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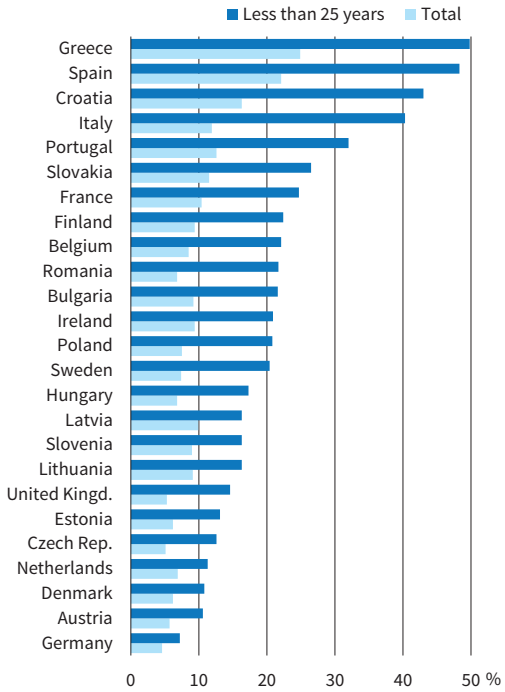
Youth Unemployment in Europe

Unemployment rates are an important macroeconomic indicator for describing the economic condition of an economy. Unemployment figures in the media are usually reported for the total population, but it is worth taking a more differentiated look at unemployment figures. For example, one can distinguish between the unemployment rates of different age groups in the active labour force. The unemployment rates of the younger generation can be quite different from those of the total working population or older generations for various reasons. Moreover, as the population is ageing in many European societies, the age of the median voter is shifting and might encourage politicians to design labour market policies that specifically target older age groups.

Figure 1 shows the unemployment rates of young people aged between 15 and 24 years compared to the total unemployment rates in the European countries in 2015.[2] As shown in Figure 1, the youth unemployment rate is largely higher than the total unemployment rate in almost every country shown in the figure. The most striking rates are those of youth unemployment in Greece (49.8%), Spain (48.3%), Croatia (43%), Italy (40.3%), Portugal (32%), Slovakia (26.5%) and France (24.7%). Italy is the country with the highest difference between the total unemployment rate and the youth unemployment rate, with a youth unemployment rate that is 28.4 percentage points (pp) higher than the total unemployment rate. There are several other countries in which youth unemployment is considerably higher than total unemployment like Greece (24.9pp), Spain (26.2pp), and Croatia (26.7pp). In countries like Germany, Austria, Denmark and the Netherlands where youth unemployment rates and total unemployment rates are the lowest in Europe, there is also a gap between total and youth unemployment. Looking at the European countries shown in Figure 1 reveals a huge divergence in Europe concerning youth unemployment. On the one hand, there are countries like Greece and Spain where almost half of the young labour force does not have a job, and on the other hand, there are Austria and Germany, where "only" 10.6% and 7.2% of the respective young labour force is unemployed.

Figure 1

Youth and total unemployment rates, 2015



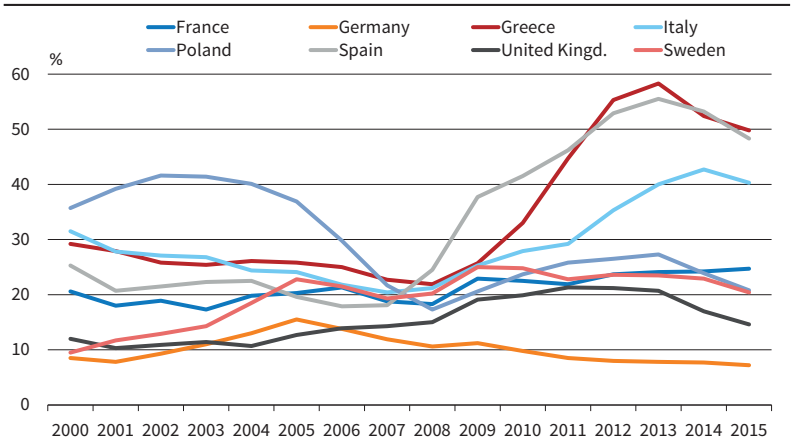
Source: Eurostat (2016a). © ifo Institute

