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# Generation Indebted Jobless

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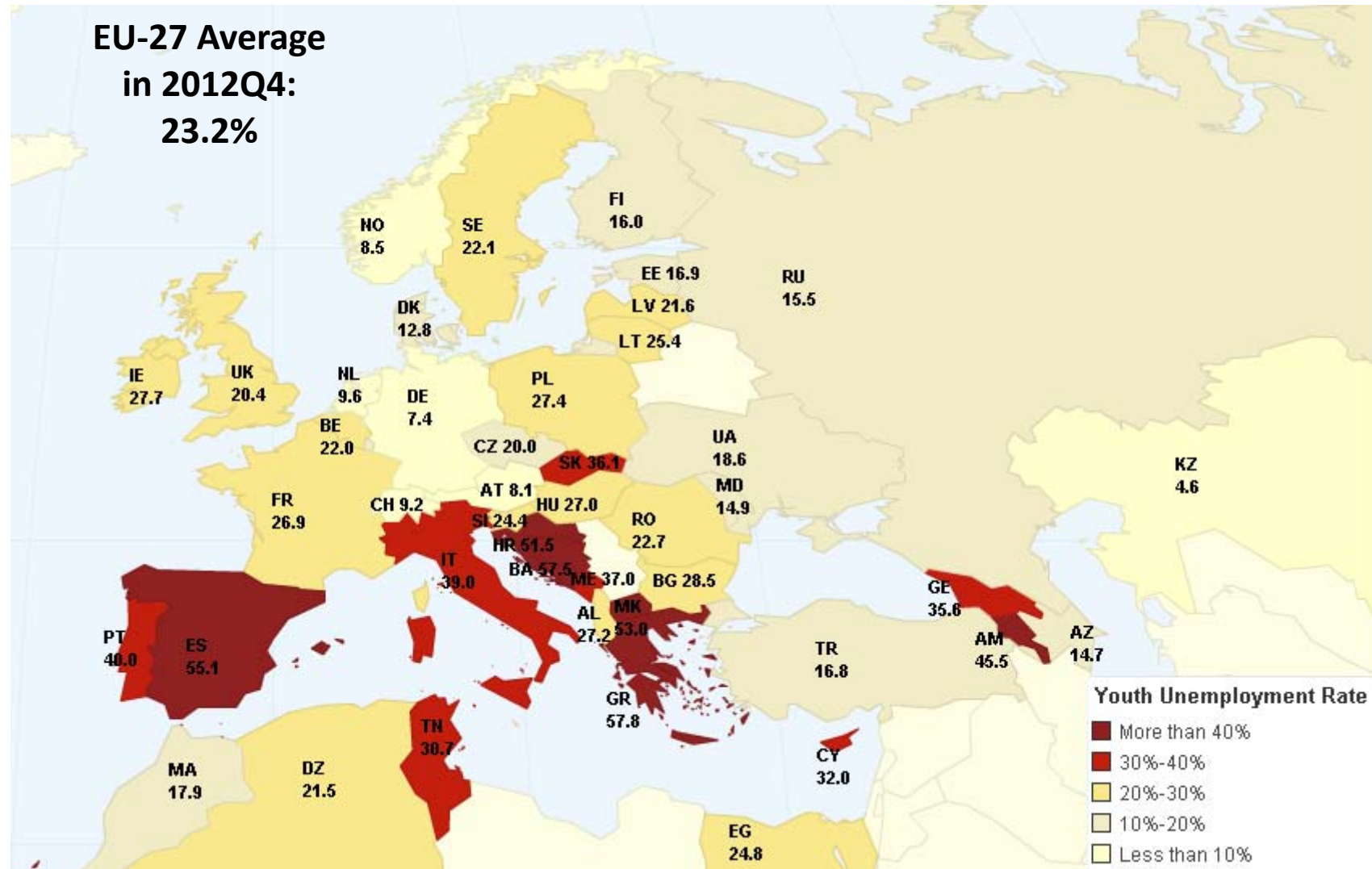
Istanbul , May 9th, 2013



# Outline

- A global rise but not uniform across the board
- Should we worry about it?
- The key mechanisms: cyclical vs. Structural factors
- Can we do anything about it?

