Youth Unemployment in Europe and the United States

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Bloomberg and the New Statesman

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1. Introduction

Youth unemployment is one of the most pressing economic and social problems confronting those countries whose labor markets have weakened substantially since 2008, following the near-collapse of worldwide financial markets. There is an element of déjà vu around this development: youth unemployment first became a serious problem for industrialized countries during the 1980s. While labour markets were booming in the early part of this century, youth unemployment was still a concern. But the particularly rapid increase in youth unemployment during the current recession has again sharpened the policy focus on this issue.

This paper focuses particularly on youth unemployment, why we should be concerned about it, why it is increasing again, how the present difficulties of young people entering the labour market differ from those of the past and what useful lessons have been learned that may guide future policy on youth unemployment. We focus on the UK and USA, but introduce evidence from other countries where appropriate.

We find evidence that both the increase in unemployment and the decline in employment are essentially unrelated to the nature of the country's labour market institutions. This runs contrary to claims made for example in the OECD Jobs Study (1994), that labour and product market rigidities cause unemployment. Countries such as the United States, Spain, Latvia, Lithuania and Ireland, with the lowest levels of labour market regulation, have done worst. These experienced a collapse in house prices and a subsequent decline in construction employment. An inability to depreciate their currencies also has had a major negative impact on unemployment in Ireland and Spain in particular.

It should be said though that a number of countries have been strikingly successful in keeping youth unemployment down. These include Austria (8.9%); Denmark (12.2%); the Netherlands (8.6%) and Germany (8.5%). In these countries labour market programmes take up a high proportion of GDP. For example, in 2008-09 they accounted for the following proportion of GDP - Austria (1.83%); Denmark (2.56%); Germany (1.91%) and the Netherlands (2.31%). This compares with an OECD unweighted average of 1.36%.

Germany has been particularly successful in keeping unemployment down, especially given the very large decline in GDP it experienced. Average hours worked fell more sharply than in most other OECD countries (from 1430 in 2008 to 1390 in 2009). Germany has been able to sell its manufactured goods to emerging markets at a very low exchange rate which has been artificially held down by its membership of the euro. This has caused particular harm to Greece, Spain, Portugal and Ireland who have been unable to depreciate their currencies.

High real growth rates in wages over the period 2007-2008 appear to be correlated with high levels of unemployment during the recession. Countries with especially high real wage rates going in include Greece (1.3%); Spain (2.7%) and Sweden (1.7%). Low growth rates of real wages were observed in the UK (0.2%) and the USA (-1.0%).

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1 Source: OECD Employment Outlook 2009, Table E, p. 287.
To analyze the increase in youth unemployment, we examine the most recently available micro-data files to paint a picture of unemployment in general and youth unemployment in particular across countries on a comparable basis controlling for personal characteristics. These are mostly based on survey responses by individuals, but we also make use of a company level survey in Europe. Strikingly, the influences on the likelihood of an individual being unemployed are very similar across countries and over time.

We find that youth unemployment has broadly similar features across countries, being heavily concentrated among the least educated. However, young people are optimistic about the future and particularly happy. Unemployment lowers the happiness of the young, but less so than it does for older workers. In part this may arise from the fact that a high proportion of young people in many countries continue to live with their parents, which may lessen the impact of being unemployed (Card and Lemieux, 2000, Chiuri and Del Boca, 2008). Despite this, we find evidence that spells of unemployment when young tend to leave permanent scars.

The youth joblessness crisis of the early 1980s, particularly as observed in the United States, appears to be repeating itself in many countries. It feels like déjà vu.

2. The effects of the Great Recession on labour markets

Table 1 reports how some of the mature economies have been impacted by the recession. It shows how GDP by country changed from the first quarter of 2008 to the third quarter of 2009 - the period generally associated with the “recession” phase. It also shows the extent of growth during the “recovery” phase – which thus far stretches from the fourth quarter of 2009 to the second quarter of 2010.

