



IFFD

INTERNATIONAL FEDERATION FOR FAMILY DEVELOPMENT

EN

Rufino Blanco, 8 · 3B - 28028 Madrid (España)

www.iffd.org

IFFD PAPERS no. 6

PRODUCED BY



THE FAMILY WATCH
www.thefamilywatch.org

The professional and emotional ‘scar’ Effects of youth unemployment in times of crisis

1st February 2012

Introduction

There are around 1.2 billion young people between the ages of 15 and 24 in the world today, comprising 17% of the global population. As the International Labour Organization has repeatedly mentioned, “they are supposed to be an important contribution as productive workers, entrepreneurs, consumers, citizens, members of civil society and agents of change, because their energy and capacity for innovation are priceless resources that no country can afford to squander.”¹

But they need a strong social support to achieve it, because “young people are also extremely vulnerable. They face high levels of economic and social uncertainty. All too often, their full potential is not realized because they have no access to productive and decent jobs.”²

The financial crisis has led to weaken dramatically that protection in many places around the World, with negative implications for the whole society. “Youth unemployment and situations in which young people give up on the job search or work under inadequate conditions incur costs to the economy, to society and to the individual and their family. A lack of decent work, if experienced at an early age, threatens to compromise a person’s future employment prospects and frequently leads to unsuitable labor behavior patterns that last a lifetime. [...] Societies lose their investment in education. Governments fail to receive contributions to social security systems and are forced to increase spending on remedial services, including on crime or drug use prevention efforts and on unemployment benefits in the countries where they exist. All this is a threat to the growth and development potential of economies. Focusing on youth, therefore, makes sense to a country from a cost-benefit point of view. Young people might lack experience but they tend to be highly motivated and capable of offering new ideas or insights. They are the drivers of economic development in a country. Foregoing this potential is an economic waste.”³

Present Situation

The situation that the financial crisis has produced can be summarized by saying that “more than one-third of young people in the world are unemployed, have completely given up looking for a job (discouraged) or are working but still living below the USD 2-a-day poverty line (the working poor).”⁴ As a recent ‘Employment Outlook’ report by

¹ International Labour Office, ‘Starting right: Decent work for young people’ (2004).

² Ibidem.

³ International Labour Office, ‘Global Employment Trends for Youth - Special issue on the impact of the global economic crisis on youth’ (2010).

⁴ Committee on Economic Affairs and Development, ‘Reversing the sharp decline in youth employment’ (Doc. Doc. 12626), Council of Europe (1 June 2011).

the OECD has outlined, “unemployment is a central risk factor for young people, which in the long-term threatens the overall integration of young people into society.”⁵

Despite the decrease of young population (15 to 24) since 2007, the unemployment rate for them started growing that same year and, as the Youth Employment Network points out, “between 2008 and 2009, the number of unemployed youth increased by an unprecedented 4.5 million. This remarkable increase is better visualized when compared to the average increase of the pre-crisis period (1997-2007) of less than 100,000 persons per year. The youth unemployment rate also rose sharply during the economic crisis (from 11.6% to 12.7%) and has shown little improvement since its peak in 2010.”⁶ In the OECD area, the unemployment rate the first quarter of 2011 was 17.3% for young people compared with 7% for adults.

Within the OECD, the problem is not only the number of underemployed and underemployed –the highest since the organization began collecting data–, but that the number of young people in the rich world who have given up looking for work is at a record high too.

The ‘scissors effect’

As early as January 2009, Stanicek already highlighted this new phenomenon that had emerged in the labor market as a direct consequence of it: the negative correlation of employment between younger people and seniors. While until 2006 there was a persistent positive correlation between the employments of young people and seniors (macroeconomic shocks affected employment at all ages in the same way), data collected in 2007 and 2008 demonstrated a brutal breakdown of this correlation and the emergence of a completely new ‘scissor’ effect. The employment of young people (under 25) and seniors (over 55) no longer evolved to the harmonized correlative way we had been used to observing over the last 50 years, but the employment of young people literally collapsed, while the seniors’ actually increased dramatically. His conclusion was that “the disruption between the employment of youth and older persons suggests that young people are the most vulnerable age group in the current crisis.”⁷ Looking back over the past two years, he could not have been more accurate.

What are then the risks? The main difficulties young people usually find are “a higher chance of losing their jobs during economic downturns (‘last in, first out’), specific barriers to entry (often stemming from lack of experience) and path dependence (early unemployment increases the likelihood of subsequent unemployment).”⁸ Moreover, “underutilization of young people in the labor market can trigger a vicious circle of intergenerational poverty and social exclusion”⁹, because it means not using the most dynamic and usually more educated segment of the local workforce completely and often forcing them to emigrate or find their way to violence and juvenile delinquency, to reduced self-esteem and discouragement leading to substance abuse and related health problems. In short, there possibilities to get a decent job tend to disappear.

