

“Unemployment in the Great Recession: More Misery for the Young?”

David Bell
University of Stirling

Review of Adult and Youth Unemployment

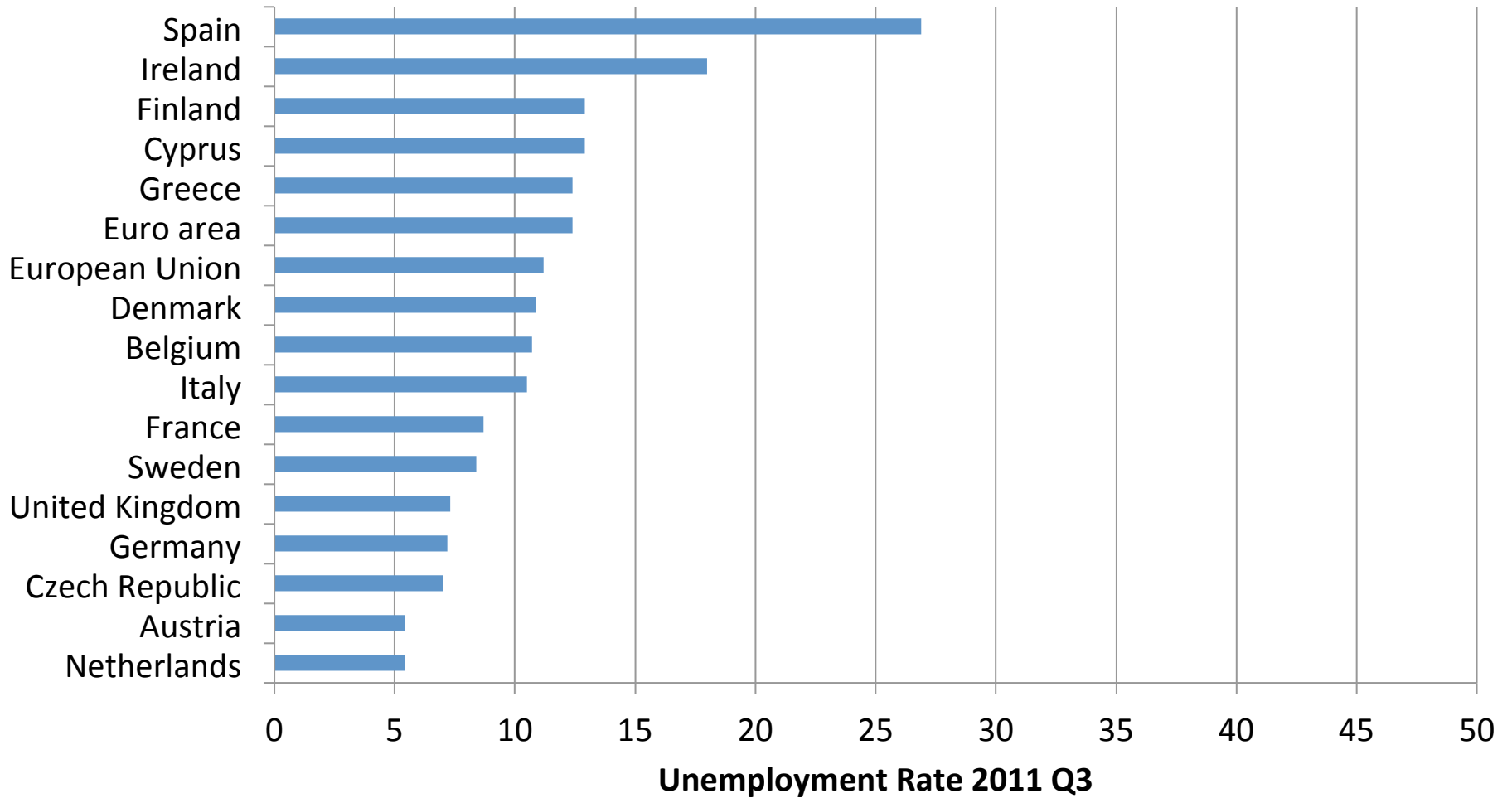
- Recent European experience
- Negative effects of youth unemployment
- Policy responses
 - UK initiatives

