

Europe: The scarring effects of youth unemployment

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In summary

- The economic crisis has exacerbated youth unemployment levels. This observation is all the more worrying when we look at NEET (not in education, employment or training) levels.
- The long-term consequences will probably be a deterioration in the future wages and employability of an entire generation: a real productivity shock.
- It is imperative that European countries step up efforts to implement *active* employment policies, combined with reform of higher education and more support for intra-European mobility.
- The Youth Guarantee and the Youth Employment Initiative may work but more funding needs to be allocated.

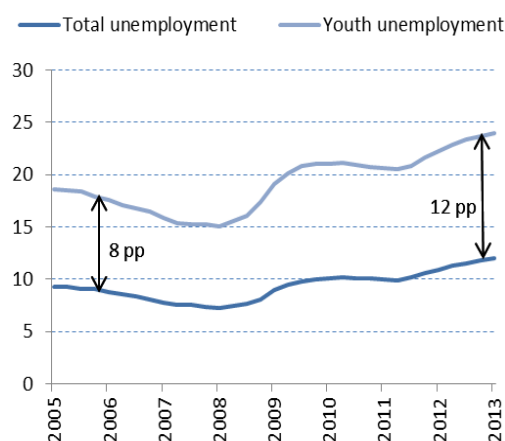
The youth have been most hit by the deterioration in the eurozone job market since the economic crisis.

Youth unemployment in the eurozone is structurally higher than total unemployment and this gap has widened since the onset of the economic crisis (CHART 1). At end-2012, the unemployment rate for people aged under 25 was 24% in the eurozone, compared with 12% for total unemployment.

A breakdown by country reveals very heterogeneous results (CHART 2). Some countries have fared quite well, in particular Germany, where the youth unemployment rate was just 7.9% at end-2012. By contrast, the situation is alarming in the peripheral countries: the unemployment rate for young people under 25 is 37% in Italy, 38% in Portugal, 55% in Spain and 58% in Greece.

The picture is worse if one considers the NEET unemployment rate (youth who are not in education, employment or training), which has increased steeply during the past five years in most European countries (CHART 3).

Chart 1 : Total unemployment vs youth unemployment (% of the active population of the category) in Eurozone



Sources: Eurostat, Euler Hermes

Consequences on the future wages and employability of youth: *scarring effects*.

This situation gives rise to a *scarring effect*: workers having been exposed to one or several periods of unemployment early in their working life generally earn lower-than-average wages. This handicap could amount to 10% to 20% of the wage at the age of 40. Good initial education does not protect against this phenomenon. By contrast, updating one's qualification makes it possible to mitigate the loss of salary.¹ In this light, access to training and education during the job search may be a solution to curb the negative long-term effects of youth unemployment. In this area, the Nordic countries stand out clearly from the rest of the European Union (CHART 4), while the peripheral countries still have much to do to improve the employability of jobseekers.

Training and education need to become more career-focussed in order to facilitate the transition from education to employment.

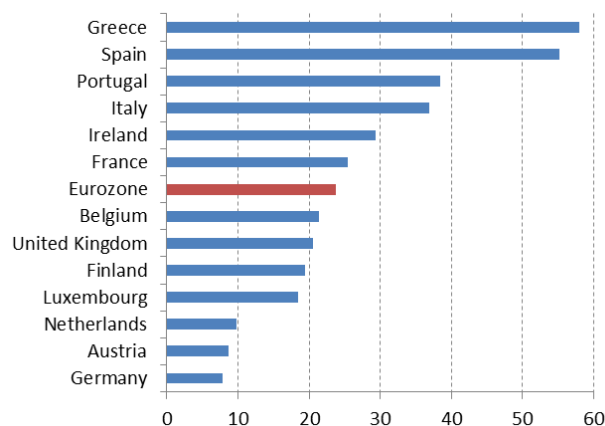
Governments need to implement reforms in higher education to better tailor education to the professional world. In fact, the average duration of inactivity between the completion of studies and first job is high in Greece, Italy and Spain (CHART 5), which underscores the mismatch between qualifications and the labor market. Promoting apprenticeships, vocational training or internships is a good way to improve the employability of youth entering the labor force.