Like total unemployment rates, youth unemployment rates rose in almost all European countries after the financial crisis. Nevertheless, youth unemployment is not a recent phenomenon that can be entirely ascribed to the Great Recession. Most European countries that are currently struggling to integrate their young people into the labour market faced high youth unemployment rates prior to the financial and subse-

Figure 2

Youth unemployment rates, 2000-2015

Selected countries



Source: Eurostat (2016b). © ifo Institute

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[2] The youth unemployment rate is the ratio of unemployed persons aged 15–24 as a percentage of the active population (the labour force) aged 15–24 (Eurostat 2016a and 2016b). Unemployed persons are defined as persons who were without work during the reference week, were currently available for work and were either actively seeking work in the past four weeks or had already found a job to start within the next three months (Eurostat 2016a).

quent economic crisis. Figure 2 shows the youth unemployment levels in selected European countries from 2000–2015. Italy, Greece and Spain already faced unemployment rates above 20% in the beginning of the 2000s. Poland is the only country where the youth unemployment rate fell compared to the level seen in 2000. In Germany the youth unemployment rate in 2015 was almost the same as in 2000.

Recently another ratio has been used to describe the economic situation of the young people, the so called youth NEET rate. NEETs are defined as "Young people neither in employment nor in education and training". The indicator on young people who are neither in employment nor in education and training corresponds to the percentage of the population of a given age group that is not employed and not involved in further education or training. The following equations show the difference between the youth unemployment rate and the NEET rate (O'Higgins 2015):

$$Youth\ unemployment\ rate\ = \frac{no.\ of\ young\ people\ who\ are\ unemployed}{no.\ of\ young\ people\ in\ the\ labour\ market}$$

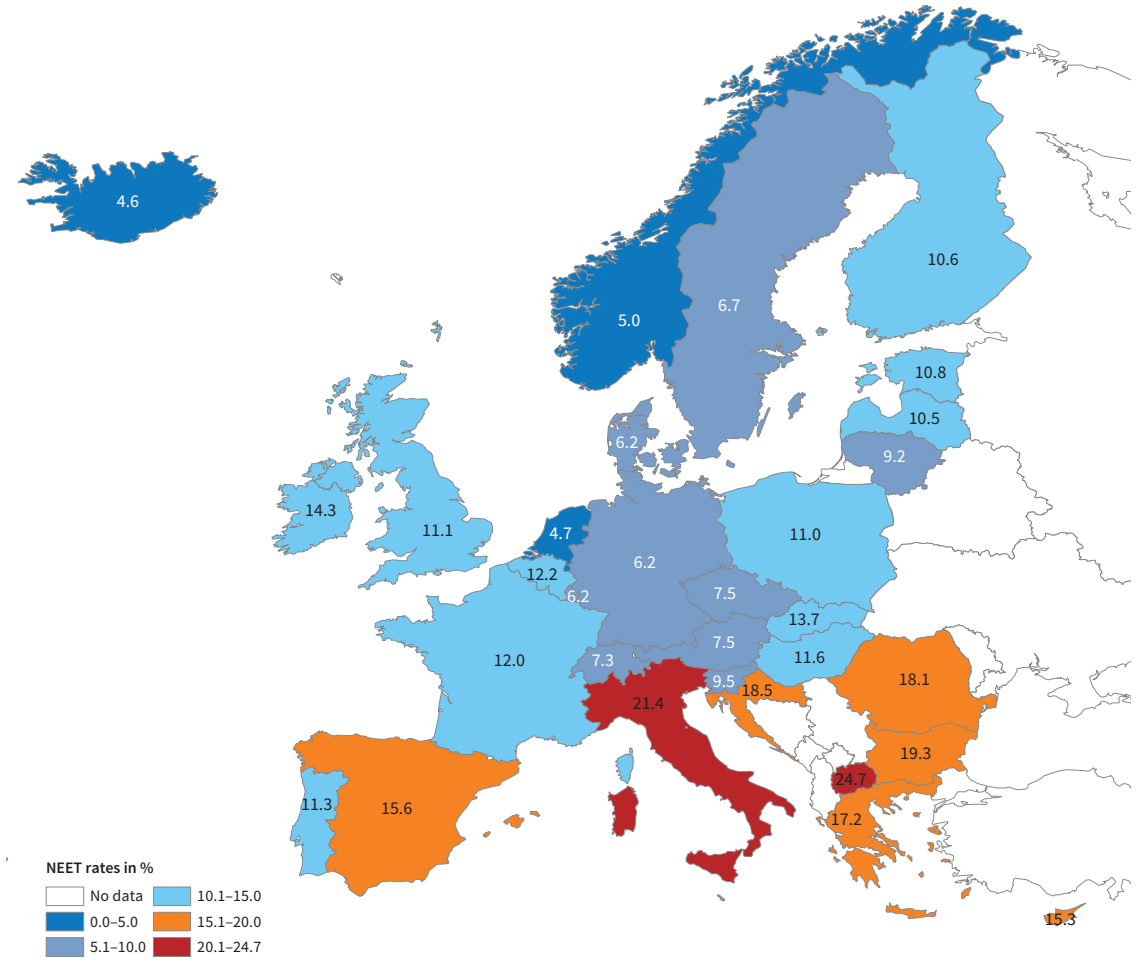
$$Youth\ NEET\ rate\ = \frac{no.\ of\ young\ people\ who\ are\ not\ employed\ or\ in\ education}{no.\ of\ young\ people}$$