# The Arc of Unemployment

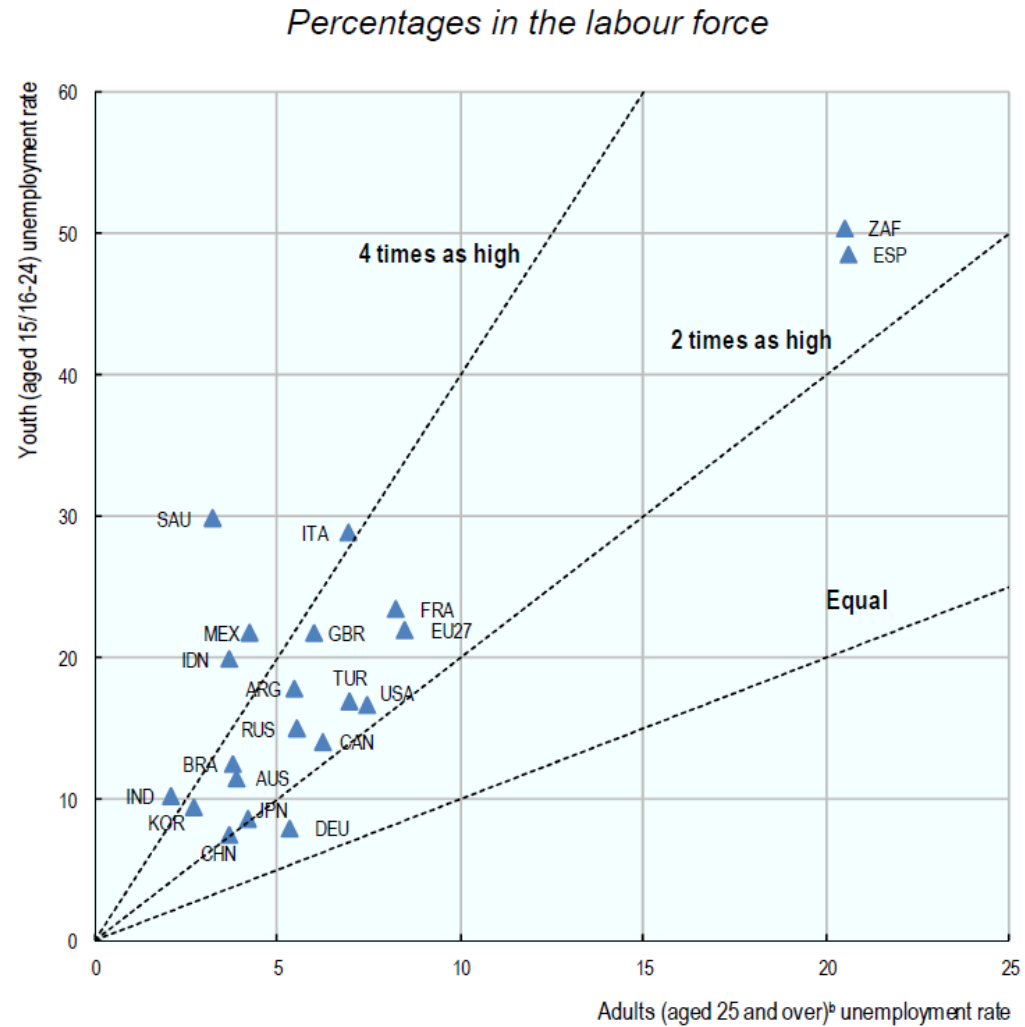


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Source: Eurostat, IMF Unemployment, youth total (% of total labor force ages 15-24)

# Youth to adult unemployment

Youth and adult unemployment rates, 2011 Q4a



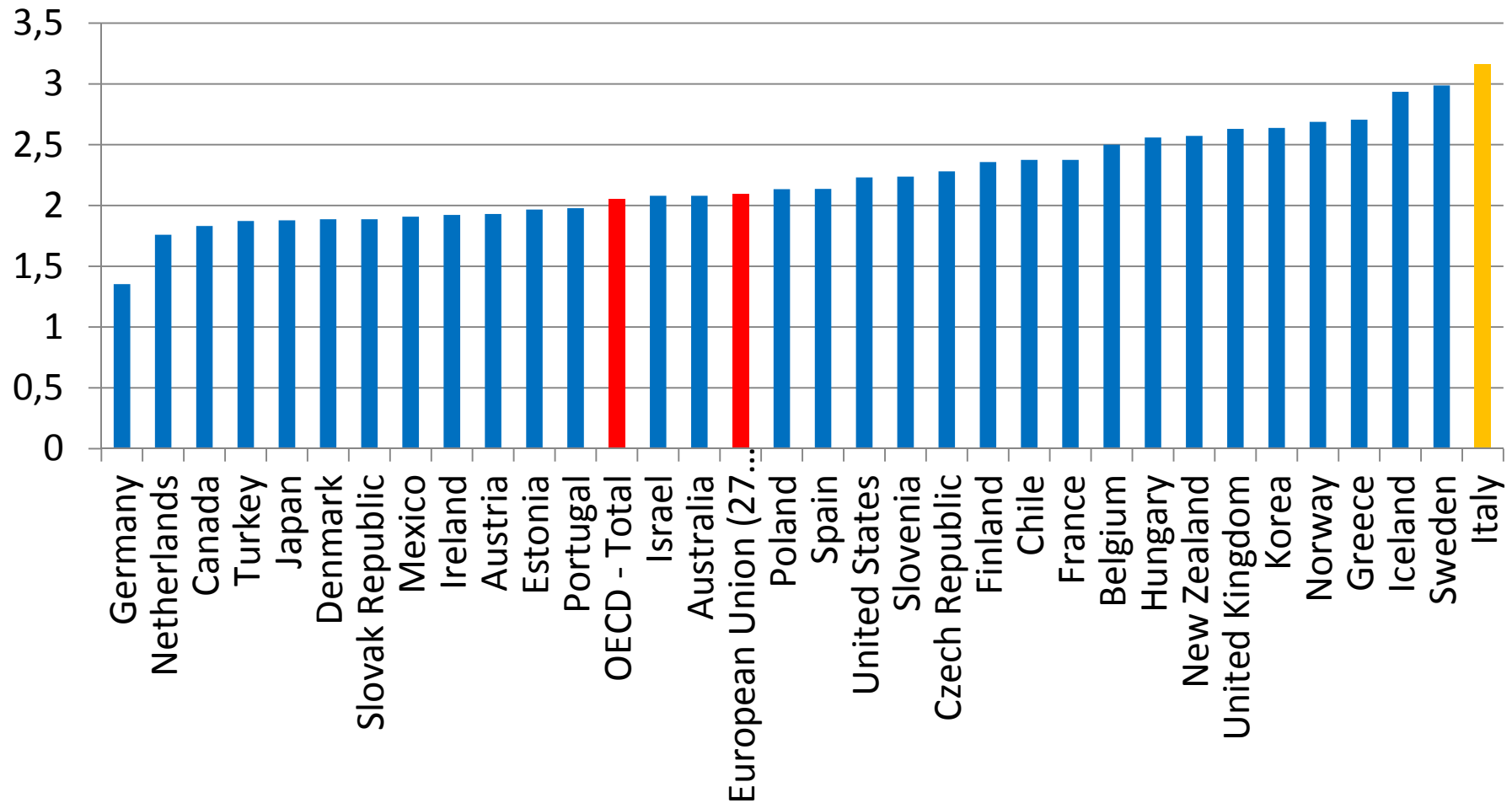
Source: OECD, 2012

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# Ranking of countries

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ratio of youth to total unemployment. 2005-07