Unemployment and Migration

Youth unemployment has direct costs in much the same way all unemployment does: increased benefit payments; lost income-tax revenues; wasted capacity. Some indirect costs of unemployment, though, seem to be amplified when the jobless are young. A United Nations report shows “that the majority of young migrants over the past two decades have moved to developed countries, that the number of young migrants in developing countries decreased between 1990 and 2000, and that the age distribution of all migrants is considerably older in developed countries than in the developing world, although in both regions the migrant population is ageing. Therefore, youth migration is important in slowing the ageing of the migrant population and, consequently, the overall population of receiving countries.”¹⁰

A new Migration Policy Institute report reveals the harsh impact the recession has had on immigrants world-wide, particularly men and youth.¹¹ Among the study’s findings:

⁵ Thomas Kieselbach et al., ‘Youth Unemployment and Social Exclusion: Objective Dimensions, Subjective Experiences, and Institutional Responses in Six European Countries’, University of Bremen (2006 revised version).

⁶ Claudia Coenjaerts et al., ‘Youth Employment’, Youth Employment Network (2009).

⁷ Branislav Stanicek, ‘What policy-mix can be put forward to save European ‘lost generation’?’, European Ideas Network (2011).

⁸ Kim B. Clark & Lawrence H. Summers, ‘The Dynamics of Youth Unemployment,’ NBER Working Papers 0274, National Bureau of Economic Research, Inc. (1982); Richard B. Freeman & David A. Wise, ‘The Youth Labor Market Problem: Its Nature, Causes, and Consequences,’ NBER Books, National Bureau of Economic Research, Inc. (1982).

⁹ Claudia Coenjaerts et al., ‘Youth Employment...’

¹⁰ United Nations Department of Economic and Social Affairs - Population Division, ‘International Migration in a Globalizing World: The Role of Youth’, Technical Paper No. 2011/1 (2011).

¹¹ Demetrios G. Papademetriou et al., ‘Migration and Immigrants Two Years after the Financial Collapse: Where Do We Stand?’, Migration Policy Institute (2010).

- overall immigration to developed countries has slowed sharply as a result of the economic crisis –unregulated flows such as illegal immigration and free movement within parts of the European Union have experienced the largest decreases and the border agencies at the U.S. report dramatically fewer illegal entries;
- immigrant-receiving countries have not resorted to protectionism –enforcement efforts to remove unauthorized migrants are up, however, in many countries, the U.S. government deported 10% more unauthorized immigrants in 2009 than the year before, and Italy and France have increased enforcement measures.

A significant example is Ireland, a country which re-emerged as a country of net emigration in 2009 for the first time since 1995 – reporting the highest net outflows of both immigrants and natives in the European Union. Similar situations are approaching in other countries like Spain, where net emigration is due to decrease of immigrants from the developing countries (under-skilled), but also to the unprecedented increase of emigrants to other European and American countries (over-skilled). There are in fact two different impact trends regarding youth unemployment in developed economies.

Meanwhile, long-term high unemployment is predicted for migrants, and even high unemployment among the most vulnerable of these groups (young emigrants) could persist for some time, with long-lasting ‘economic scarring’ for more recently arrived immigrants who entered the job market during the downturn. There are two streams of crisis impact when talking about youth employment in developed economies. There is the impact to the more educated youth, who during economic recessions face the inevitable consequence of longer periods of unemployment, lower wages and less than perfect job matches, as well as the danger posed by employers who are tempted to hire new graduates rather than the previous ones when economic recovery starts to take off, as it happened in Japan 10 years ago. Young people unemployed for a long time were channeled into “non-regular” jobs where pay was low and opportunities for training and career progression few. Employers seeking new recruits for quality jobs generally preferred fresh graduates over the unemployed or underemployed, leaving a “lost generation”, in the words of a recent OECD report.

On the other side, there is even more cause for concern about another group of young people during times of crisis. These are the unskilled youth are most at risk of detaching themselves from the labor force to remain dependent on the State for the remainder of their lifetime. In reaction, most youth employment policy agendas in developed countries contain active labor market policies that target the long-term unemployed and “discouraged”¹² youth, especially during the recession.¹³

The ‘First Unemployment’

“Idleness among youth can come at great costs. They are not contributing to the economic welfare of the country – quite the contrary. The loss of income among the younger generation translates into a lack of savings as well as a loss of aggregate demand. Some studies show how important the time of school-to-work transition, because it is then when personal convictions about how society and economy work are formed. One of the reports concludes that a person exposed to a recession between the ages of 18-25 years is more likely to believe that life success is due more to chance than to hard work, to support measures of government redistribution but to have little confidence in public institutions at the same time.¹⁴ If this happens within a family environment in which values are not taught, the risk is even more obvious.

