenda – Youth employment, February 2014, no. 36. ISSN 1682-7783. <http://ec.europa.eu/social/main.jsp?catId=737&langId=en&pubId=7691>.

years 2008–2013 much faster. It increased by 7.6 percentage points (while unemployment rate “only” by 3.7 p.p.) in this period.

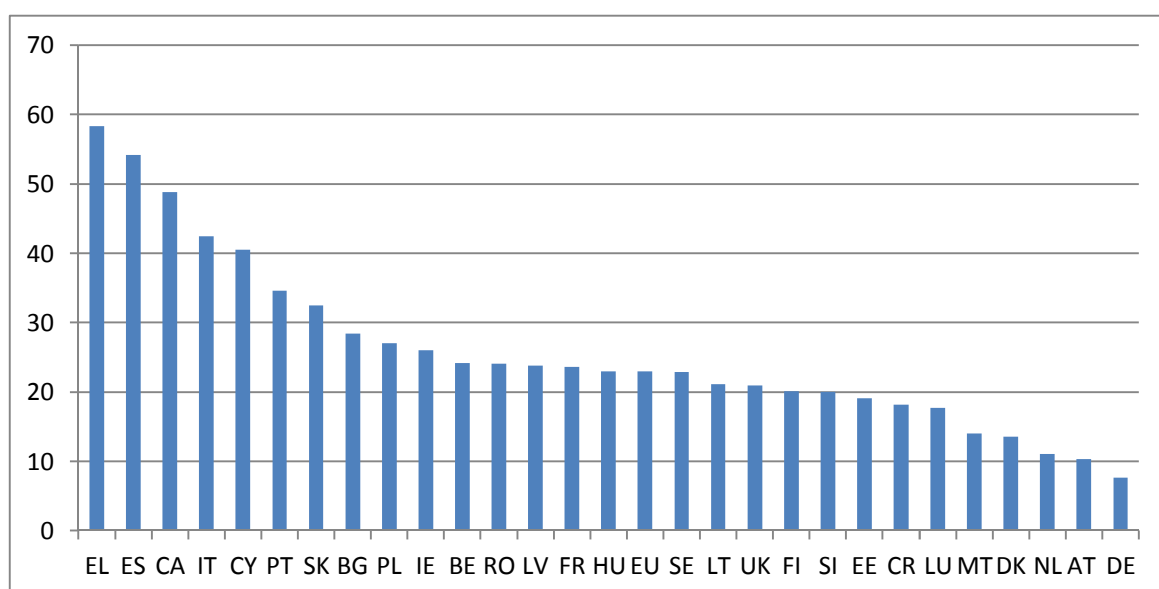
Fig. 1: Comparison of the unemployment rate and young unemployment rate (EU, 2010-2013, %)



Source: Eurostat, 29 April 2014, online <http://apl.czso.cz/pll/eutab/html.h>, own processing

But it must be emphasized that differences among the Member States are enormous. Figure 2 well illustrates this fact.

Fig. 2: The youth unemployment rate (EU 28, January 2014, %)



Source: Eurostat, 29 April 2014, online <http://apl.czso.cz/pll/eutab/html.h?ptabkod=teilm021>, own processing

Notes: Data for EE, EL, CA, CY, LV, RO, SI and UK are from December 2013.

There is a gap of over 50 percentage points between Germany with the lowest rate of youth unemployment (7.7%) and Greece with the highest rate (58.3%). Greece is followed by Spain (54.2%), Croatia (48.8%), Italy (42.4%), Cyprus (40.5%), Portugal (34.6%) and Slovakia (32.5%). In the Czech Republic the young unemployment rate is relatively low (18.2%). Gaps between the countries with the highest and the lowest jobless rates for young people are extremely high and persist in the long term.

Young people (under 25s) are also hardest hit by long-term unemployment. Approximately every fifth young person falls into long-term unemployment in the European Union. About 30% of young people are affected by extremely long-term unemployment even, i.e. more than one year. The smallest number of young people who are unemployed for more than a year is e.g. in Germany, Austria and the Scandinavian Countries. On the other side of the spectrum are e.g. Spain, Greece, Italy and Slovakia.

The high rate of youth unemployment represents firstly a huge untapped resource that the European Union cannot afford to squander and secondly the growing threat of social crisis. Youth unemployment has a profound impact on individuals as well as on society and the economy. In this context, a top priority for the EU is helping young people to enter and remain in the labour market and to acquire and develop the skills that are principal assumption for future employment.