Some countries, such as the Baltic States of Latvia (-27%), Lithuania (-17%) and Estonia (-22%) and Ireland (-13%) suffered double digit falls in output. The output of the European Union as a whole fell by 4.6% during this recessionary phase - much sharper fall than the 3.8% drop in output experienced in the United States. The recovery has been much less strong - by 2010Q2, output in the EU was still 3% below its level at the start of 2008. In Western Europe, Germany, Denmark and Sweden have experienced rapid growth: but growth in Spain, Italy, Ireland and France has been much weaker.

Table 1 also includes information on changes in employment from the start of the recession (2008Q1) to the most recently available observation (2010Q2). Employment in the European Union fell by 1.3% over this period. Again, in some countries the change

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has been much more dramatic with Ireland, Latvia and Lithuania and Estonia experiencing double-digit reductions in employment. By 201Q2 only tiny Cyprus and Malta had managed to restore employment back to its pre-recession levels. Poland experienced employment growth in both periods.

While all of the mature economies were affected by the financial crisis, the responses of both their product and labour markets have been very diverse. And indeed, while there is a general correlation between changes in output and changes in employment across countries, it is by no means uniform. Thus, for example the US and Spain both experienced falls in output of around 4% during the recession but employment in the US fell by almost 8% while employment in Spain fell by 9.4%. In contrast output in the UK dropped by 6.2% but employment fell by only 1.7%.

Table 1 also contains information on how changes to employment have been distributed between full-time and part-time workers. Rather than have all labour market adjustment take place on the extensive margin, it is clear that in many countries the intensity of work has reduced. One of the more obvious exemplars is the changing balance between full-time and part-time employment. In almost all European countries, the reductions in employment have focused on full-time workers: part-time employment has not fallen so sharply and indeed in many countries has increased.

For the EU as a whole, the overall fall of 1.3% in employment during the recession comprises a 2.5% reduction in full-time employment and a 4.2% increase in part-time employment. In the US, the response is even starker, with full-time employment falling by 7.9% while part-time working increased by 10.1%. Reductions in hours of work as a response to the recession in the UK, has been documented in Bell and Blanchflower (2010, 2011).\(^4\) They find that many workers would prefer to work longer hours, but that employers are unwilling to purchase these hours. However, reduced hours may still be a rational strategy for both employers and employees who do not wish to dissipate the specific human capital that they may have jointly accumulated. They also find that underemployment is especially important amongst the young.

In terms of labour market responses to the recession, countries with the following characteristics appear to have been especially hard hit.

1. Large financial sectors (e.g. USA and UK).
2. Big house price bubble (e.g. USA, UK, Spain, Ireland, Estonia, Latvia and Lithuania).
3. Exposure to world markets (e.g. Sweden, Germany and Japan).
4. Inability to depreciate their currencies (e.g. Ireland, Spain and Greece).

The young do not generally possess much specific human capital. And as a result, it is perhaps not surprising that they have been particularly affected by this recession. Table 2 shows the rise in youth unemployment rates from 2008Q1 to 2010Q2. Currently youth unemployment rates for the under 25s in the EU27 are 20% and 17.9% in the United States respectively. They are especially high in Spain (42.5%). Latvia and Lithuania have youth rates of 34% and 37.6% respectively, while Ireland (29.1%), Italy (26.4%) and Sweden (25%) are experiencing extremely high youth unemployment rates. Youth rates are everywhere higher than adult rates. The final column gives the ratio of youth to overall unemployment rates. Youth rates are more than two and a half times overall rates in Belgium, Finland, Hungary, Greece, Luxembourg, Sweden and the UK.

In 2008, the ILO noted that until the onset of recession there had been a declining trend in youth unemployment around the world. The world unemployment rate of youth aged 15-24 rose from 10.9% in 1999 to a peak in 2004 of 12.6% and declined to 11.9 per cent by 2007. It is clear from Table 2 that in the mature economies, the Great Recession has brought this favourable trend to an end.