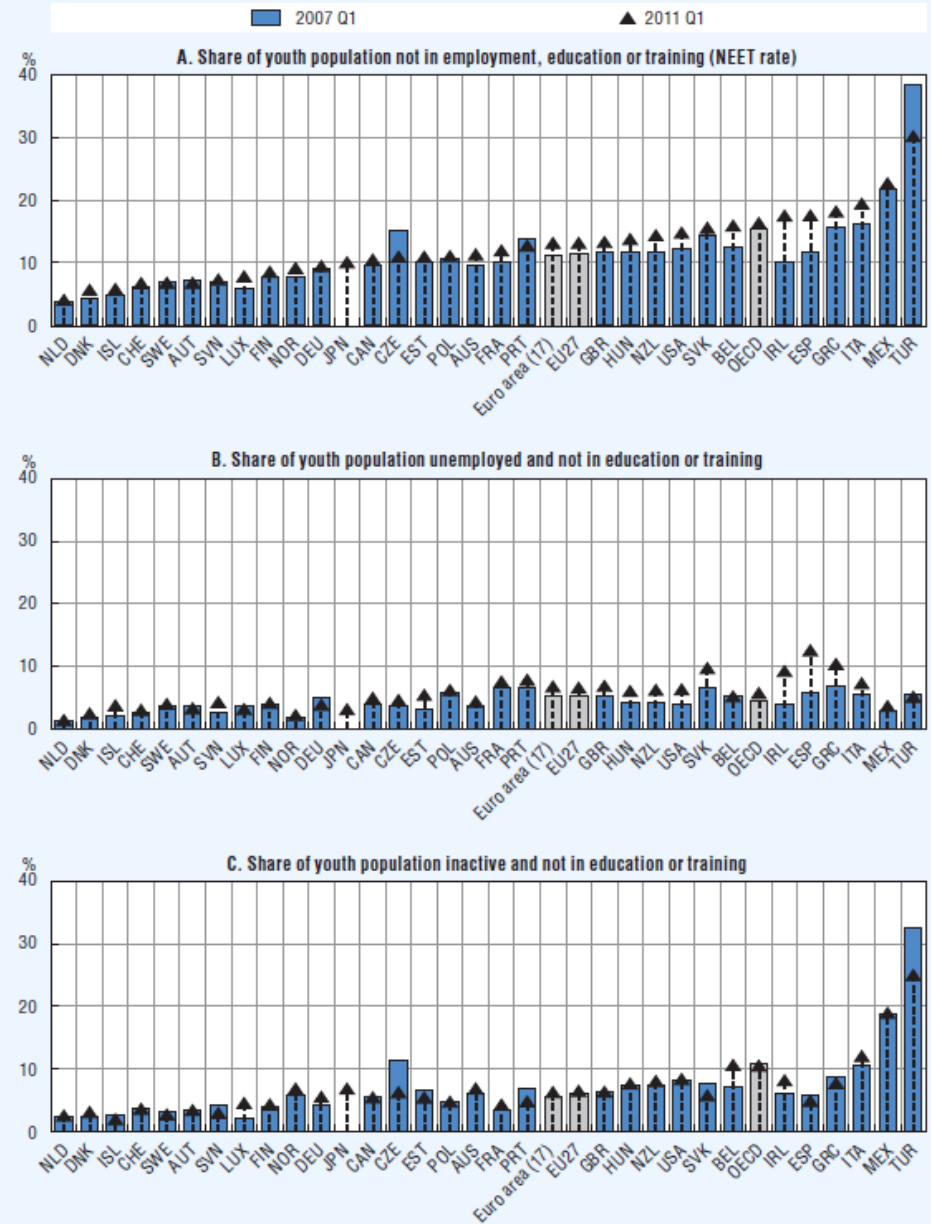


# A NEET generation

Not in  
Employment  
Education or  
Training

## NEET rates among youth in OECD countries

Percentage of population aged 15-24,<sup>a</sup> 2007 Q1-2011 Q1<sup>b</sup>



Note: Countries are shown in ascending order of the NEET rate in 2011 Q1.

a) OECD, EU27 and euro area (17) are weighted averages. OECD includes 30 countries (excluding Chile, Israel, Japan and Korea).

b) 2007 Q2-2011 Q2 for Australia, 2007 Q2-2011 Q1 for Switzerland, and 2011 Q1 for Japan.

Source: OECD estimates based on national labour force surveys.

# Some worldwide figures about the **f R** **NEET** **D B**

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- In the EU27 increased by 30% since 2007
- About 300 million youth in this condition globally, like US population
- In 2011, EBRD countries had a 30 per cent youth unemployment rate compared with 23% in the EU27, with peaks at 73 (Kosovo), 57.5 (Bosnia and Herzegovina), 55.3 (Macedonia) and 45.5 (Armenia).