3 Education – a prerequisite for employment

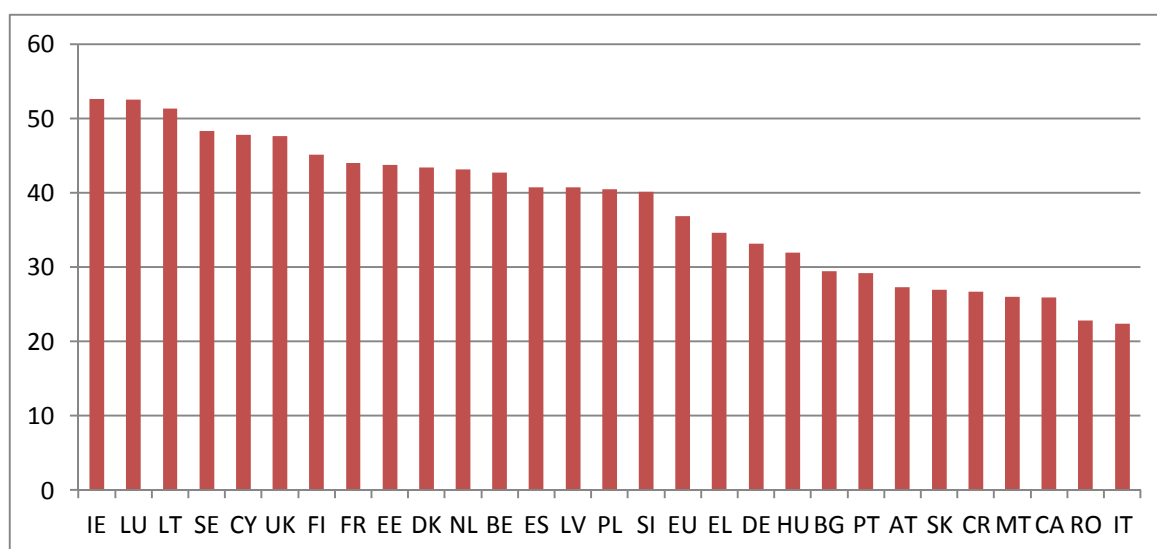
Improving the quality of the workforce, education and skills is fundamental condition how to better enforce on the labour market and therefore also an essential prerequisite for achieving higher employment rate (see Baldwin, Wyplosz 2013, Becker 1994, Ehrenberg, Smith 2013, Granovetter 1995, Layard, Nickell, Jackman 2005, Nickel 2003, Mortensen, Pissarides 1998, 1999). The strategy Europe 2020 has defined two headline targets in this context – the share of early school leavers should be under 10% and least 40% of the younger generation should have a tertiary degree.

Text below is focused on a tertiary education in the EU member countries as an important indicator of the education attainment level in society. And is also tested the hypothesis that there is a relation between level of education and the employment rate.

Figure 3 shows the level of tertiary education in the Member States. At first glance it is clear that there are large differences between countries, regardless of whether they are “old” or “new” Member States. According to the statistics for 2013, the most people (30–34 years)

who completed tertiary education are in Ireland (52.5%). Luxembourg and surprisingly Lithuania also have exceeded the 50% threshold. More than 45% of people with tertiary education have also Sweden (48.3%), Cyprus (47.8%), the United Kingdom (47.6%) and Finland (45.1%). Also nine other countries (France, Estonia, Denmark, The Netherlands, Belgium, Spain, Latvia, Poland and Slovenia) have already reached the target proposed in Europe 2020, i.e. 40%. On the contrary, the least persons with tertiary education report Italy (22.4%) and Romania (22.8%) follow by Croatia, Malta, the Czech Republic, Slovakia, Austria, Portugal and Bulgaria. The level of tertiary education is under 30% in these countries. The average of this indicator is 36.8% for EU 28.

Fig. 3: Rate of people in the 30–34 years who completed tertiary education (EU 28, 2013, %)



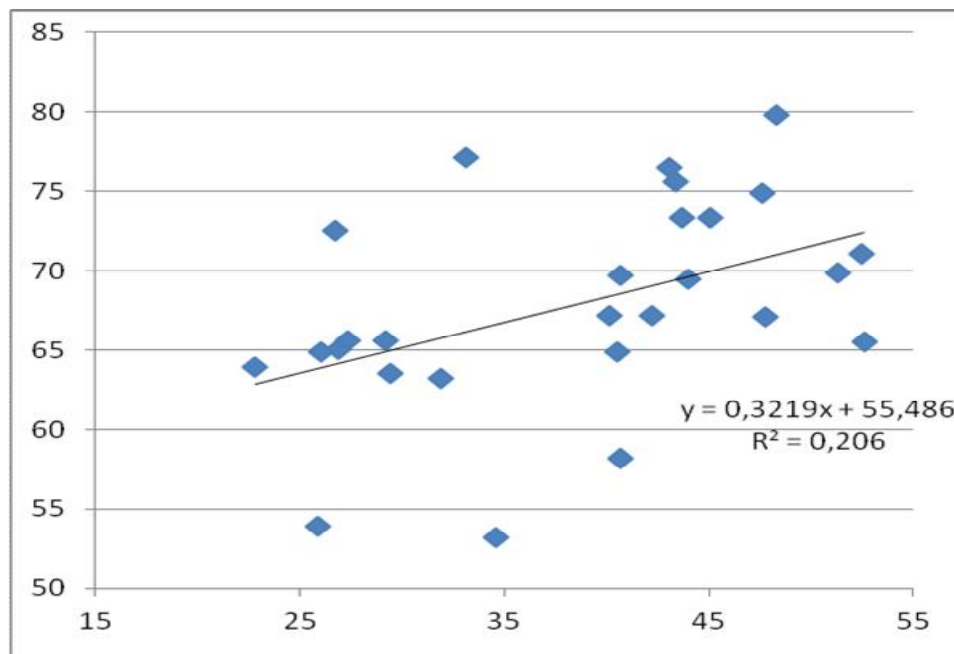
Source: Eurostat, 30 April 2014, online <http://apl.czso.cz/pll/eutab/html.h?ptabkod=tsdsc480>, own processing