Robert Burns - Advice to Youth

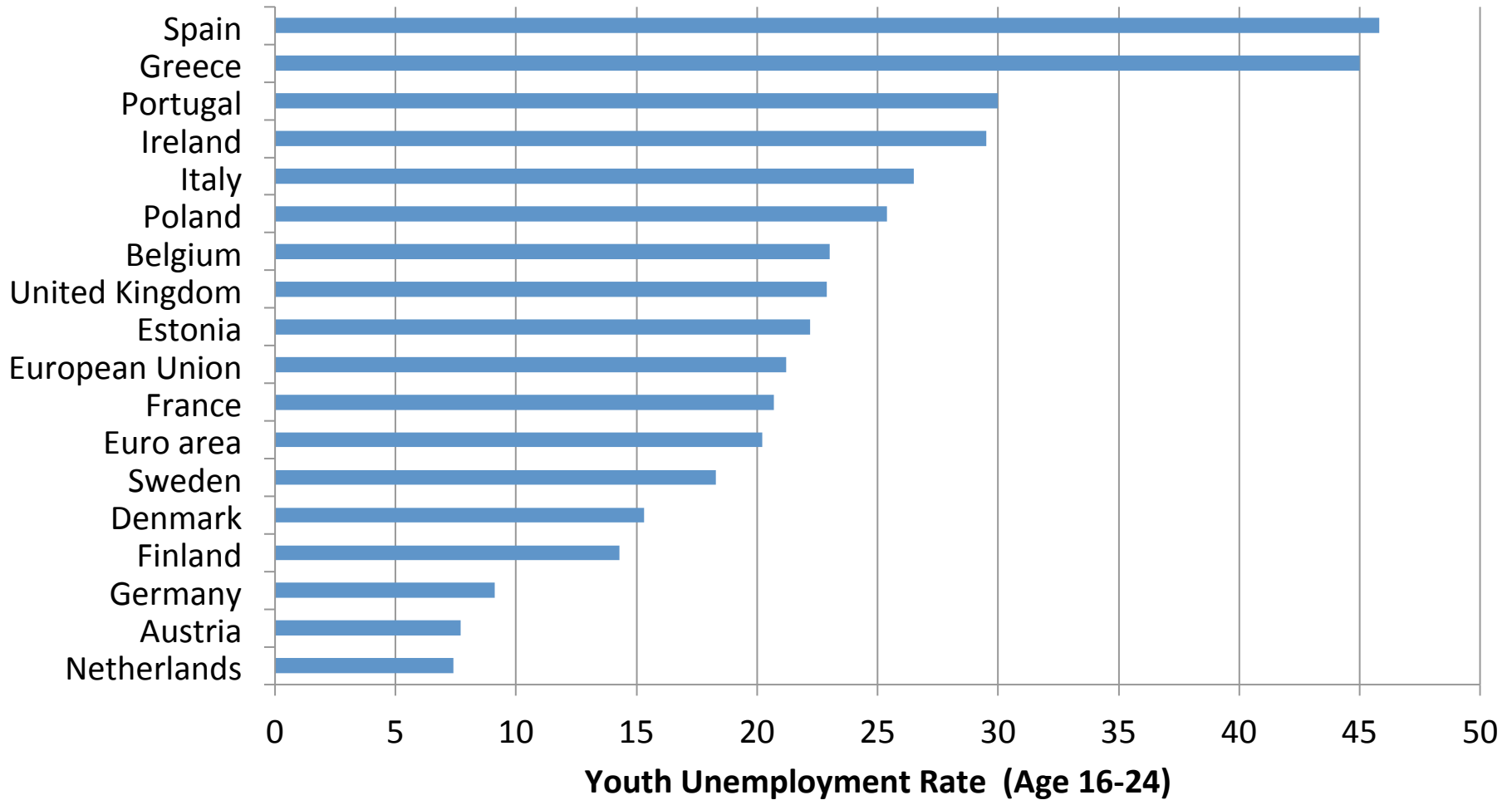
Ye'll try the world soon, my lad;
And, Andrew dear, believe me,
Ye'll find mankind an unco squad,
And muckle they may grieve ye:
For care and trouble set your thought,
Ev'n when your end's attained;
And a' your views may come to nought,
Where ev'ry nerve is strained.