On this topic, two countries may serve as an example: Germany and Austria, which have the lowest youth unemployment rates (7.9% and 8.7% at end-2012, respectively).

In Austria, the government has introduced a policy to support apprenticeships through a "training guarantee": youth who are unable to find a company to undergo vocational training have the possibility of being trained in a public center. Although this reform may appear costly for the government (EUR 15,000 per entrant), it seems to be having a real impact on youth unemployment and remains more cost-efficient than an unemployment benefit.

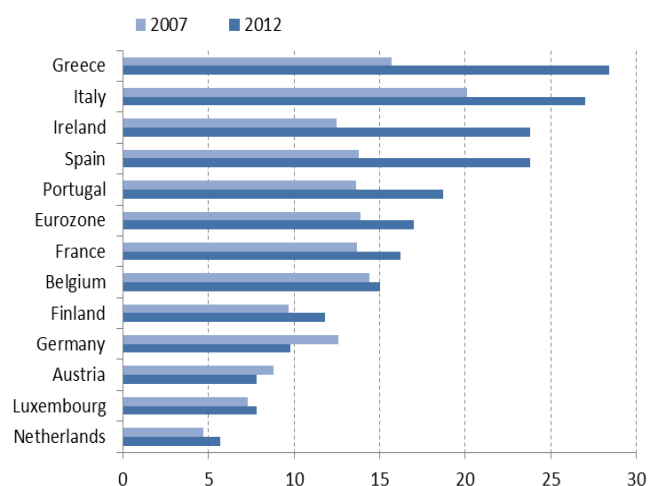
The market for apprenticeships is much freer in Germany: there is no apprenticeship tax (unlike in France for example) and companies directly fund training centers, which means that labor supply is better matched to demand. Attracting 55% of youth, apprenticeships are considered the best form of technical training in Germany.

Chart 2 : Youth unemployment rate by country, end-2012



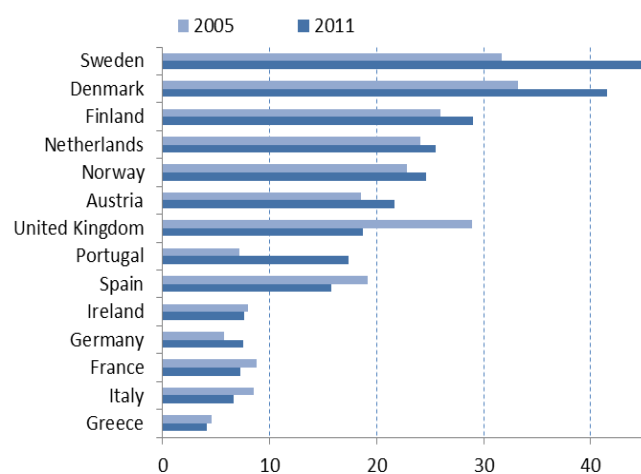
Sources: Eurostat, Euler Hermes

Chart 3: NEET rate in 2007 and 2012



Sources: Eurostat, Euler Hermes

Chart 4: Unemployed people in education and training (%)



Sources: Eurostat, Euler Hermes

¹ Source: Paul Cregg and Emma Tominey, "The Wage Scar from Male Youth Unemployment", 2005.

Support for intra-European mobility would help to reduce disparities between countries.

In light of the varying situations in Europe, support for the mobility of young workers would help to rebalance labor supply and demand within Europe. Intra-European migration has already evolved significantly since 2009 (CHART 6): net migration in the peripheral countries, severely affected by unemployment, has decreased during the past four years, while Germany is increasingly attractive.