It appears that in the conditions of the knowledge society and “new economy” knowledge, quality of education, achieved level of human capital and overall quality of the workforce are the important instruments of economic growth and competitiveness. In the EU, investments in education are considered an important instrument of boosting productivity and flexibility on the labour market and also as instrument of sustainable economic development, which will be accompanied by the elimination of social problems (see Phelps, Zoega 2004, Ruhm 1997).

The significance of knowledge as a key factor of competitiveness is reflected not only at country level (at integration groupings, regions and enterprises level), but it is increasingly important for individuals and his ability to succeed on the labour market.

Is the employment rate in the country determined by the number of people with completed tertiary education? The relationship between these indicators can be well expressed by the correlation (Figure 4).

Fig. 4: Relation between number of people with tertiary education and the employment rate (EU, January 2014)



Source: Data Eurostat, 30 April 2014, online <http://apl.czso.cz/pll/eutab/html.h>, own processing using Excel

The correlation coefficient has a value 0,454. It indicates that there is some relationship between the both indicators. From 16 countries where are more than 40% of people with tertiary education 7 of them (43.75%) report the employment rate over 70%. On the other side, from 12 countries where number of people with tertiary education is lower than the average of EU, 9 of them (75%) have also the low employment rate (65.6% below). *However, this relation is not absolute.* This is also confirmed by annual comparison (compared with 2012): although the level of education (measure as a share of population with tertiary education) increased in almost all Member States (except Cyprus, Finland and Belgium), on average of 1.1 p.p. in the EU, the employment rate decreased in 12 countries (the most in Cyprus and Greece), on average of 0.1 p.p.

This analysis indicates that *level of education is just one of the factors which have an impact on employment.* It can be seen also in the case of Germany or Austria. Both countries have a share of population with tertiary education below the EU average but employment belongs to the highest at all. Both countries also have a quality educational system which is

connected to the corporate practice and overall friendly environment for business. On the other side, the most persons with completed tertiary education are in Ireland (52.6%), but the employment rate is only 65.5%. Causes of this disparity are the consequences of the economic crisis and subsequent recession, which hit Ireland strongly (while in 2008 was the employment rate 72.3%, in the 2009 only 67.1%). But in education the country has other prerequisites for improvement the situation: a high number of graduates with technical training and also high public expenditure on education.

Conclusion

The economic crises and subsequent recession have serious consequences for the European labour market. High rate of unemployment and especially youth unemployment is long-term problem of the EU. Although the differences among the countries are large, and in many economic indicators, national labour markets have more or less similar problems: particularly low flexibility of labour markets, high social protection (including high protection of workforce), low workforce mobility and inadequate educational structure. All these factors have a negative influence on employment.

In the present, in the knowledge society and “new economy”, quality of education, level of human capital and quality of the workforce are key factors of economic growth and competitiveness. Education is important not only for society as a whole but also for an individual. Higher educational attainment is associated with lower rate of unemployment and its less volatility.

The analysis showed that there is relation between number of people with tertiary education and the employment rate. But this relation is not absolute. It can be indicate that level of education is just one of the factors which have an impact on employment. While there are many others factors: quality of the educational system, good cooperation between education and practise, the volume of public expenditure on education, quality of human capital and above all matching between supply and demand of qualifications and skills on the labour market.

The primary prerequisite for economic growth, increasing competitiveness and the consolidation of labour market is the overall favourable conditions for business and job creation. The EU countries have to realise deep structural reforms, unconditionally and in the near future.

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Contact

Marcela Pališková

University of Economic, Prague, Department of Human Resource Management

W. Churchill Sq. 4, 130 67 Prague 3, Czech Republic

paliskm@vse.cz