Robert Burns, Epistle To A Young Friend, 1786

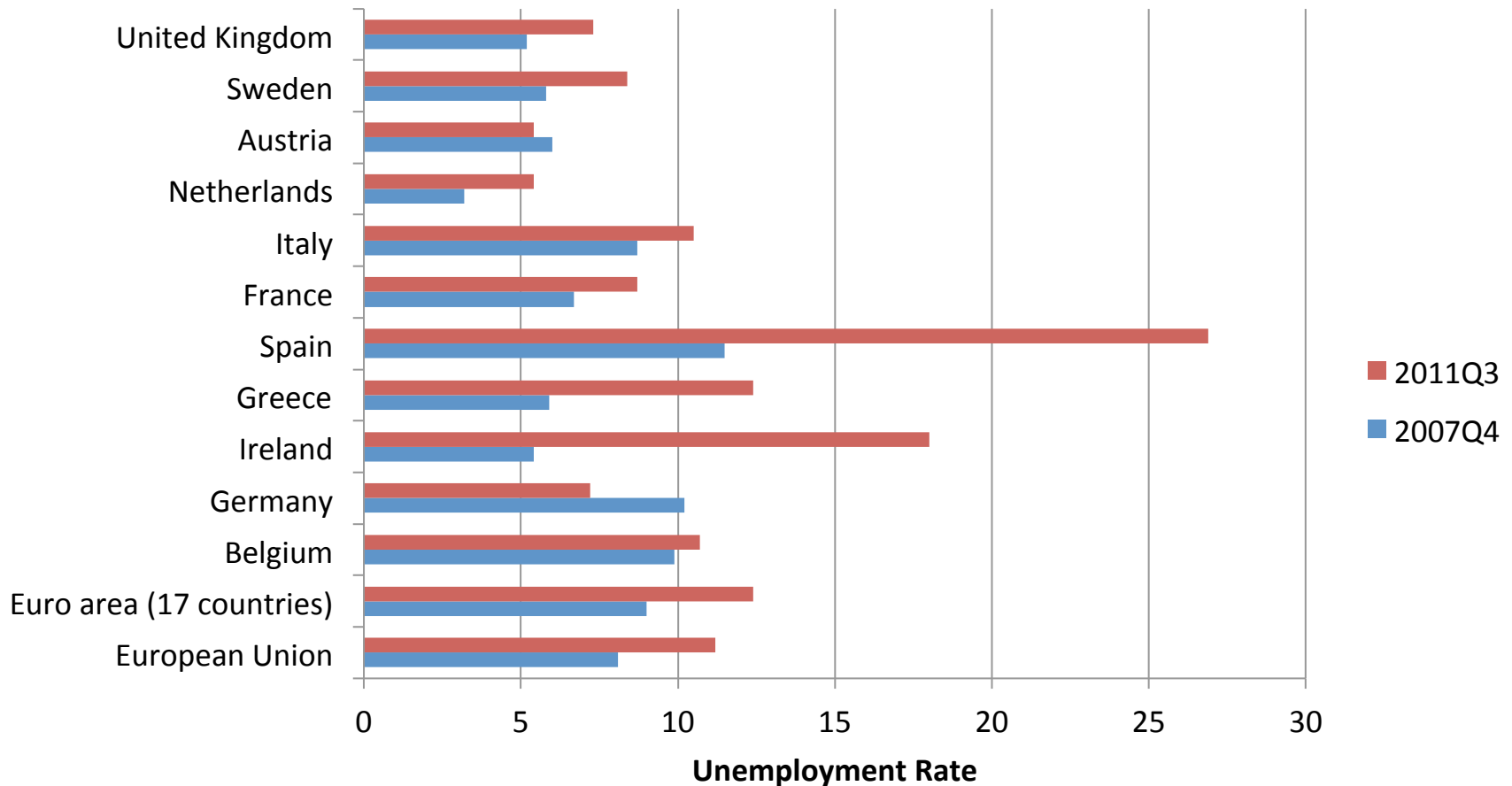
Unemployment Rates 2011 Q3



Youth Unemployment Rate 2011 Q3

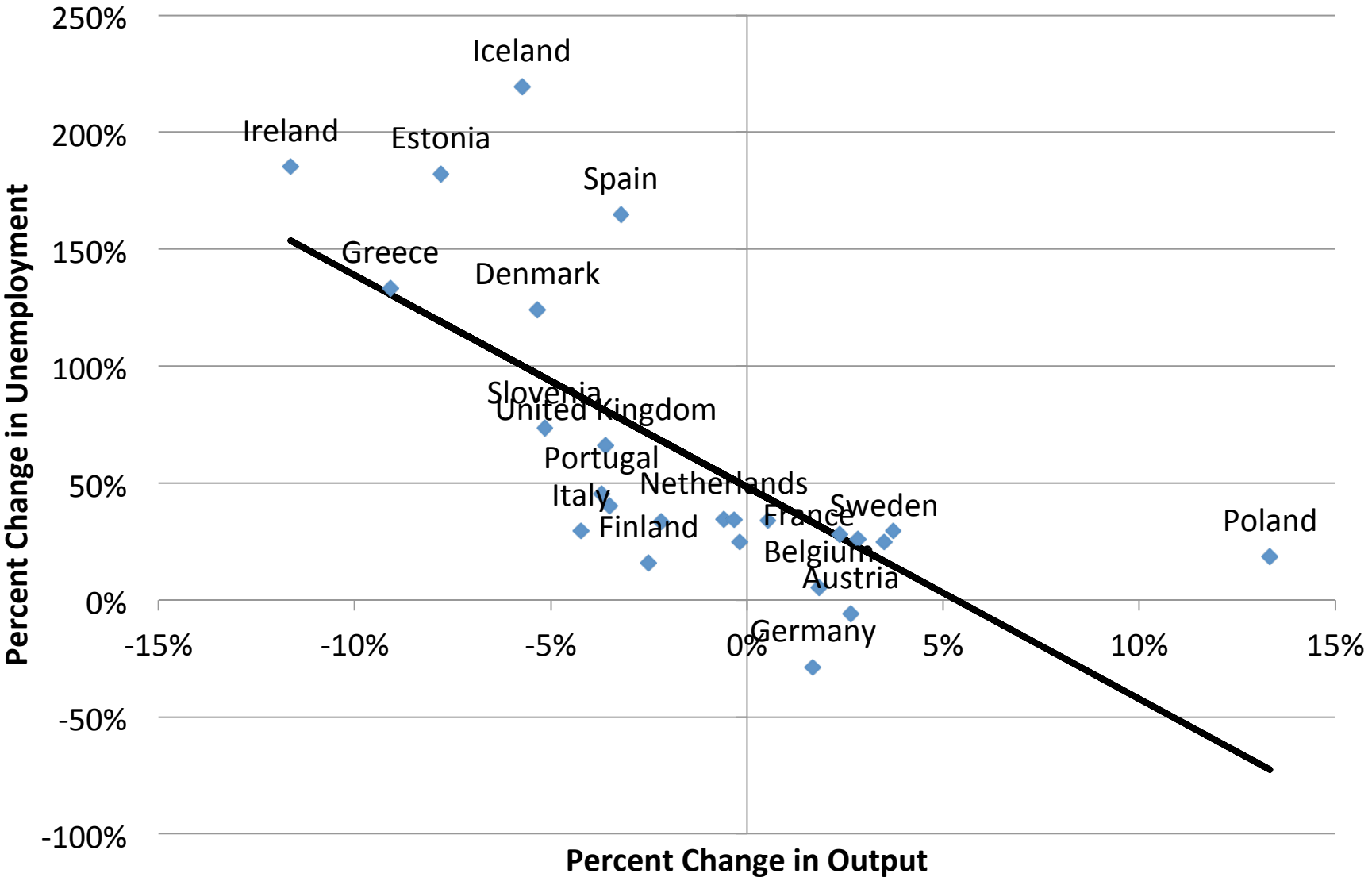


Change in Unemployment Rate 2008-2011

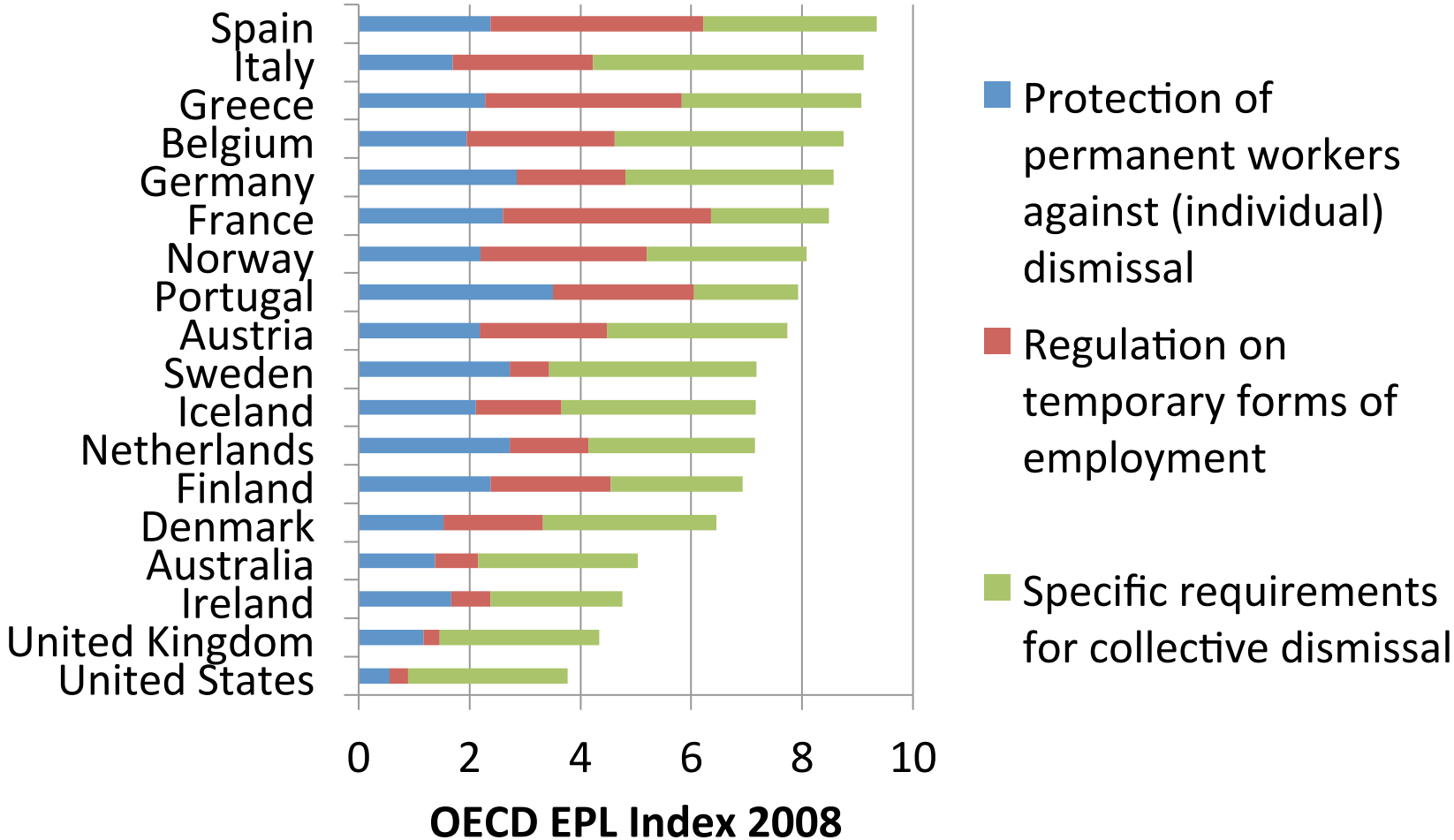