Promoting intra-European mobility was precisely the aim of the recent agreement between Germany and Spain, which sought to aid the transition to employment of Spanish youth in Germany through the opening up of on-site training possibilities. This scheme is expected to see around 5,000 youths per annum make the journey to Germany.

European countries need to implement activation strategies as well as active employment policies in order to have a real impact on the labor market.

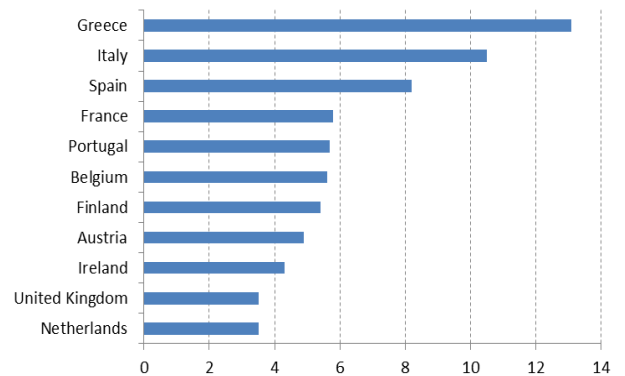
The introduction of activation strategies (in particular in the peripheral countries) could be an efficient way to tackle the lack of employability of youth and long-term unemployment. Public employment agencies need to offer quality services for jobseekers and suggest vocational training in order to facilitate the entry of young people into the labor market. In return, jobseekers must actively seek employment and accept training to continue to receive benefits.

The “flexicurity” model in Northern European countries could serve as an example: the labor market in these countries is highly liberalized but the unemployed are well taken care of and are given incentives to rapidly return to the job market. However, while we note that this model is efficient in combating total unemployment, it seems to protect youth less (CHART 7). In Sweden, for example, companies apply the rule of “last in, first out”, which increases the vulnerability of youth with respect to unemployment.

So while it seems clear that an overly rigid labor market makes the problem of unemployment worse (CHART 8), greater job market flexibility needs to be accompanied by policies to help youth enter into lasting employment.

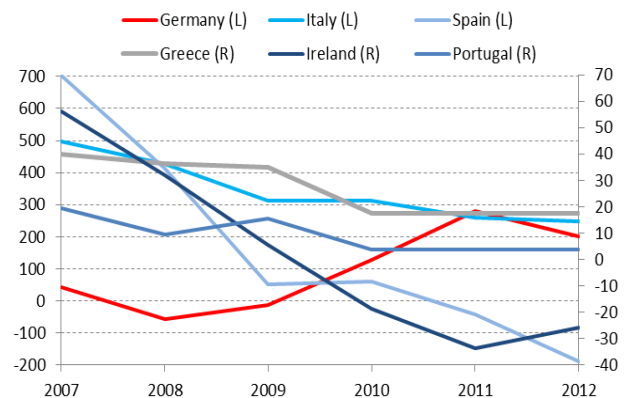
It is therefore imperative that governments implement active employment policies to provide incentives for companies to recruit young workers.

Chart 5 : Average time between completion of studies and first job (months)



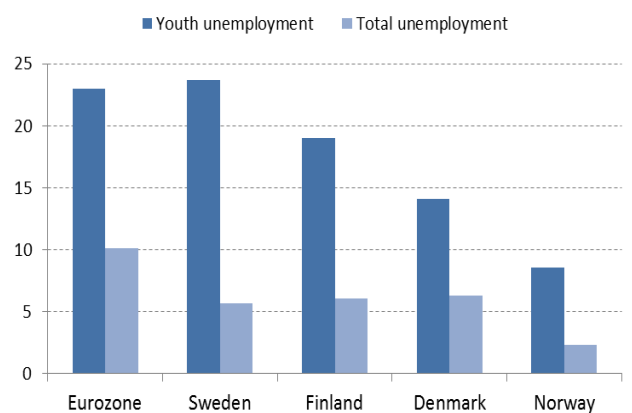
Sources: Eurostat, Euler Hermes
NB: Data for Germany are not available on Eurostat

