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No Union for the Young People

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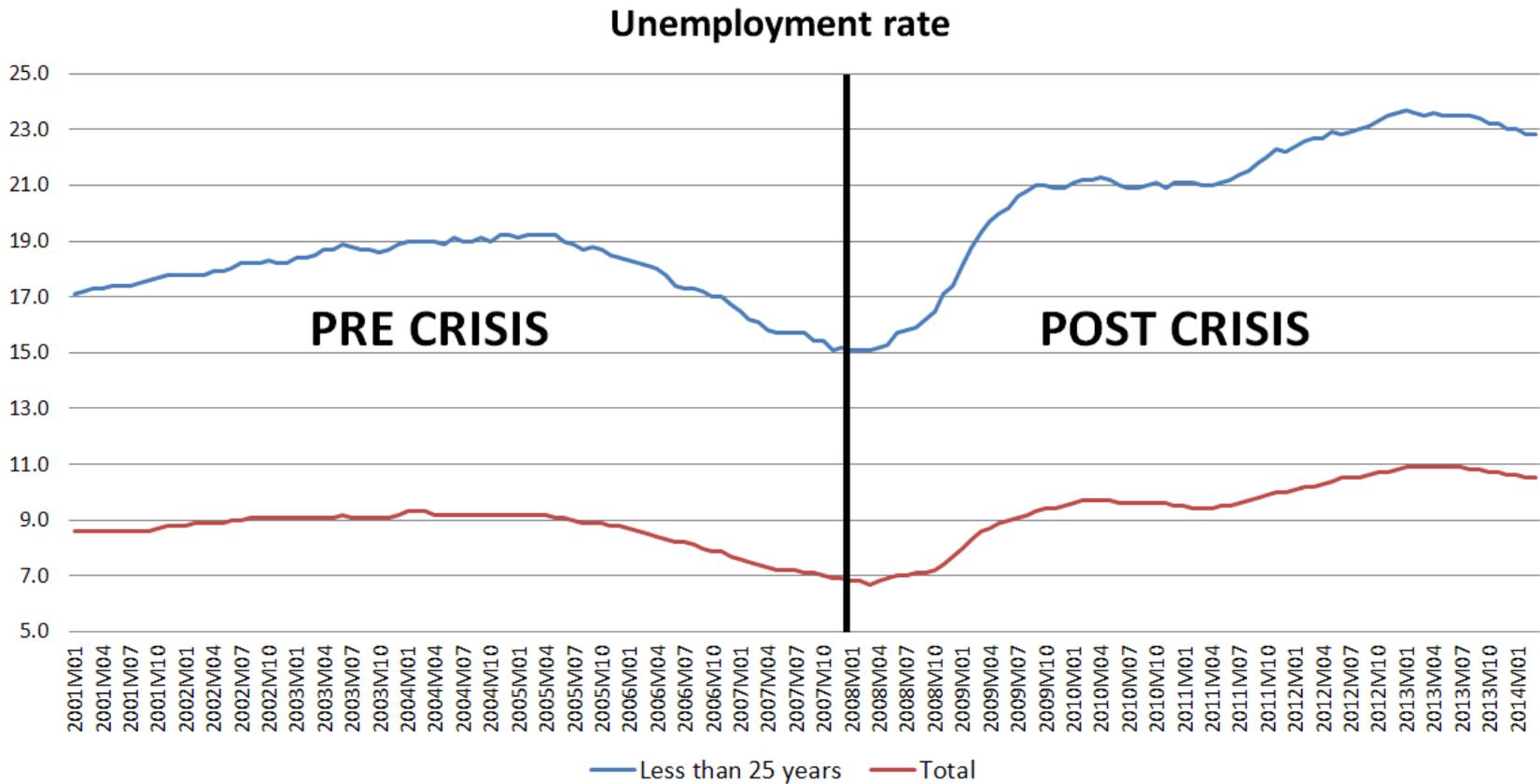
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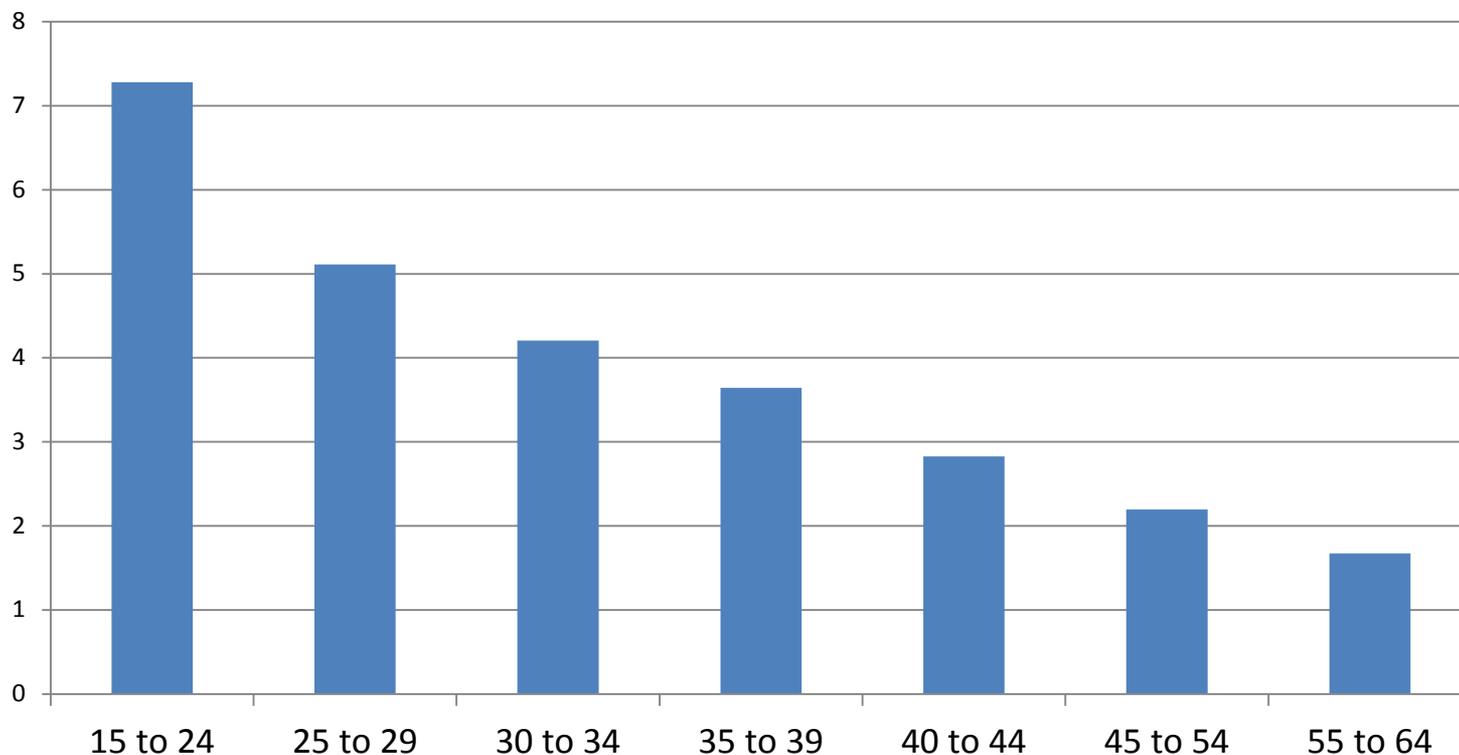
Back to Mass Unemployment