Unemployment rate 2007 not a good predictor of increase in unemployment to 2011

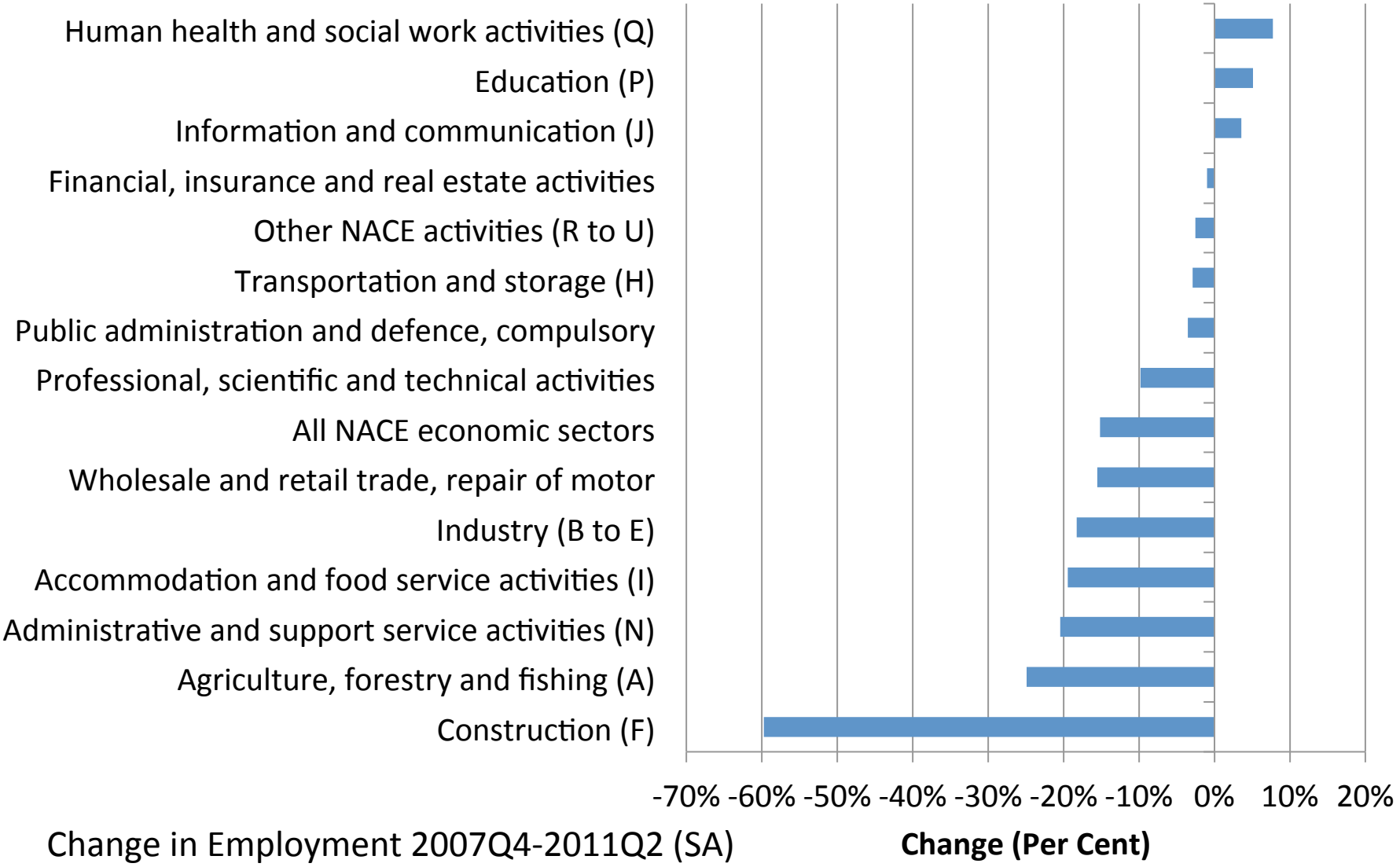
Change in Unemployment and Change in Demand 2007-2011



Higher Unemployment Due to Strength of Employment Protection Legislation (EPL)?