# Should we worry about it?

- Whereas some unemployment is necessary, long duration unemployment 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 for these groups

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

- *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

Figure 5A: Annual Earnings Losses Before/After Job Displacement in \$1000  
 Averages for Displacements in NBER Recessions and Expansions  
 Men with At Least 3 Years of Job Tenure Displaced at Firms Size 50+  
 Displaced as Firm has Lasting 30% Employment Drop Over 2 Years

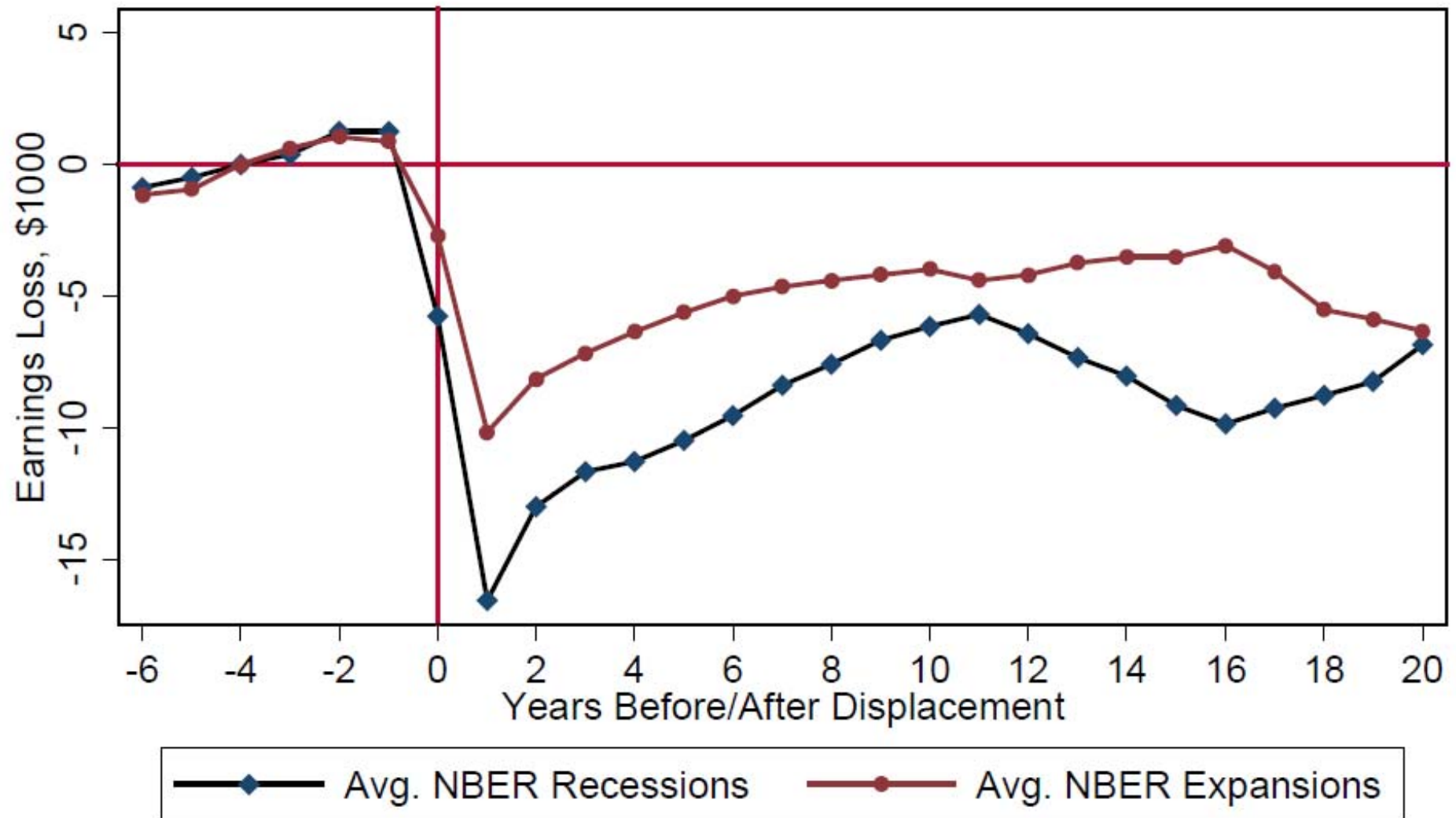
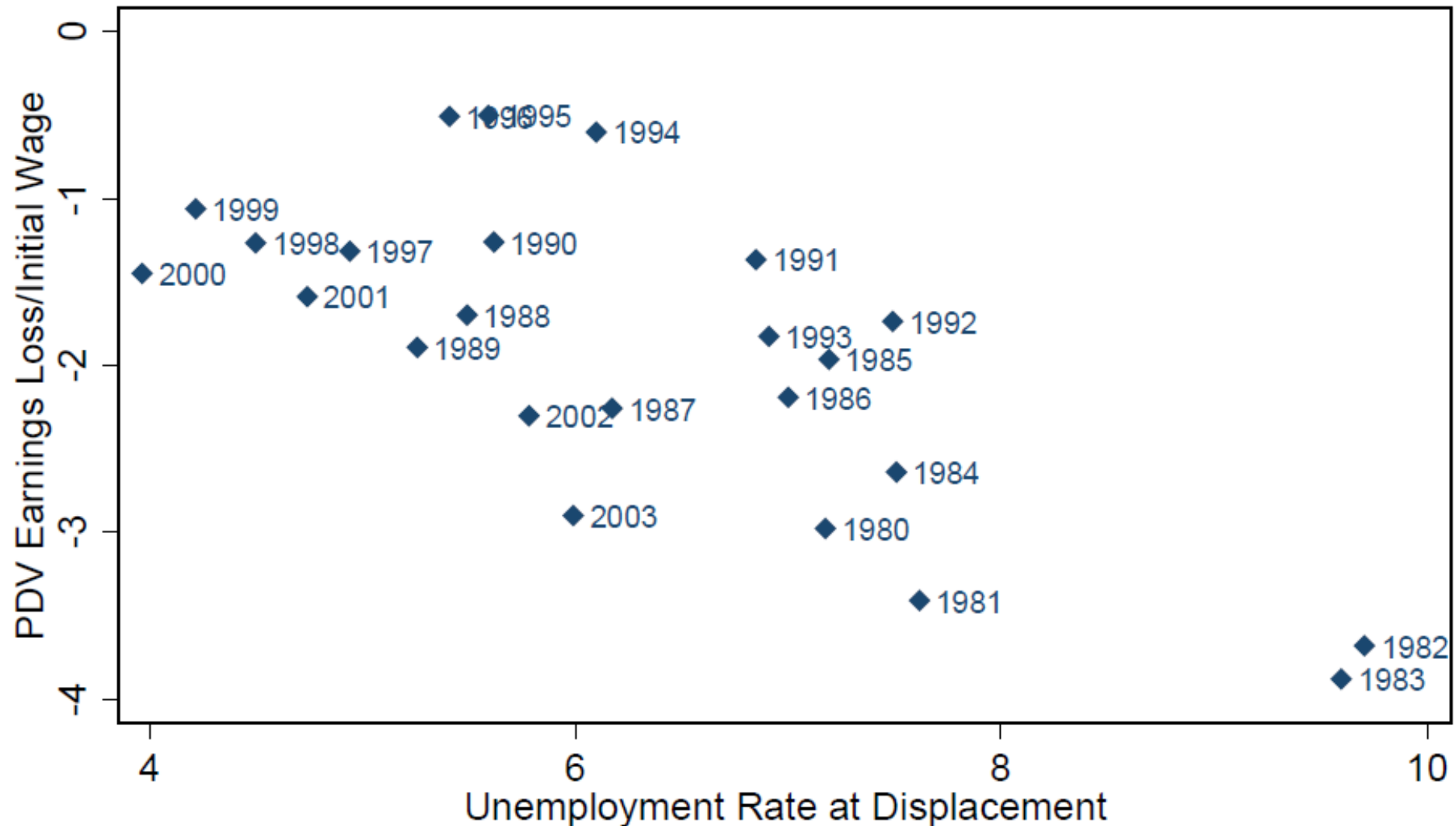
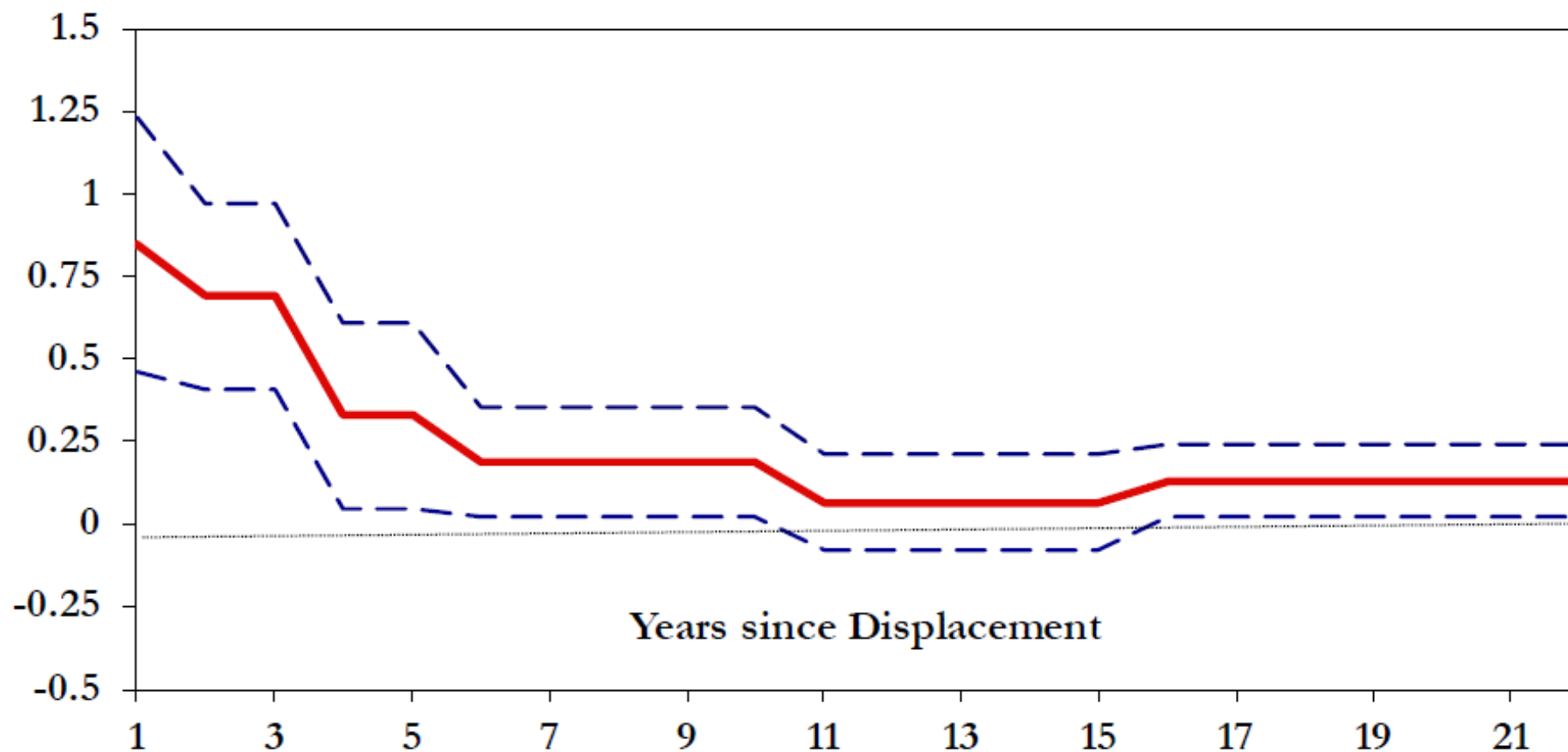