after a marked decline between 2005 and 2007



Concentrated among the youth...

Unemployment rate variation
(2012-2007) by age group



Outline

- Should we worry about youth unemployment?
- **Why** is so high?
- **What** can be done to reduce it?
What is being done by the EU?
- **Where** should it be done?

Should we worry about it?

- Is it true that unemployment among young people does not carry so much social costs?
- About 1/3 of youth unemployment is long-term and can be very harmful
- It carries implications for wages and unemployment incidence in later life (the scarring effect of unemployment)
- It causes a lot of misery (from “happiness” studies)

Evidence of « scarring » effects

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Sizeable long-term effects of **unemployment** at labour market entry on **annual earnings** in France, Germany, Italy, Spain, the UK and the US:

UK a 1 % point increase in the unemployment rate at entry reduces earnings by almost 8%. This effect declines over time to just 2% ten years after entry and disappears thereafter. More persistent effect for highly educated.

US, the contemporaneous decline in earnings 2-3% and it dissipates within ten years of labour market entry. More persistent effect for the low-educated

France and **Spain**, negative contemporaneous effect of 2-3% on earnings; this effect persists up to 15 years after labour market entry.

More (scaring) on scarring

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- *Ellwood* (1982): poor start induces lower lifetime wages and lower employment opportunities
- *Kletzer and Fairlie* (1999): entry long-term unemployment implies wage losses over the lifetime of 8 per cent for men and 13 per cent for women (US)
- *Arulampalam* (2001): increase in risk of new job losses (Britain)
- *Gregg and Tominey* (2005): lifetime wage losses even larger (13 to 21 per cent)
- *Mroz e Savage* (2006): unemployment at 22 implies earning 30 per cent lower at 25. At age 30-32 below -2-3 per cent
- *Von Wachter and Heisz* (2006): long term career effects on those graduating in a recession
- *Bell and Blanchflower* (2009) *von Wachter* (2009): health effect even 20 years after

Growing Unequal

(families headed by under 30, Euro area)

	2007	2011
p90/p10	4.1	4.9
Gini Tot	28.5%	31.5%
Theil Tot	13.7%	18.1%
<i>Theil within</i>	12.9%	16.8%
<i>Theil between</i>	0.8%	1.4%

Less at the top

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- Young and old in top income decile

Top decile	2007	2013	difference
YOUNG (under 30)	17.0%	13.9%	-18.2%
OLD (over 65)	48.6%	48.5%	-0.2%

Why is unemployment so much concentrated among young people?