Or Structural Imbalance? - Ireland



France and Spain

- Lower mobility in Spain – young Spanish more likely to stay at home, housing market imperfect
- Youth job insecurity discourages home-leaving, whereas parental job insecurity encourages it
- Structural imbalance – 13.3% of Spanish employment in construction, 6.9 per cent of French employment in construction
- Larger gap between the dismissal costs of workers with permanent and temporary contracts in Spain as compared to France – encourages sequential temporary contract hires
- Permanent and temporary contracts are roughly held by older and younger workers
- “45% of the surge in Spanish unemployment could have been avoided had Spain adopted French employment protection legislation before the crisis started”
- Two-Tier Labor Markets In The Great Recession: France Vs. Spain, Bentolila, Cahuc, Dolado and Le Barbanchon, CEMFI Working Paper No. 1009, November 2010

Germany

- a) relatively strong position of the German economy when the crisis started due to recent labour market reforms,
 - activation, reorganised incentives for older workers to return to work, abolished job-creation schemes),
- b) crisis affecting mainly export-oriented manufacturing companies – cyclical not structural
- c) extension of short-time working
- d) behaviour of social partners
- e) automatic stabilizers

Rinne, U. and Zimmerman, K. (2012) “Another Economic Miracle? The German Labor Market and the Great Recession” IZA Discussion Paper No. 6250

Negative Effects of Youth Unemployment

Labour Market

- Those aged 16 to 24 work significantly fewer hours than prime age workers but express a strong preference to work longer hours. Older workers want to work fewer hours.
- Young more likely to be on temporary rather than permanent contracts
- Young more likely to be made redundant
- Well-qualified young applicants accepting lower skilled jobs implying:
 - Unqualified job applicants more likely to be in direct competition with the better qualified.
 - If young people accept a lower skilled job initially, there may be long-lasting negative effects on their labour market experience.
- Increase in size of informal “black” economy

Negative Effects of Youth Unemployment: Mental Pressures

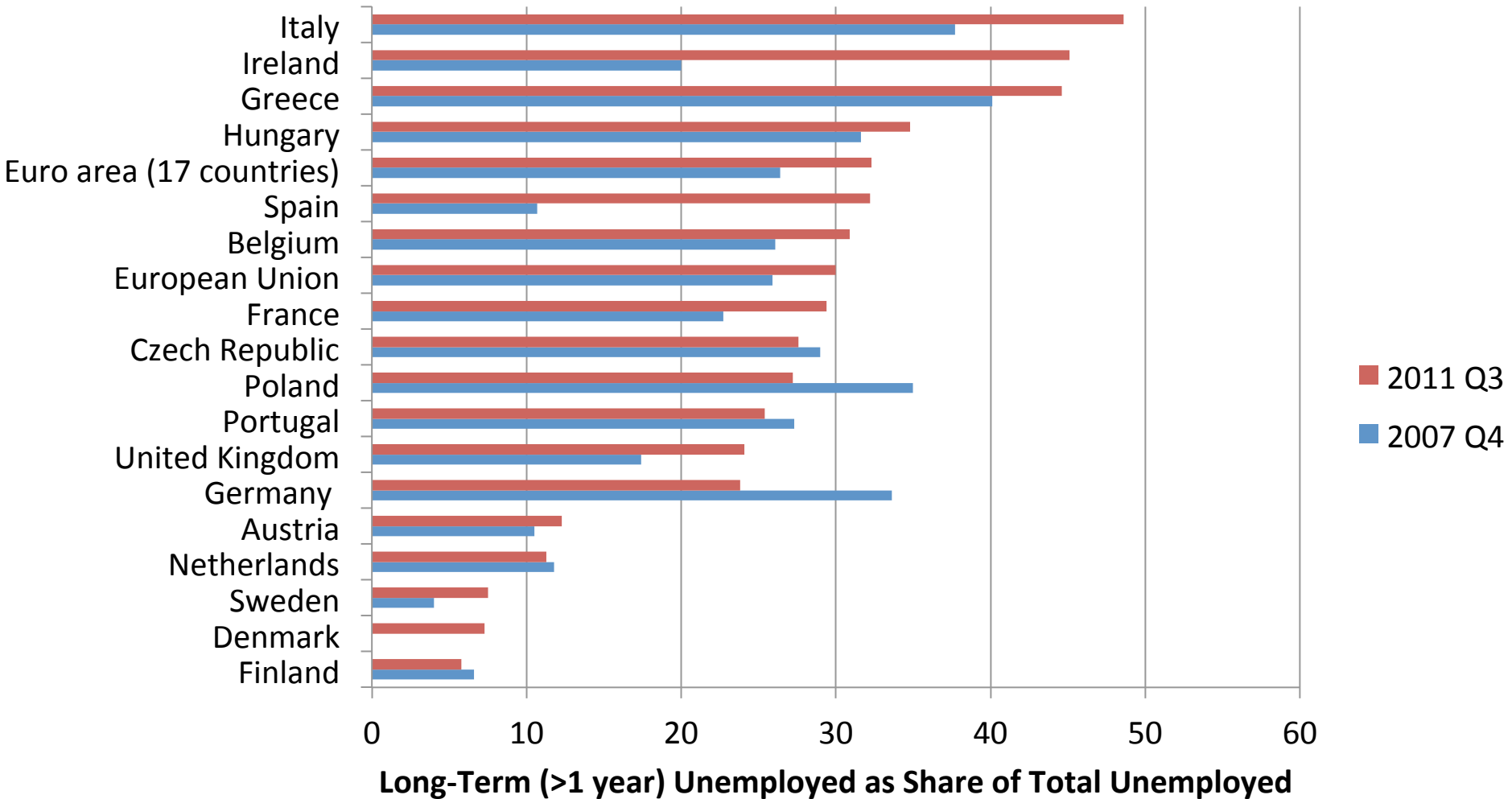
- Lower self-esteem among the unemployed young
- Much higher rates of unemployment among the unqualified
- Almost half (47 per cent) of young people with fewer than five GCSEs graded A* to C said they “always” or “often” feel down or depressed, compared with 30 per cent of young people who are more qualified
- One in three (33 per cent) said they “always” or “often” feel rejected compared with one in five (21 per cent) amongst their peers
- Significantly more likely to believe they are not able to achieve what they want in life (35 per cent), compared with their better qualified peers (20 per cent)