Figure 7: Present Discounted Value of Earnings Losses By Year of Displ.  
 Expressed as Multiple of Annual Earnings Before Displacement  
 Men with At Least 3 Years of Job Tenure Displaced at Firms Size 50+  
 Displaced as Firm has Lasting 30% Employment Drop Over 2 Years



## Figure II: The Effect of Displacement on Log-Odds of Death by Years Since Displacement

Panel A: Effect by Years Since Displacement for Workers Born 1930-1959  
(Including Two Standard Error Bands)



Notes: Solid line represents coefficients of log-odds model of mortality on years since displacement and basic other control variables. These are the main effects corresponding to Column 1, Table 4. Dashed lines represent two-standard error bands.

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Source: D. Sullivan and von Wachter, Quarterly Journal of Economics, 2009

# Outline

- A global rise but not uniform across the board
- Should we worry about it?
- **The key mechanisms: cyclical vs. Structural factors**
- **Can we do anything about it?**

# Why is unemployment so much concentrated among young people?

- The physiology of unemployment in a recession
- Structural problems: contractual dualism and skill mismatch in the transition from school to work

# A normal (imperfect) labor market

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- Search theory: labor market with frictions, particularly suited for youngsters (job shopping)
- Youngsters 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 I

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- **Hiring side.** A hiring freeze. The least costly way to downsize. Even if hiring declines proportionally at all ages, it would hit more the youngsters because starting from higher levels of hiring.
- Moreover, school leavers can only enter the labor force. Expand education during recessions!

# During a Recession II

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- **Layoffs side.** Even if firing declines proportionally at all ages, it would hit more the youngsters because of the higher levels to start with.
- Moreover employment protection is stronger on those with longer tenures

# Severance - Tenure Profiles

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# Proportional Effects

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- Problem felt in high unemployment countries
- Young workers suffer much more in recession in high unemployment countries than in low unemployment ones
- When adult unemployment in Spain went up from 9% to 20%, youth unemployment went up to 40%!
- But when unemployment in Denmark went up from 4% to 7%, youth unemployment went up to just 14%

# Structural Problems

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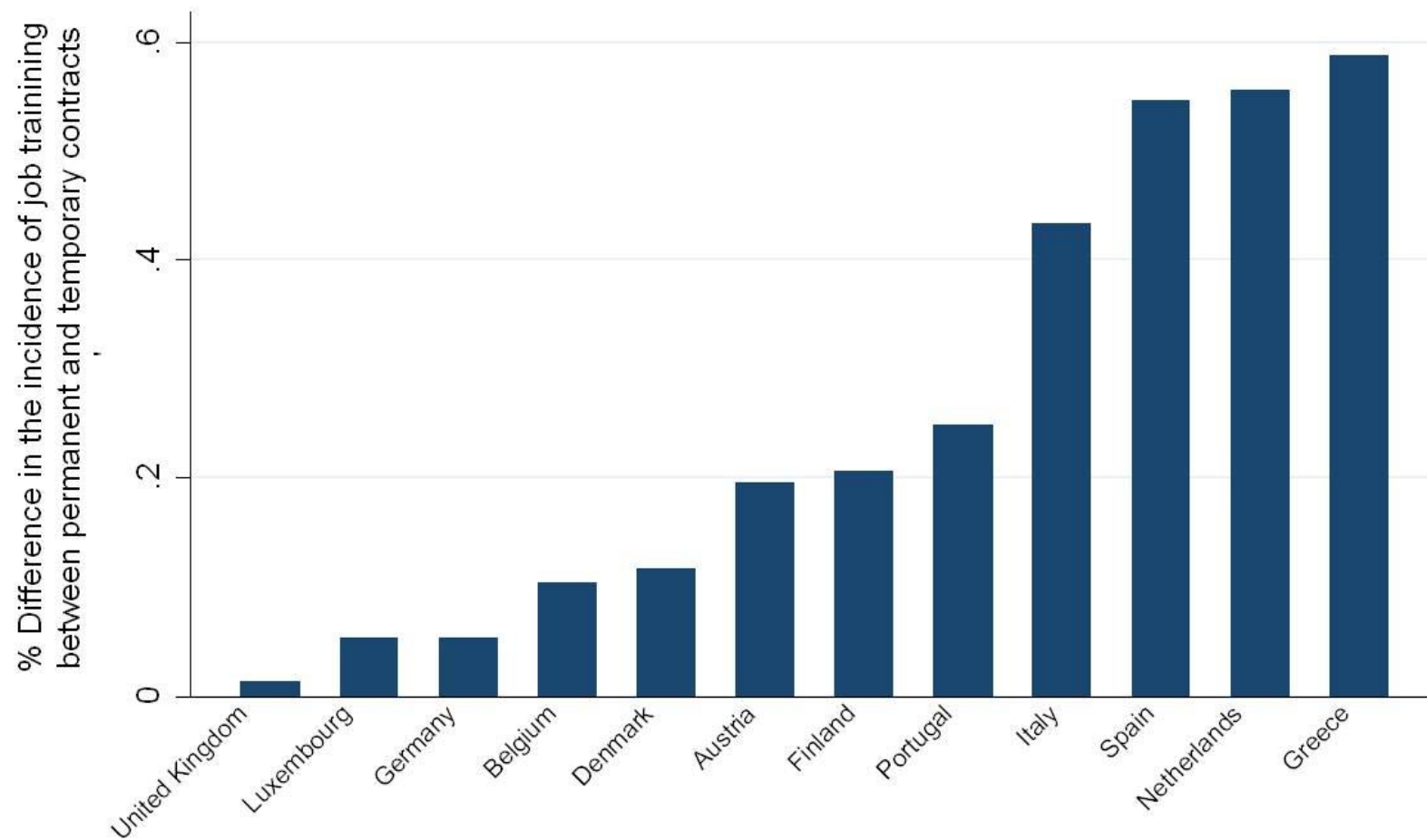
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- Contractual Dualism (temporary vs. permanent contracts)
- The transition from school to work : the educational mismatch in Europe, the skill mismatch in emerging economies