Table 3 shows the proportion of young people who live at home with their parents which may limit the impact of being unemployed while young. Of course it may well also suggest difficulties in obtaining rental housing as is the case in a number of countries such as Spain. The lack of a fully functioning rental housing market may restrict mobility. But having accommodating parents clearly reduces the costs of unemployment.

It is notable that in a number of countries where youth unemployment is low, the proportion of youngsters living with their parents is very low - examples are Denmark and Norway. And the reverse is also the case: there are several examples where youth unemployment rates are high and the proportion of youth living at home is above the European average. This is the case in most East European countries, Greece, Spain and Italy. Sweden is something of an outlier with a high youth unemployment rate and a low percentage of young people living with their parents.

Another response to rising youth unemployment has been to return to full-time education (Rice, 1999). This implies that the 16-24 cohort are now better qualified than they were during the last recession. In the UK 5.8 per cent of 16-24 year olds were graduates in 1993, while in 2008 that share had risen to 13.2 per cent. The improvement in qualifications is more concentrated among females than males. By 2008, the proportion of females aged 18-24 with no qualifications had fallen to 4.6 per cent, but for males was still over 7 per cent. During the Great Recession, applications to attend university have risen strongly. In the UK applications to university in 2010 increased by 9.3% compared to 2009 although the number of accepted applicants was only up 1.2%.

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In the UK, for example, unemployment rates are much higher for the less well qualified. Using weighted data from the recently available UK 2010 Q2 Labour Force Survey (LFS), unemployment rates by highest qualification were as follows:

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree level</td>
<td>3.7%</td>
</tr>
<tr>
<td>NVQ Level 4</td>
<td>4.5%</td>
</tr>
<tr>
<td>NVQ Level 3</td>
<td>7.7%</td>
</tr>
<tr>
<td>NVQ Level 2</td>
<td>10.9%</td>
</tr>
<tr>
<td>Basic skills</td>
<td>9.5%</td>
</tr>
<tr>
<td>No qualifications</td>
<td>15.2%</td>
</tr>
</tbody>
</table>

The UK also has information on unemployment by ethnicity. Ethnic groups tend to suffer higher unemployment rates than do whites. The situation is no different during this recession. The 2010 Q2 unemployment rates by ethnic group were:

<table>
<thead>
<tr>
<th>Ethnic Group</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>7.1%</td>
</tr>
<tr>
<td>Mixed</td>
<td>11.9%</td>
</tr>
<tr>
<td>Asian or Asian British</td>
<td>11.8%</td>
</tr>
<tr>
<td>Black or Black British</td>
<td>17.5%</td>
</tr>
<tr>
<td>Chinese</td>
<td>7.9%</td>
</tr>
<tr>
<td>Other</td>
<td>13.8%</td>
</tr>
</tbody>
</table>

There is also evidence from around the world that the least educated, as well as those with the lowest skill levels, plus minorities, are especially impacted by the drop in demand. In the US for example, in September 2010, black unemployment rates stood at 16.1% and Hispanics at 12.4% compared with 8.7% for whites. Unemployment rates for those age 25+ who were high school dropouts was 15.4% compared with 10.0% for high school graduates, 9.1% for those with some college and 4.4% for those with a college degree and higher. The unemployment rate of teenagers was 26.0% while the rate for those 20-24 was 14.8%.