(Prince’s Trust 2012)

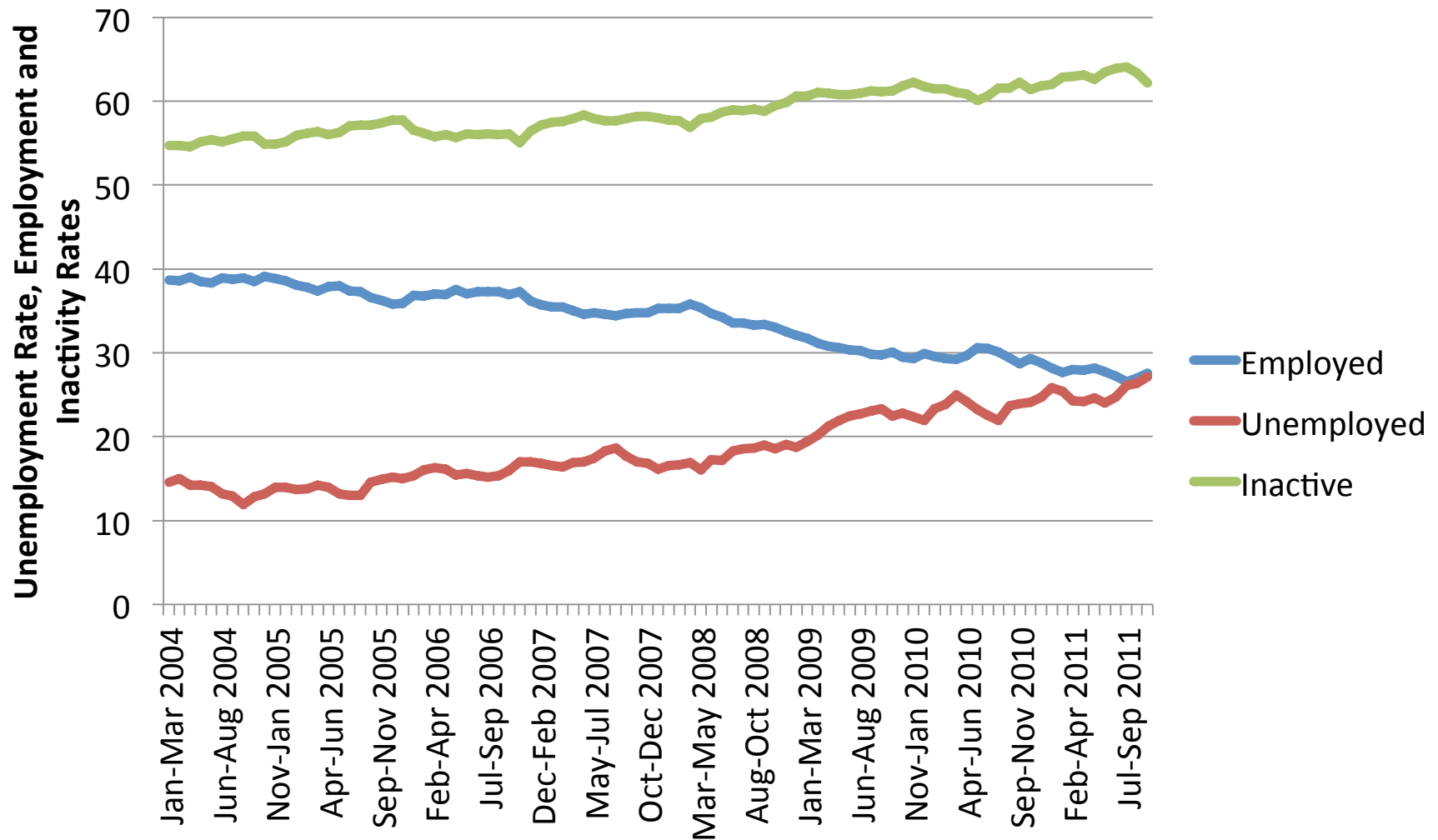
Scarring Effects of Youth Unemployment

- Long-lasting effects of negative initial labour market experience- UK and US evidence
- Unemployment when young:
 - Has negative effects on future wages
 - Increases probability of future unemployment
 - Reduces future job satisfaction
 - Reduces future well-being
- Solutions
 - Reduce relative cost of hiring young people
 - Improve skills/employability of young
 - Displacement, deadweight loss costs have to be set against costs of current and future harm to young people themselves and to economy