# Dualism of Labour Market

- Dualism temporary-permanent contracts contributes to explaining the “significant improvements in the youth labour market observed **prior** to the crisis”. However, it also increases job losses during recessions and make them concentrated on young workers.
- Dualism increases the volatility of employment. Bad during recessions (large job losses), not so bad during upturns (honeymoon, job creating effect)

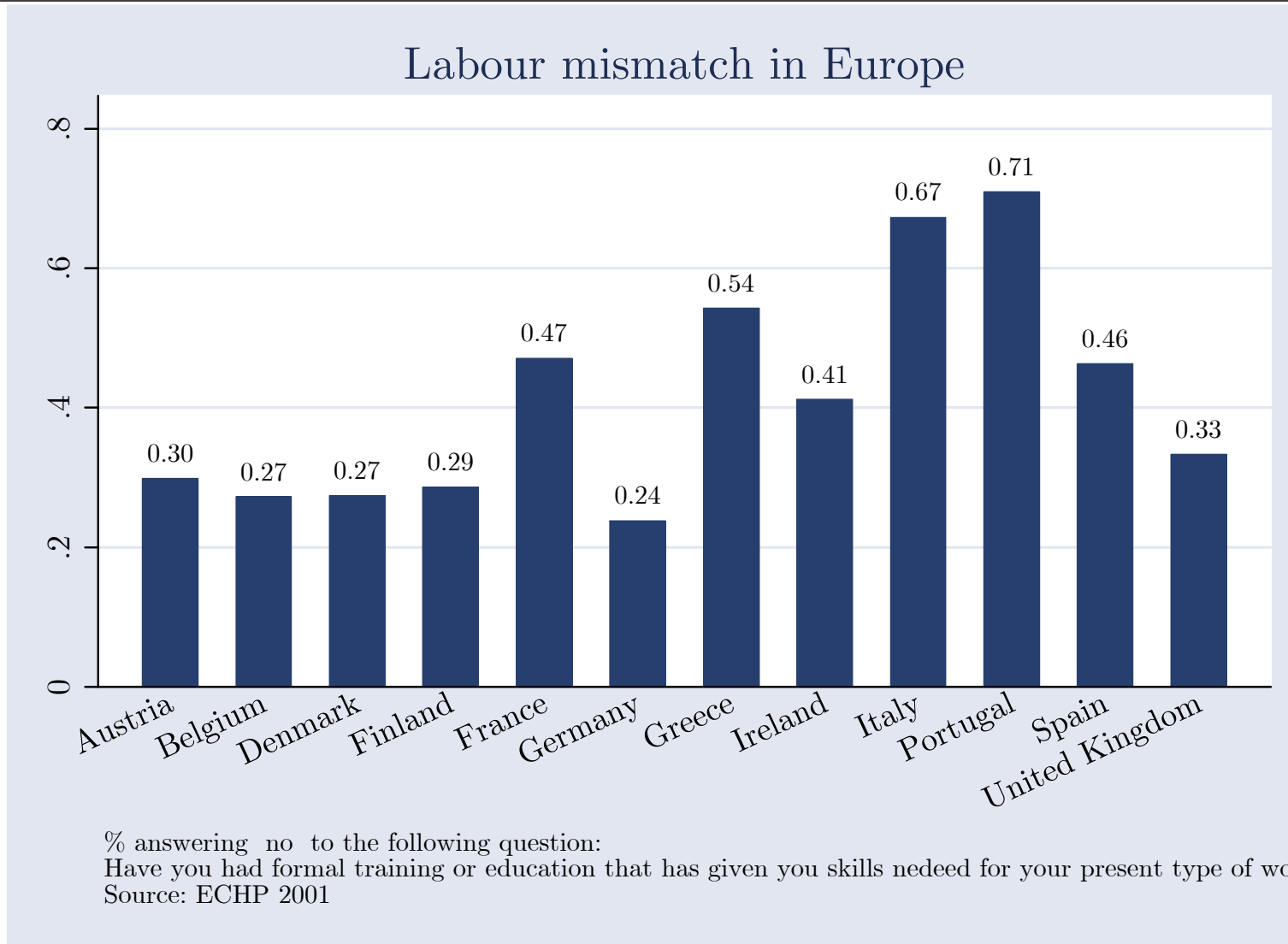
# The human capital loss associated with Dualism = less on-the-job training



Source: ECHP

# The Educational Mismatch

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# Can we do anything about it?

