

Box 10

**YOUTH UNEMPLOYMENT IN THE EURO AREA**

In most euro area Member States, youth unemployment, despite having declined considerably over the last decade, still stands at a high level compared with unemployment for other age groups. This box describes the trends in youth unemployment in the euro area over the last two decades and looks at the factors determining these trends.

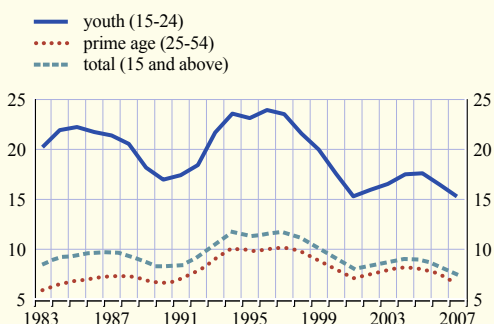
**Despite an overall improvement, youth unemployment remains high**

There have been several structural improvements in euro area labour markets over the last decade, which have been of benefit to young workers in particular. Following a peak in the mid-1990s, youth unemployment has since declined substantially, falling below the level reached in the 1980s. At the same time, the labour market position of young workers aged 15 to 24, compared with those aged 25 to 54, has improved over the last two decades (see Chart A).

Nevertheless, despite these overall improvements at the euro area level, developments remain disappointing in several respects. First, in 2007 youth unemployment in the euro area remained more than double the unemployment rate among prime age workers aged 25 to 54, i.e. 15.3% compared with 6.6%. Second, even young people in the labour force are significantly affected by long-term unemployment. In 2007, for the euro area as a whole, despite a substantial decline over the last decade, roughly a quarter of those unemployed between the ages of 15 and 24 had been unemployed for more than a year. Third, the probability of a young person with a low level of education becoming unemployed remains very high, at 18.9%; furthermore the unemployment rate of these young people has declined substantially less than for highly educated young people over the last two decades. Fourth, despite the decline in youth unemployment for the euro area as a whole, youth unemployment actually increased in five euro

**Chart A Euro area unemployment according to age group**

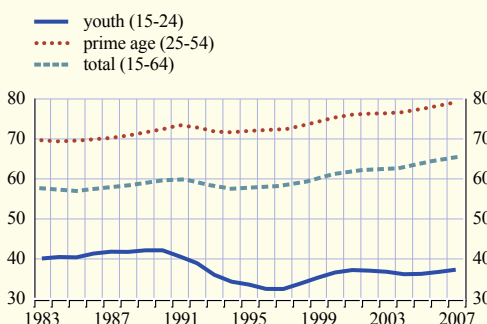
(unemployed as a percentage of the labour force)



Sources: Eurostat (EU LFS) and ECB calculations.

**Chart B Euro area employment according to age group**

(employed as a percentage of the population)



Sources: Eurostat (EU LFS) and ECB calculations.

## Youth and prime age unemployment in euro area countries, 1983-2007

	Youth unemployment (15-24)		Prime age unemployment (25-54)	
	Level (%) 2007	Change (p.p.) from 1983 to 2007	Level (%) 2007	Change (p.p.) from 1983 to 2007
Belgium	19.2	-4.7	6.8	-2.7
Germany	12.1	3.7	7.8	3.4
Ireland	8.9	-12.5	4.0	-9.4
Greece	22.0	-1.0	7.6	1.5
Spain	18.2	-22.3	6.9	-5.5
France	20.6	0.8	7.5	2.0
Italy	18.5	-10.4	5.0	0.7
Luxembourg	14.9	9.0	3.4	1.4
Netherlands	6.1	-15.0	2.5	-7.3
Austria	8.0	3.8	4.2	1.3
Portugal	15.3	-0.3	7.8	3.1
Slovenia	7.9	n.a.	4.4	n.a.
Finland	21.6	3.4	5.3	0.4
Euro area	15.3	-4.9	6.6	0.6

Sources: Eurostat (EU LFS) and ECB calculations.

Notes: The data are second quarter data, except for France and Austria, for which they are first quarter data. Youth unemployment in Spain include the group 16-24 years old.

area countries, namely Germany, France, Luxembourg, Austria and Finland, between 1983 and 2007 (see the table).

The decline in the euro area youth unemployment rate over the last two decades has been accompanied by an overall decline in the employment rate of young people (see Chart B). Although the number of young people in employment has increased since the mid-1990s, there has not been a return to the levels seen in the 1980s.<sup>1</sup> This indicates that more young people are either in education or have given up looking for a job completely and have dropped out of the labour market. In fact, the inactivity rate of young people, i.e. the share of young people who are neither unemployed nor employed, increased by 6.2 percentage points between 1983 and 2007, to 56%.

### Several factors have contributed to the decline in youth unemployment

Determinants of youth unemployment include changes in the economic environment, demographic changes, labour market institutions and policies and the education system.<sup>2</sup> Cross-country studies indicate that there is a positive relationship between the share of young people in the total population and the youth unemployment rate, i.e. with an ageing population, the decline in the share of young people means that there is a lower risk of them being unemployed. The youth unemployment rate is also correlated with the economic environment. Furthermore, education appears to have become more often an alternative to unemployment in several euro area countries. With regard to labour market institutions, there seems to be a detrimental impact of high minimum wages and employment protection legislation on young peoples' labour market performance. Additionally, the increase in the number of young people with a vocational training qualification and, to a lesser extent, high scores in the OECD PISA study<sup>3</sup>, are associated with

1 Young people in the euro area are employed predominantly in the services sector. At the same time, there are more young people than prime age workers engaged in part-time and temporary work; a difference that has increased over the last two decades. In 2007, roughly 26% of young employed people worked part time, while half of all young employees (49.9%) worked on a temporary contract.

2 See, for example, D. B. Blanchflower and R. B. Freeman (2000), "Youth employment and joblessness in advanced countries", University of Chicago Press, Chicago.

3 See, for example, OECD (2007), "Education at a glance", Paris.

lower youth unemployment rates.<sup>4</sup> However, these findings are not, obviously, able to capture the full complexity of the relationship between educational systems and labour market outcomes.

### **Comprehensive policies are needed to further reduce youth unemployment**

Economic policies should aim to improve the employability of young people to further reduce the excessively high levels of youth unemployment. This implies that further adjustments need to be made to labour market institutions, as employment protection legislation, insufficiently flexible working time arrangements and institutions imposing wage rigidities such as minimum wages, may constitute a barrier to young peoples' employment opportunities. Generally, a high level of educational achievement plays a major role in supporting youth employment, particularly in the light of the increasing importance of technological advances and the rising demand for high-skilled labour. Governments can make a positive contribution to the smooth transition of young people from education to the labour market by providing a well-functioning educational system, on the one hand, and creating a business environment which allows for sufficient returns to investment in education, on the other. This supports the incentives for engaging in skill formation, preventing young people from simply dropping out of the market, and therefore should tend to reduce the risk of social exclusion.

<sup>4</sup> For more details, see N. Leiner-Killinger and R. Gomez Salvador, "An analysis of youth unemployment in the euro area", ECB Occasional Paper No 89, June 2008.