Other Studies mention the ‘wage Scar’ left by unemployment at young age that can persist into middle age. The longer the period of unemployment, the bigger the effect. Take two men with the same education, literacy and numeracy scores, places of residence, parents’ education and IQ. If one of them spends a year unemployed before the age of 23, ten years later he can expect to earn 23% less than the other. For women the gap is 16%. The penalty persists, though it shrinks; at 42 it is 12% for women and 15% for men.¹⁵ The reason is that, after a period of unemployment, the temptation to take any work at all can be strong. Wage scarring is one of the reasons to think this has lasting effects, and policies designed to minimize youth unemployment may sometimes exacerbate them.

Men and women tend to wait until they get consolidated into the labour market before starting a family, which has contributed to the increase of the age at first birth and the decrease of the number of children with respect to previous generations. These factors are determinant, together with the growth in life expectancy, for the population ageing and the multiplying of the dependency rate.¹⁶

¹² Cfr. OECD, ‘Off to a good start? Youth labour market transitions in OECD countries’ (2008) and OECD, ‘Policies targeted at specific workforce groups or labour-market segments’ (2006).

¹³ International Labour Office, ‘Global Employment Trends for Youth - Special issue on the impact of the global economic crisis on youth’ (2010).

¹⁴ P. Giuliano and A. Spilimbergo: ‘Growing up in a recession: Beliefs and the macroeconomy’, NBER, Work Document N.º 15321, septiembere de 2009.

¹⁵ Paul Gregg and Emma Tominey, ‘The Wage Scar from Youth Unemployment’ (Centre for Market and Public Organisation - Bristol University, 2004).

¹⁶ OCDE, ‘Doing Better for Families’ (2011).

Conclusions and Proposals

Some experts would suggest that “the first line of defense is to provide income support to the unemployed youth to help them sustain their job search. And in exchange for income support, following the ‘mutual obligations’ principle, young jobseekers should be required to search actively for jobs and be given opportunities to participate in job-placement activities and in training programmes.”¹⁷ In my opinion, the last one is key. Many examples have shown that cash transfers may be the way to delay the consequences of a problem, but never to solve it. Therefore, the solution can only come from a threefold action targeted to:

- the society, creating the atmosphere needed to support those who are young and need to find a place where to develop their skills and become part of the community;
- the educational system, making sure that human values find their place in the process, promoting high standards, academic diligence and relational trust, so that young people are enabled both to trust in themselves and to be able to make the best of their abilities;
- the families, helping parents to develop a stable project that allows children to grow-up in an environment able to facilitate the preparation for the future job that can only be learned at home.

We consider the latter is the most important one, because the other two can only be developed –or, at least, effective– as far as the families provide their part. Social system can help, the school system can help too, but only families in general and parents in particular can provide the ‘floor’ on which all the rest has to be built. In other words, there can be no ‘social floor’ if there is no ‘family floor’.

Nevertheless, to ensure a good school-to-work-transition, we should first make sure that there is positive action towards creating more decent jobs every day. Maybe that is why a recent report by the ILO recognizes that “the severity of the situation of young people in the labor market requires more attention and policy action”¹⁸ and includes the following suggestions for governments:

- develop an integrated strategy for growth and job creation, with measurable targets and achievable outcomes;
- establish broad-based partnerships among governments, employer organizations, trade unions and other organizations that can be instrumental in determining the most appropriate actions to be taken;
- improve the quality of jobs and the competitiveness of enterprises to reduce labor market segmentation based on the type of contract and job and to help young people move to decent jobs;
- invest in the quality of education and training and improve its relevance to labor market needs;
- enhance the design and increase funding of active labor market policies to support the implementation of national youth employment priorities;
- review the provision of employment services with the objective of offering a set of standard services to all young people and more intensive assistance to disadvantaged youth;
- pursue financial and macroeconomic policies that aim to remove obstacles to economic recovery.

As a conclusion, “youth employment interventions must be linked to broader development frameworks. Coherence and coordination between relevant government agencies and other national and international (e.g. donor community) stakeholders is crucial. While not necessarily the only mechanism, the use of national action plan for youth employment can be useful to facilitating this. To be successful, however, these plans should have strong and sustained political commitment and be based on broad participation.”¹⁹ And, above all, nothing of this could be done without the families through their contribution to society through their children and the money, time and effort devoted to their upbringing and education. Consequently, they deserve the social recognition and support for it (through cash transfers, tax benefits, etc.).

© The Family Watch 2012

Extract from the report ‘Youth Unemployment in Times of Crisis and its Consequences’, published by The Family Watch, January 2012. It is licensed under a Creative Commons Attribution-Noncommercial 3.0 Unported License.

¹⁷ Stefano Scarpetta et al., ‘Rising Youth Unemployment During The Crisis: How to Prevent Negative Long-term Consequences on a Generation?’, OECD Social, Employment and Migration Working Papers, No. 106 (2010).

¹⁸ International Labour Office, ‘Global Employment Trends for Youth: 2011 update’, International Labour Organization (2011).

¹⁹ Ibidem.