- Little to do with respect to physiology of youth U during recessions
- We can do a lot about human capital loss involved by dualism and educational mismatch
- **Single contract for labor**
- **An advanced (tertiary) vocational system**

# Contrato Unico, Contratto Unico di Inserimento, Contrat Unique

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Proposals developed in Spain (100 academic economists, draft bill), France (Blanchard-Tirole, Cahuc-Kramarz) and Italy (Boeri and Garibaldi, draft bill): tenure track to stable jobs with protection increasing with tenure.

Common philosophy, but structure tailored to country-specific regulations.

# Il Contratto Unico di Inserimento

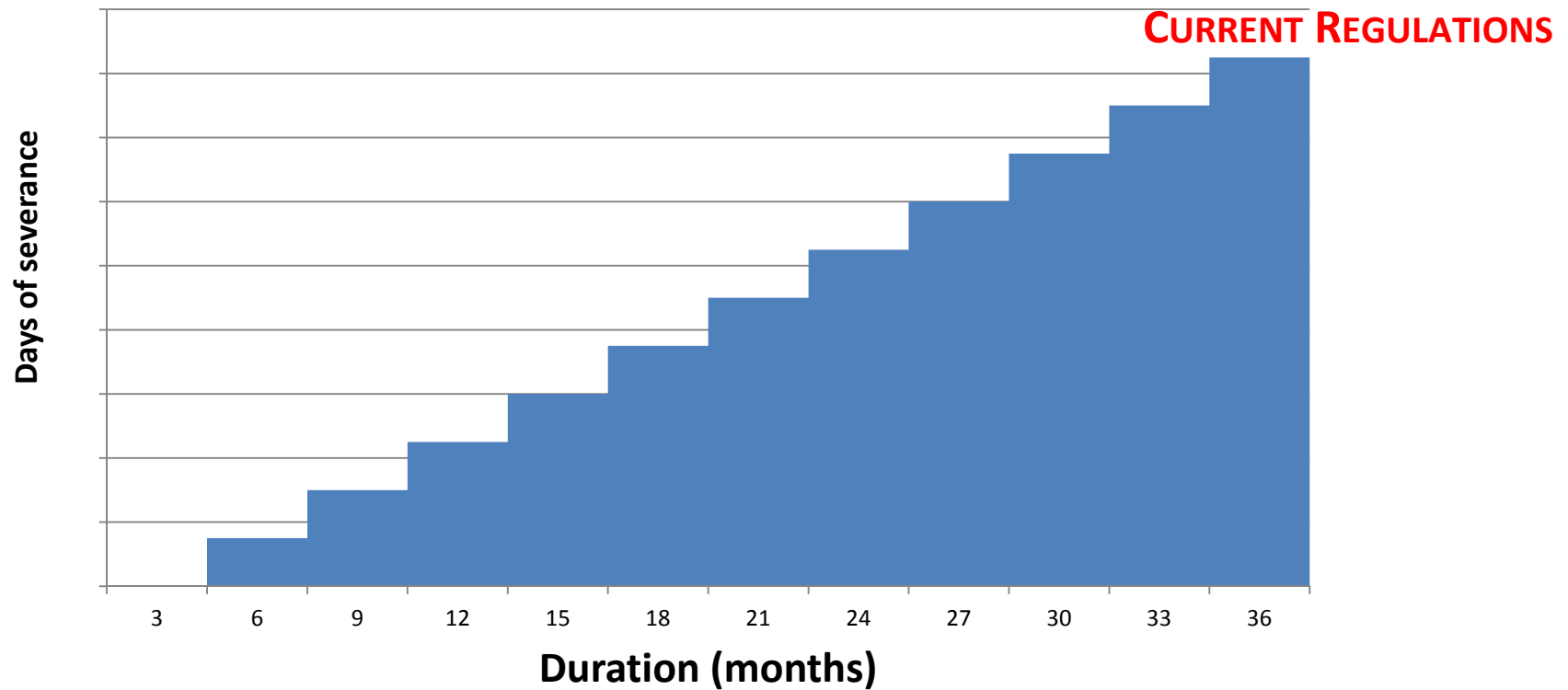
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Italian draft bill differentiates entry through experimentation from genuinely fixed term jobs. Open ended contract with two phases:

- *Entry Phase* (up to the third year): the worker has the right to severance payments proportional to tenure (independently of firm size): dismissal without just cause requires up to six months in severance payments (5 days of severance every month). Entry phase lasts three years
- *Stability Phase* (from third year onward): current legislation (for dismissal without just cause: reinstatement right in firms above 15 employees and six months severance in small firms)
- Fixed term contracts and de-facto dual workers (yet self employed in the books) only with high salaries and higher contributions to unemployment benefits. Employers must pay for higher flexibility

# A Graded Tenure Path



# A tertiary vocational system

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- Along the German *Fachhochschule* system
- 50% of education in the university, 50% in the firm
- Mutual control over quality of training
- Development of readily marketable skills
- Good also for emerging economies. Some evidence of overeducation and brain drain.