Eurostat also produces information on unemployment rates by nationality. In general nationals experience lower rates of unemployment than do citizens of other EU countries or foreigners. Unemployment rates for these groups in the EU for 2008 Q1, 2009 Q3, and 2010 Q2 were:

<table>
<thead>
<tr>
<th></th>
<th>2008Q1</th>
<th>2009Q3</th>
<th>2010Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>7.1</td>
<td>9.1</td>
<td>9.6</td>
</tr>
<tr>
<td>Nationals</td>
<td>6.8</td>
<td>8.5</td>
<td>9.0</td>
</tr>
<tr>
<td>Other EU</td>
<td>8.3</td>
<td>12.0</td>
<td>11.8</td>
</tr>
<tr>
<td>Foreigners</td>
<td>11.9</td>
<td>16.3</td>
<td>16.7</td>
</tr>
</tbody>
</table>

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Unemployment rates for non-nationals were higher than for nationals before the recession. During the recession, unemployment rates for all groups increased: but they increased more rapidly for other EU citizens and foreigners than they have for nationals. Those closer to the margins of the labour market generally find it more difficult to retain employment during a recession. Interestingly though, total employment of UK nationals fell between 2008 and 2010, whereas it increased for non-UK nationals, driven primarily by individuals from the A8 Accession countries and India.  

Unemployment rates for men have increased more rapidly than those of women during the recession. In 2008, (see below) male unemployment was lower than that of females in the EU. Perhaps because the recession has particularly hit industries with an above average share of male employment, the unemployment rate of men had overtaken that of women by 2010 Q2.

<table>
<thead>
<tr>
<th></th>
<th>2008Q1</th>
<th>2009Q3</th>
<th>2010Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>6.7</td>
<td>9.1</td>
<td>9.7</td>
</tr>
<tr>
<td>Female</td>
<td>7.6</td>
<td>9.0</td>
<td>9.5</td>
</tr>
</tbody>
</table>

There is a marked variation across countries though on whether male unemployment rates are higher than female rates. According to the latest data from Eurostat male rates are higher than female rates, with the male minus female difference in parentheses in approximately half the EU countries: Austria (+0.4%); Bulgaria (+0.9%); Denmark (+1.3%); Estonia (7.3%); Finland (+1.3%); Germany (+1.1%); Hungary (+0.7%); Ireland (+7.2%); Japan (+0.8%); Norway (+1.1%); Sweden (+0.4%); the UK (+1.5%) and the USA (+1.9%). Female rates were higher than male rates, again with male minus female differences in parentheses: Belgium (-0.9%); Czech Republic (-2.5%); Cyprus (-0.4%); France (+1.0%); Italy (-2.4%); Luxembourg (-1.5%); Malta (-0.5%); Netherlands (-0.3%); Poland (-1.0%); Portugal (-2.2%); Spain (-1.0%); and Slovakia (-0.7%). Male and female rates are the same in Slovenia.

These categories – education, nationality, gender and ethnicity - are revisited in our regression analysis where we can condition on other variables to identify the effects of individual characteristics on the likelihood of unemployment.

Figures 1 to 3 provides a further supply-side explanation of the rise in youth unemployment. The youth cohort is large at a time when the labor market is in the doldrums. The figures show the size of single age cohorts in the UK, USA and Sweden. They show that the size of the youth cohort will decline quite rapidly in all three countries over the next decade, before rising once again. Progressively shrinking cohorts will have dramatic effects on the number of entrants to the labour market over the next fifteen years or so. The decline is relatively small in the US compared with other countries, in part because of its relatively high rate of immigration. Immigrants tend to

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8 Source: Table 8, Labour Market Statistics, October, 2010, ONS.
be young. In ten years time in the Euro area the number of twenty year olds will have dropped by twelve percent.

The recession has reversed recent reductions in youth unemployment in the developed world. Like other groups on the margins of the labour market, the young tend to experience particularly high rates of unemployment during recessions. The current experience fits this pattern. However, the youth cohort is diminishing in size in most countries, suggesting that, in the future, excess supply of younger workers is less likely to be problematic.

We now turn to micro-econometric analyses of labour markets in the Great Recession. We perform separate analyses for Europe, the USA and the UK. We model the probability of being unemployed using comparable micro data at the level of the individual. We also examine a number of other variables that are impacted by the recession including the probability of finding, keeping or losing a job. In the case of Europe we also make use of company level data to look at local labour market conditions.