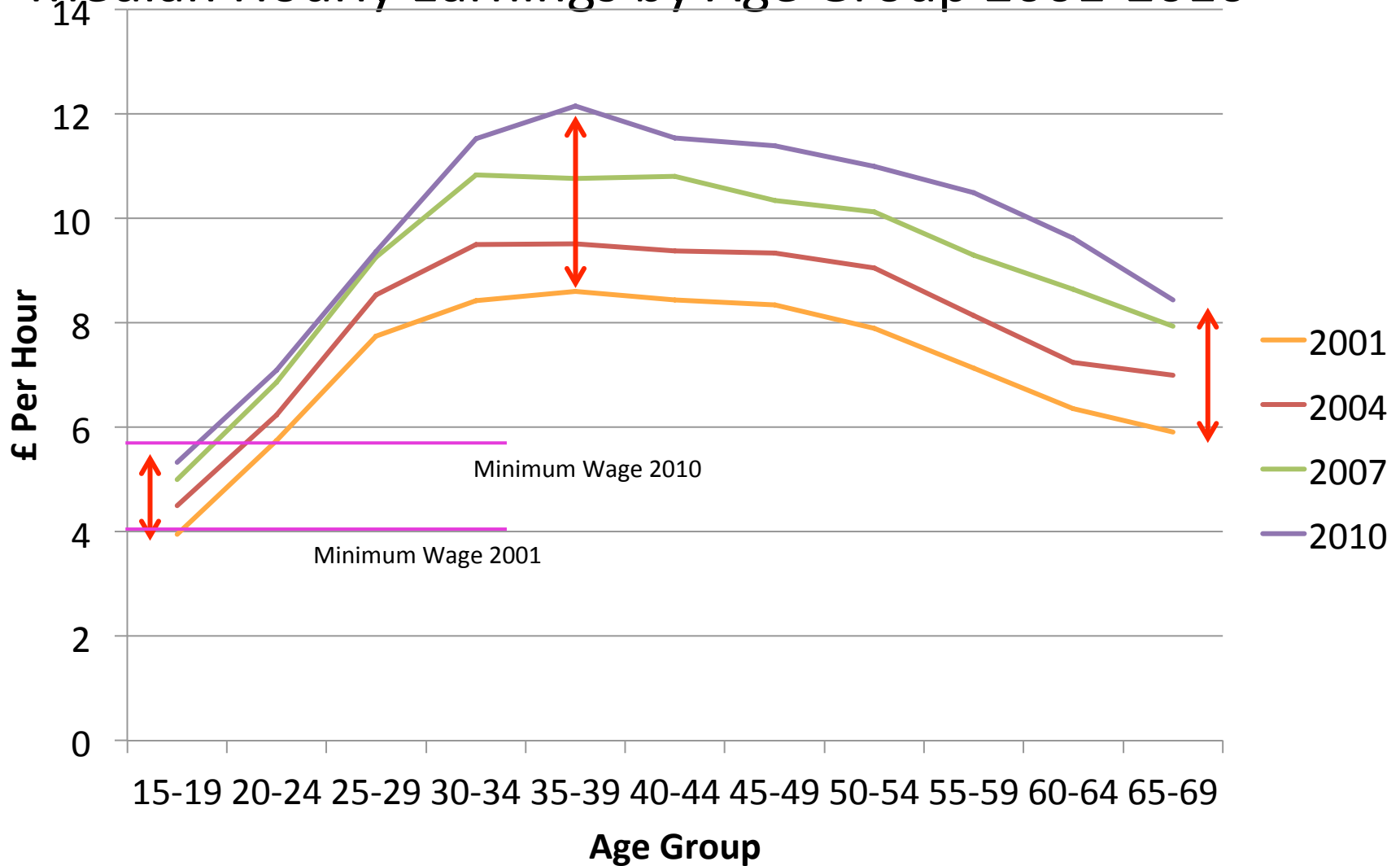
Long-Term Youth Unemployment



Labour force status of those in full-time education UK 2004-2011



Median Hourly Earnings by Age Group 2001-2010



UK Labour Market Measures - Welfare Reform

- Integrated working-age credit
- Provide a basic allowance with additional elements for children, disability, housing and caring
- Reduces marginal tax/withdrawal rate - enhancing supply
- Replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance
- Unemployed people who can work will be required to take all reasonable steps to find and move into employment

Universal Credit

- The majority of workless families will receive the same amount of benefits as they do under the current regime. A 100% withdrawal rate will apply to unearned income, and earned income will be subject to a 65% withdrawal rate (applying to net earnings) after a disregard
- 350,000 children and 500,000 working age adults could be moved out of poverty by these changes, by virtue of the changes to entitlement and increased take-up of benefit