The NEET rate refers to the total population of young people and therefore seems to be more adequate to describe the situation of the youth in total. The youth unemployment rate may be high in a given country, but it only represents the situation of a small proportion of the youth if only a small number of young people in that country is actively searching for a job and can be counted to the active labour force. Hence the NEET rate also includes those not actively seeking work and those occupied with "other things" like looking after family members/children, travelling etc. (O'Higgins 2015). Figure 3 shows a map of Europe indicating the latest NEET rates in different European countries. Italy and Macedonia face the highest NEET rates amongst the European countries with levels above 20%, followed by Bulgaria (19.3%), Croatia (18.5%), Romania (18.1%), Greece (17.2%) and Spain (15.6%). The lowest NEET rates can be found in Iceland (4.6%), the Netherlands (4.7%), Norway (5.0%), Luxembourg, Denmark, Germany (6.2%) and Sweden (6.7%).

Beside the high unemployment and NEET rates, another major concern is the strong labour market divide between youths and adults when it comes to the types of contracts that they receive. Youths are currently strongly over-represented in temporary con-

Figure 3

Young people neither in employment nor in education and training (NEET) rates in Europe 2015



Source: Eurostat 2016c.

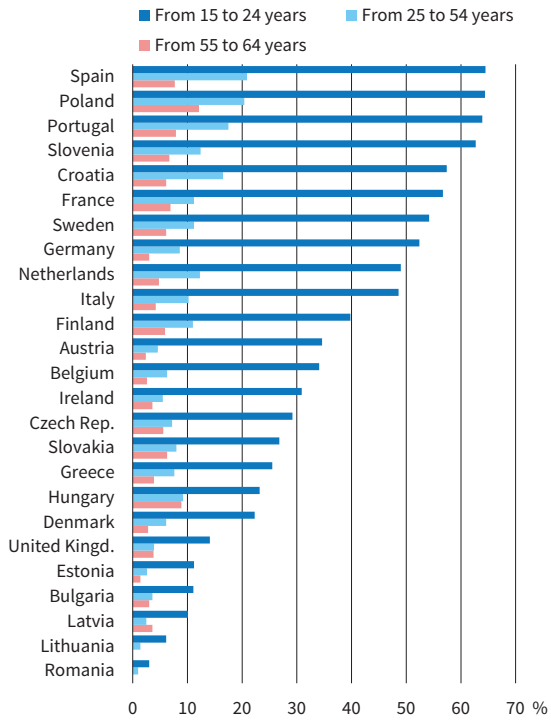
tracts, which is reflected in high levels of temporary and part-time employment amongst young people. The longer-term impact of these contractual forms is becoming a significant issue (O'Higgins 2015; Berlingieri, Bonin and Sprietsma 2014). Figure 4 shows the percentage of temporary contracts among young people, which is significantly higher than those among older employees. As Figure 4 illustrates, a high proportion of 15–24 year-olds are employed based on temporary contracts. Spain, Poland, Portugal, Slovenia, Croatia, France, Sweden and Germany are countries where the proportion of temporary contracts within the younger generation is over 50%. In the older age groups of 25 to 54 years and 55 to 64 years, by contrast, temporary contracts are relatively rare.