2.1. Europe
Our approach is to use recent micro-data on unemployment in Europe, from four Eurobarometer surveys for 2007-2010 and the European Social Survey for 2008. Data are available on nearly 90,000 individuals from thirty seven countries. In each column of Table 4 we model the probability that an individual is unemployed. We use the STATA dprobit routine which provides direct estimates of marginal effects. For our model, we set the unemployed to unity and the employed to zero, implying that our sample is the workforce. Hence we are estimating \textit{ceteris paribus} effects the probability of an individual being unemployed, controlling for their age, gender, schooling and country of residence.

We estimate our model for six periods - February to April, 2010; January to February, 2010, January to February 2009, February to March 2008 and February to March 2007. We also estimate a separate equation, with a slightly different specification, for 2008 on its own. Comparisons between periods show some interesting trends. Thus, consistent with the data on unemployment by gender above, the probability of a male being unemployed was significantly less than that of a female in 2007, but as the recession developed, the difference in probability became smaller, and eventually became insignificant in 2010.

While the data do not permit an analysis of the trend in unemployment by nationality, the results for 2008 show a significantly greater probability of unemployment among the foreign born in the EU.

\footnote{\texttt{Dprobit} fits maximum-likelihood probit models and is an alternative to \texttt{probit}. Rather than reporting the coefficients, \texttt{dprobit} reports the marginal effect, that is the change in the probability for an infinitesimal change in each independent, continuous variable and, by default, reports the discrete change in the probability for dummy variables.}
Also in line with our earlier discussion, it is clear that the probability of unemployment is higher for the least educated. Those who left school before 16 are significantly more likely to be unemployed than those who either left school aged 16 to 19. And for those that left school aged 20+, the chance of unemployment is lower still.

Holding constant personal characteristics, in 2010 the probability of unemployment is especially high for residents of Spain, Croatia, East Germany, Hungary, Latvia, Lithuania and Poland. Ireland's position in the rankings had worsened sharply with the onset of the fiscal austerity measures.

Table 4 also shows that the chance of unemployment among those aged 15-24 has a particularly large positive coefficient which has increased through time. Thus, those aged 15-24 had a 13 percentage points higher probability than those age 45-55 in 2007 but this probability has increased to 16 percentage points in 2010.

Table 5 takes this analysis a stage further and looks at other aspects of job loss. It uses a Eurobarometer study #71.2 from 2009 to analyze those individual characteristics associated with having lost a job during the recession, being able to keep a job, and self-assessed ability to find a job. Column 1 covers the whole sample, while columns 2 and 3 are restricted to workers.

Males are more likely to have lost a job - which is consistent with our other evidence of the gender impact of the recession - but they also have a greater confidence than females of being able to find a new job. Those aged 45 to 54 are significantly less likely to have lost their job than other age groups except those aged 65+. Those aged 15-24 are most likely to have lost their job. They are confident in their ability to find a job, perhaps because they have greater flexibility both spatially and occupationally.

Immigrants are significantly more likely to have lost their job and are less likely to believe that they can hold onto employment. Those with health problems have a similar set of beliefs. Among the countries, the results for Spain and Ireland are particularly negative: respondents are more likely to have lost a job, feel less secure in their ability to retain their job and also have little confidence in being able to find a job.

The European Union conducts a set of monthly surveys across all member countries which include a question which asks what the respondents think will happen to unemployment over the next twelve months. Figure 4 plots the data for the EU27 plus for the UK and Sweden and shows that the fear of unemployment rose steadily from 2007. It is notable how sharply the series has fallen in Sweden since early 2009 but has increased in the UK since the formation of the new coalition government in May 2010 with their austerity measures. Interestingly the government forecasts that unemployment will fall but the respondents to this survey think otherwise. It turns out that the fear an
individual might lose their job appears to weaken worker bargaining power and hence lower wage pressure.\textsuperscript{11}