Chart 6 : Net migrations by country



Sources: Euro Monitor, Euler Hermes

Chart 7 : Youth unemployment vs total unemployment in Nordic countries (2012)



Sources: Eurostat, Euler Hermes

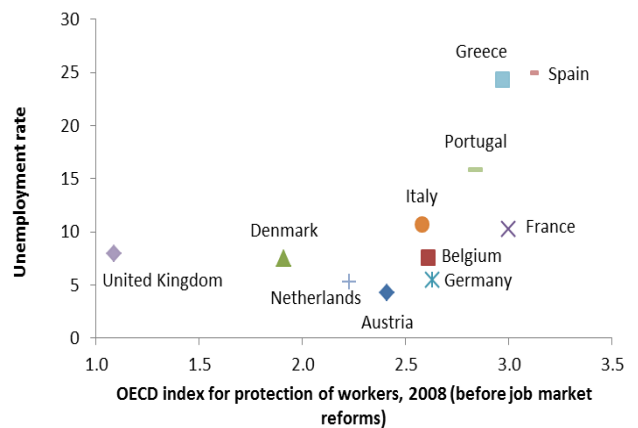
The “generation contract” in France is an example of the type of policies that could be implemented. This mechanism aims to tackle unemployment among both young and older workers by offering EUR 4,000 per year to companies with less than 300 employees that hire (under permanent contract) an individual aged under 26 while keeping on an older worker aged over 57. Entered into force on March 18th 2013, the government hopes this scheme will create 500,000 contracts by 2017.

During the June 27-28 European Summit, the Youth Guarantee and the Youth Employment Initiative were voted. Will this be enough?

The Youth Employment Initiative will target regions with youth unemployment rates above 25%. The EUR 6 billion allocated will be disbursed in 2014 and 2015, not between 2014 and 2020 as planned initially. The beneficiary governments will be required to adopt a plan to combat youth unemployment by the end of the year, in particular by implementing the Youth Guarantee. This measure will guarantee an offer of employment or training (academic or vocational) in cases where a youth is no longer studying and has not found a job after four months of searching. The European Council also seeks to promote intra-European mobility, with Erasmus+ (to foster education abroad) and EURES employment programmes (governments are encouraged to use their funding under the European Social Fund to support the occupational mobility of youth). Last, the European Alliance for Apprenticeships is to be launched in July to promote this form of training, which is highly valued by companies. At the same time, the EIB is expected to rapidly implement its preferential loan scheme for SMEs that hire young workers.

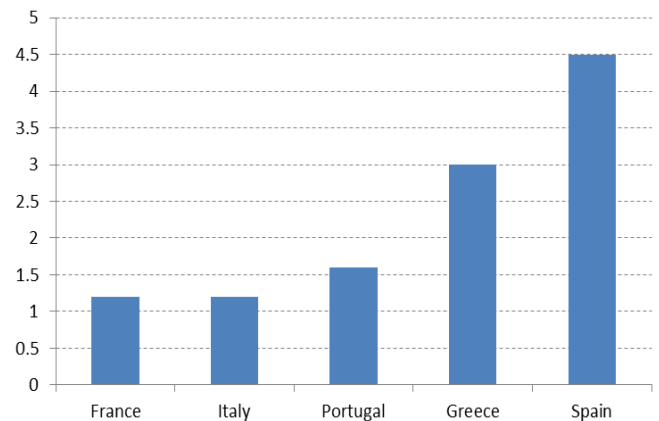
However, although these initiatives are a step in the right direction, the low budget allocated will not be enough to create a real shock in the labor market, especially as government actions will continue to be restricted by the continuation of budgetary consolidation in 2013 and 2014 (CHART 9).

Chart 8 : Protection of workers and unemployment rate



Sources: Eurostat, OECD, Euler Hermes

Chart 9 : Public deficit reduction target for 2013 and 2014 (pp)



Sources : European Commission, Euler Hermes

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