What are the reasons for the higher unemployment rates of young people and the high proportion of temporary contracts within this generation? In addition to the economic situation and aggregate demand that influence unemployment rates in general, institutions play a fundamental role in employment, and especially in the employment of young people. The most frequently cited institutions influencing the (youth) labour market outcomes are the educational and training system and labour market institutions.[3] As far as labour market institutions are concerned, employment protection legislation, wage-setting institutions, and the wage negotiation process, play a fundamental role (Berlingieri, Bonin and Sprietsma 2014). These factors generally play an important role for unemployment and employment, but can especially foster higher youth unemployment rates. Many countries tried to liberalise labour market institutions by offering the possibility of contracting employees with temporary, fixed-term contracts, but at the same time not changing the layoff conditions for permanent employees. The outcome is that the labour market in many countries is divided between older employees with a secure permanent job and the younger generations, who are typically locked into temporary and often "precarious" employment for a long time (Berlingieri, Bonin and Sprietsma 2014). In a so called dual labour market, unions tend to primarily defend the interests of workers with permanent contracts, or the "insiders", in terms of their wage-setting institutions and wage negotiation process. As a result, unions do not pursue the goal of creating jobs for the unemployed (outsiders) and mainly focus on insiders' wages and employment interests. The duality of the labour market therefore leads to the protection of employees with contracts for a longer period and leaves younger employees to fixed-term contracts or contracts with less unemployment protection. In addition, when it comes to dismissals, the younger employees are more affected. Moreover, as a result, youths are far more affected by dismissals when a recession comes along than adults on permanent contracts. The strong level of employment protection for permanent contracts contributes to the high proportion of youths

[3] For further details on the role of the educational and training system see Berlingieri, Bonin and Sprietsma (2014) and O'Higgins (2015).

Figure 4

Proportion of temporary contracts by age groups, 2015



Source: Eurostat (2016d). © ifo Institute

with temporary contracts (Berlingieri, Bonin and Sprietsma 2014).

The need for structural reforms of labour market institutions to offer better employment possibilities to the younger generation is there; hence these reforms may take some time. Another option for young people in countries with high youth unemployment could therefore be to emigrate. The European Commission states that "Labour mobility helps to address labour shortages and skills gaps. From a macroeconomic point of view, it helps address unemployment disparities between EU Member States and contributes to a more efficient allocation of human resources". Moreover, "In the host country incoming workers benefit the local economy by addressing skills shortages and labour market bottlenecks. They help widen the range of services available and boost competitiveness. In the countries of origin, mobile workers alleviate the burden on public accounts (if previously unemployed) and help to revive the national economy by sending remittances" (European Commission 2014). As the unemployment situation is especially severe for the younger generations, the EU facilitates youth labour mobility in particular by making young people aware of job opportunities in other EU countries. The European Job Mobility Portal (EURES) provides information, advice and job matching services for the benefit of workers and employers, as well as any citizen wishing to benefit from the principle of the free movement of workers.

Hence it is argued that migration within the Eurozone is not sufficient to adjust macroeconomic imbalances (Eichhorst, Hinte and Rinne 2013), and youth

mobility still seems to be low within Europe (Berlingieri, Bonin and Sprietsma 2014). Most barriers to migration and to finding a job in the country of migration are language barriers and the recognition of qualifications. A recent study reveals that, although there is the possibility of free labour movement within the EU, European countries differ in their recognition of foreign educational qualifications, which in turn affects the migration rate to destination countries (Capuano and Migali 2016). The long-term effects of enduring youth unemployment are severe and often described by the term "lost generation". Youths affected by (long-term) unemployment run several other risks like, for example, enduring and old-age poverty. In response, several European countries therefore put action plans on the agenda after the financial crisis and the subsequent great recession to reduce youth unemployment (DICE Database 2012). The potential migration of young people and the implicit brain drain that this would have entailed may have put countries under pressure to react. Recent measures to combat youth unemployment mainly include active labour market policies and labour market training (O'Higgins 2015; Eichhorst, Hinte and Rinne 2013). Moreover, strategies have been put on the agenda at a European level as well, namely the so called "Europe 2020 strategy" and the "Youth Guarantee", which was adopted in 2012 (Berlingieri, Bonin and Sprietsma 2014). Other initiatives beyond Europe include the G20 Target to reduce youth unemployment by 15% through 2025 and the OECD Action Plan for Youth (OECD 2016).

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