

Summary of the report

Unemployment and Exclusion among Young People in Europe

A Macroeconomic Study of NEET

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The substantial rise in unemployment in most EU member states since the eruption of the recent financial crisis has been especially difficult for young people of working age. Enabling young people to enter the labour market is of the utmost importance, not only for the individual as such, but for the economy as a whole. Europe today is facing a demographic challenge. With an ageing population, it is vital that young people are able to enter the labour market so as to contribute to future production and tax revenues. Moreover, research shows that long spells of unemployment among young people may lead to so-called ‘scarring effects’, whereby their future professional lives, as well as their health, are negatively affected.

Long-term unemployment is a particularly serious problem as it increases the risk of forcing people out of the labour market altogether. In some cases, individuals are even becoming disengaged from society in general. This has given rise to the concept of NEET, which stands for not in employment, education or training. However, in spite of NEET today having become a priority for the EU, studies with a macroeconomic or institutional approach are few and far between. This report attempts to fill this gap by analysing a number of macroeconomic and institutional variables, in 28 European countries, which may affect the share of young people who neither work nor study.

In the descriptive section of the report we present existing research on NEET, youth unemployment, dual apprenticeship systems and informal work. Previous research on NEET reveal that e.g. family background, education and

health are important risk factors. Furthermore, the literature on youth unemployment contribute important insights. Several macroeconomic studies on youth unemployment utilise theories on unemployment and the labour market that may have important implications concerning our understanding of NEET. Since the dual apprenticeship system is generally considered to have positive effects on youth unemployment, we discuss its potential effects on NEET. Whereas informal work is rarely examined in connection with youth unemployment, it may nevertheless serve as a solution for low-skilled young people who may have difficulties in entering the regular labour market. There are also certain similarities between informal work and NEET. To an extent, both represent a dissociation from the regular economy and, perhaps, society in general. Hence, informal work is included in our discussion on NEET.

In the empirical chapter, we present the variables in our econometric model. This is followed by the empirical analysis and a discussion of the results. A number of macroeconomic and institutional variables are used as independent variables in a cross-section time-series model, and several variables are derived from existing research on youth unemployment. In particular, we study the importance of labour market regulations and company law and we test the relationship between NEET on the one hand and the dual apprenticeship system and the informal labour market on the other. In order to assess whether our results are mainly driven by youth unemployment, which forms part of the NEET variable, we also run the regressions with youth unemployment as the dependent variable.

The full report is available at www.sieps.se

The results imply that macroeconomic and institutional factors are important and they ought to be viewed as supplementary to the micro perspective that up to now has dominated research on NEET. Institutional aspects, such as labour market regulations and company law, do matter. Moreover, there is a significant negative correlation between economic growth and NEET, as well as between the dual apprenticeship system and NEET. In other words, economic growth and the presence of a dual apprenticeship system *ceteris paribus* will reduce NEET. Interestingly, whereas the size of the informal economy seems to affect NEET, it does not correlate with youth unemployment in our model.

In the last chapter we summarise our findings and discuss policy implications. We conclude that broad measures are needed for those who are farthest from the labour market. A combination of education and training may prove to be

successful, since young people in NEET often have neither education nor work experience. Furthermore, the results indicate that business cycles are a statistically significant factor, which in turn implies that budget austerity has a severely negative effect on NEET. Measures to induce growth are thus of utmost importance, and due consideration should be given to those who are young and unemployed.

By combining our knowledge of micro- and macroeconomic factors, we increase the chances of finding effective policy tools. Measures should focus on both supply and demand for labour, as it is imperative that those who may employ young people, i.e. the companies, become fully involved in the process. In conclusion, a successful policy should comprise measures that strengthen the social contract, so as to improve the attitudes, motivation and belief in the future among young people.