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- The physiology of youth unemployment in a recession
- The pathology of youth unemployment: contractual dualism, wage setting, school to work transitions, family ties and social protection

A normal (imperfect) labor market ^f **R** **D** **B**

- Search theory: labor market with frictions and job shopping; good description for youngsters
- They need to collect more information about jobs and experiment
- Employers are less informed about them
- More turnover among young people (higher hirings and separations)
- During a recession hiring freeze and increase in separations. Even if proportional across age groups would hit more the youngsters

Structural Problems

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- **Contractual Dualism** (temporary vs. permanent contracts). Higher employment-to-output elasticities. Lower responsiveness of wages to unemployment. Less investment in training at the workplace.
- The transition **from school to work** : bad design of education systems, minimum wages not graded by age, no on-the-job-training in spite of compressed wage structures (see PIAAC)
- Social protection, family ties and **barriers to regional mobility**

Proportional rise in unemployment?

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	unemp. rate under 25 over unemp. rate over 25 (2007)	du % young 2007/2013	du % non young 2007/2013	
Country		(a)	(b)	a-b
Euro area (18)	2.33	55.8%	62.1%	-6.3%
Belgium	2.98	26.1%	12.7%	13.4%
Germany	1.45	-33.6%	-39.0%	5.4%
Estonia	2.59	85.1%	94.9%	-9.7%
Ireland	2.39	194.5%	205.3%	-10.8%
Greece	3.23	154.6%	256.3%	-101.8%
Spain	2.59	206.6%	240.0%	-33.4%
France	2.91	27.2%	31.3%	-4.2%
Italy	4.14	97.0%	110.2%	-13.2%
Cyprus	3.09	281.4%	312.1%	-30.7%
Latvia	1.96	118.9%	98.1%	20.7%
Luxembourg	4.73	11.5%	51.5%	-40.0%
Malta	2.90	-2.9%	8.3%	-11.2%
Netherlands	2.41	57.1%	103.4%	-46.3%
Austria	2.35	5.7%	16.2%	-10.5%
Portugal	2.68	84.8%	94.7%	-9.9%
Slovenia	2.40	113.9%	119.0%	-5.2%
Slovakia	2.04	63.6%	23.8%	39.8%

Proportional decline in employment?

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Country	de% young 2007/2013 (a)	de% total 2007/2013 (b)	a-b
Euro area (18)	-16.7%	-3.1%	-13.7%
Belgium	-14.2%	-0.3%	-13.9%
Germany	3.1%	6.2%	-3.1%
Estonia	-6.1%	-1.3%	-4.8%
Ireland	-42.5%	-12.6%	-29.9%
Greece	-50.4%	-19.7%	-30.7%
Spain	-57.5%	-17.1%	-40.5%
France	-7.7%	-0.3%	-7.4%
Italy	-34.0%	-5.3%	-28.7%
Cyprus	-37.2%	-13.1%	-24.1%
Latvia	-21.4%	-4.8%	-16.5%
Luxembourg	-2.7%	2.3%	-5.0%
Malta	-2.2%	11.0%	-13.2%
Netherlands	-8.9%	-2.2%	-6.7%
Austria	-3.1%	1.3%	-4.3%
Portugal	-36.1%	-9.9%	-26.2%
Slovenia	-29.5%	-6.6%	-22.9%
Slovakia	-26.1%	-1.3%	-24.8%
Finland	-7.0%	-2.0%	-5.0%

What can be Done?

- Insofar as it is in the physiology of recessions, then countercyclical policies. Fiscal and monetary policies for the Euro area
- The pathological component requires reforms of employment protection (graded security), wage setting (closer link between productivity and pay), minimum wages (graded by age), labor taxes (more progressive?), unemployment insurance and activation

The hypocrisy of the **European Youth Employment Initiative**

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- 6 billions in 2014-15, 400 Euros per NEET
- Youth Employment Guarantee: welfare-to-work measure to mobilize labor supply, but problem is on labor demand side! Risk of congestion effects
- Provided to countries where Public Employment Service is barely existing and very low coverage of UBs among young people
- Feeding regional bureaucracies that are often poorly administering ESF projects (huge variation in hourly training costs for the same occupation)

Do we really need to go to the Regions?

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- Decomposition of regional (NUTS 2) dispersion in youth unemployment rates (Euro area)

	2007	2013	% variation
Gini	28.6%	36.5%	27.7%
Theil	13.3%	21.0%	57.9%
Within countries	6.7%	3.5%	-47.8%
Between countries	6.6%	17.6%	166.7%

Matter of supranational and national policies

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- Fiscal and monetary policies internalizing unemployment in the South
- Allow for subsidies or employment conditional incentives for low wages in these countries
- Support to mobility related to traineeship, work experience and dual education systems (please do not close borders to EU migrants!)
- Use **structural** funds to reward Government doing **structural** reforms

The Age of Populism

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Votes for Beppe Grillo and young to old age ratio by province, Italy 2013