UK Labour Market Measures – Work Programme

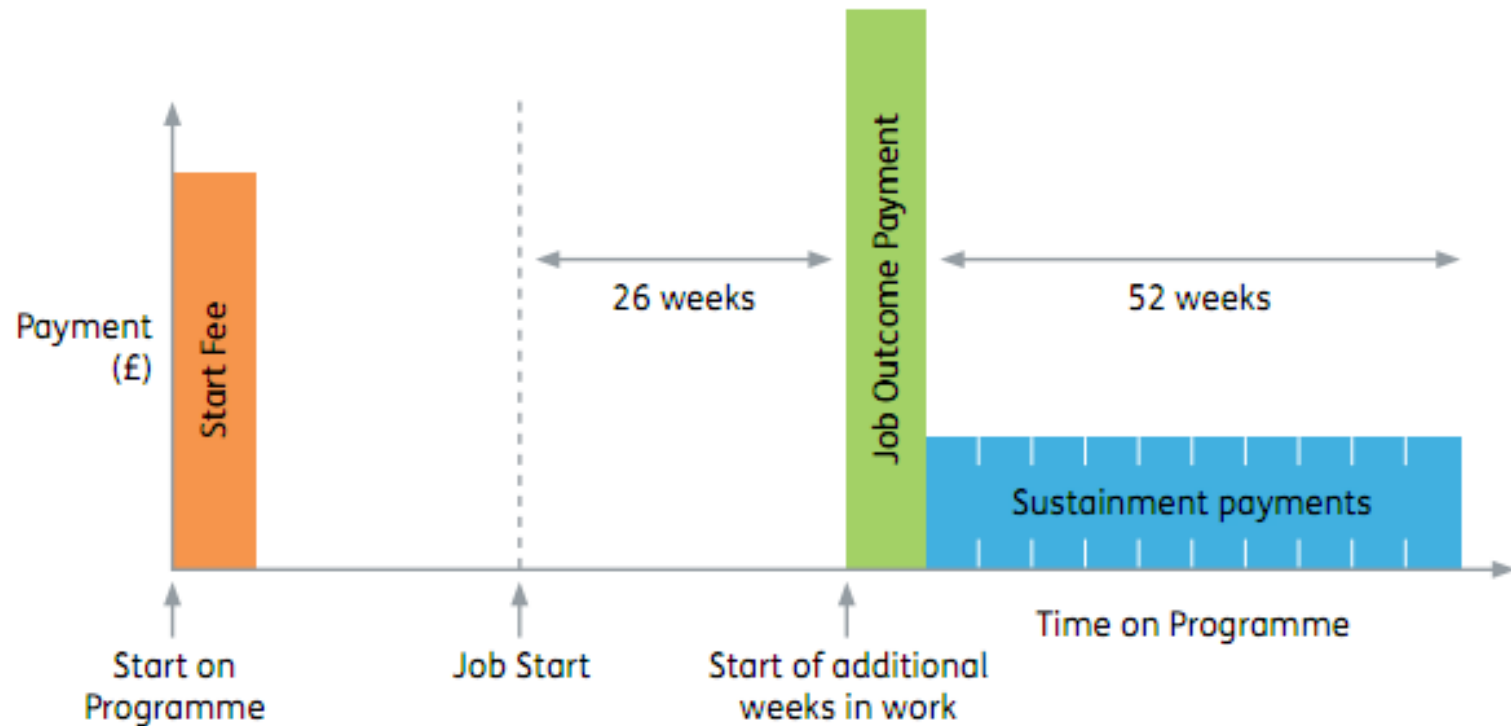
- Provides support for people who are long-term unemployed – or are at most risk of becoming so.
- Replaces previous welfare-to-work programmes such as the New Deals, Employment Zones and Flexible New Deal
- These programmes suffered from several problems: they were fragmented; interventions were over-specified; and incentives were poor, allowing providers to stay in business without delivering strong results.

Incentives to Place Unemployed in Jobs

- Service providers are paid almost entirely for results
 - start fee - job outcome payment - sustainment payments
- Freedom for service providers. Local providers are best placed to identify the most effective way of helping people into sustained work
- Five year contracts - long term partnerships with supply chains of local providers

Work Programme Payments

Figure 1: Incentives for sustained work, for example participant



Payment Structure

Figure 3: Financial incentives per participant, year one, by participant group

	Benefit	Participant group	Maximum payment per participant, £			
			Start	Job outcome	Sustain-ment	Total
1	Jobseeker's Allowance recipients	Aged 18-24			2,200	£3,800
2		Aged 25+			2,800	£4,400
3		Those who are seriously disadvantaged in the labour market, including some who have recently received incapacity benefits	400	1,200	5,000	£6,600
4 a	Employment and Support Allowance recipients	Those who are required to attend, and Support Group	600	1,200	4,700	£6,500
4 b		Those who are required to attend, and Support Group – and have recently received incapacity benefits	600	3,500	9,600	£13,700
5		All others	400	1,000	2,300	£3,700
6	Income Support and incapacity benefits recipients	All (England only)	400	1,000	2,300	£3,700

Measures: Ireland

- [JobBridge - National Internship Scheme](#) is a Government initiative designed to offer jobseekers who are on the Live Register and have been in receipt of Jobseekers Allowance/Benefit or signing on for credits for at least 3 months, the opportunity to enhance their current skills and develop new ones. The duration of individual internship positions will be from six months to a maximum of nine months
- The scheme will provide for up to 5,000 work experience placements in the private, public and voluntary sectors. This will be a time-limited scheme. Interns will receive an allowance of €50 per week on top of their existing social welfare entitlement. This will be payable for the period of the internship.
- The recently announced [Work Placement Programme](#) is designed to offer unemployed people, including unemployed graduates, the opportunity to obtain 9 months (maximum) experience in a work situation. The Work Placement Programme offers you an alternative if you have been unable to find paid work. No. the placement is unpaid and voluntary. However, if you are already in receipt of certain social welfare payments, you may be allowed to retain your payment while on a placement. When an employer employs additional eligible workers in 2010, they will not have to pay employer's PRSI in respect of their employment for twelve months from the date

Youth Contract

- Nov 2011 - £1 billion Youth Contract to help young unemployed people get a job.
- Over three years from April 2012 the Youth Contract will provide at least 410,000 new work places for 18 to 24 year olds.
- 160,000 wage subsidies worth up to £2,275 each, for employers who recruit an 18-24 year-old through the Work Programme
- 250,000 work experience placements
- at least 20,000 more incentive payments to encourage employers to take on young apprentices.

Work Experience

- Young people allowed to do work experience for up to eight weeks so they can get a proper stint in a business, gaining valuable experience, getting a decent entry on their CV and providing real value to the employer.
- Young people between 18 and 21 matched by Jobcentre Plus to employers looking for people to do work experience.
- Staff in Jobcentre Plus will work with businesses across the country to seek out the best work experience opportunities.

Final thoughts

- Many countries (including UK) had youth unemployment problems prior to recession
- Supply-side measures designed to deal with this (including activation)
- Pre-recession – not much focus on long-term costs of youth unemployment
- Policy still focussing on supply –side
 - improved search, reducing reservation wage
- Focus on youth limited – not changing relative or absolute demand for young workers