Table 6 provides confirming evidence to that obtained at the level of the individual in Tables 4 and 5 but now with data at the level of the workplace. It makes use of company level data from the 2009 European Company Survey. Data are available on the 27 EU countries and three acceding and candidate countries (Croatia, Macedonia and Turkey) across nearly 27,000 establishments with 10 or more employees and including the public sector. Four questions were modeled:

Q1. How would you rate the current general work climate in your establishment? Is it 4=very good, 3=quite good, 2=somewhat strained or 1=very strained?
Q2. How would you rate the economic situation of this establishment? Is it 5=very good, 4=quite good, 3=neither good nor bad, 2=quite bad or 1=very bad?
Q3. Does your establishment encounter difficulties in finding staff for skilled jobs - 1=yes; 2=no?
Q4. Does your establishment encounter difficulties in finding staff for low skilled or unskilled jobs - 1=yes; 2=no?

The responses were obtained from the most senior person responsible for personnel issues at the workplace. The first two questions are estimated as ordered logits and the last two as dprobits.

The following results stand out. First, the work climate equation suggests that this is best in Denmark and Sweden and worst in the East European countries. This is very similar to the findings in the happiness literature, more on which below where happiness is also highest in the Nordic countries and lowest in eastern Europe.\textsuperscript{12} Work climate is worse in larger establishments and in foreign-owned workplaces.

Second, the findings on the economic situation, which we interpret broadly to mean profitability/performance are broadly consistent with the results on work climate. The economic situation is especially bad in the East European countries, Ireland and Spain.

Third, the questions on difficulty in finding workers we interpret as the inverse of the unemployment rate - the higher the unemployment rate the less difficulty there is in finding workers, although it is conceivable there is a skills mismatch and it may still be hard to find workers with relevant skills. It appears to be less difficult to find workers, as one would expect in countries where the unemployment rate is high, especially in Eastern Europe Ireland and Spain and this is the case.


So we find confirming evidence that unemployment is especially high among young people who are especially likely to have lost a job in the recession. However, they are optimistic that they could find a job in the coming months.

2.2. The United States

A great deal of what is known about the youth labor market comes from a series of research volumes published by the National Bureau of Economic Research. These volumes were based primarily, but not exclusively on research done in the United States (Freeman and Wise, 1982; Blanchflower and Freeman, 2000).\(^\text{13}\) It is certainly a case of *déjà vu* in the United States, where the youth labour market crisis that occurred in the 1980s now seems to be repeating itself. However, the extent of the rise in youth unemployment relative to adult unemployment is somewhat less, not least because the industries that were hardest hit - the financial sector and construction - tended not to be big employers of the young.

The raw data for the young under the age of 25 are as follows. From boom to bust in both recessions impacts the least educated, African Americans and especially African Americans who are high school dropouts. This is confirmed in the regressions.

<table>
<thead>
<tr>
<th>US Unemployment rates % (weighted)</th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>9.9</td>
<td>26.3</td>
<td>13.3</td>
<td>11.9</td>
</tr>
<tr>
<td>High school dropout</td>
<td>17.5</td>
<td>36.4</td>
<td>18.4</td>
<td>19.9</td>
</tr>
<tr>
<td>1982-1983</td>
<td>14.8</td>
<td>36.8</td>
<td>21.9</td>
<td>17.8</td>
</tr>
<tr>
<td>High school dropout</td>
<td>25.9</td>
<td>53.1</td>
<td>31.8</td>
<td>29.7</td>
</tr>
<tr>
<td>Some college</td>
<td>9.0</td>
<td>26.9</td>
<td>12.2</td>
<td>10.8</td>
</tr>
<tr>
<td>2009</td>
<td>15.0</td>
<td>28.4</td>
<td>19.2</td>
<td>17.6</td>
</tr>
<tr>
<td>High school dropout</td>
<td>23.8</td>
<td>43.6</td>
<td>26.5</td>
<td>27.2</td>
</tr>
<tr>
<td>Some college</td>
<td>9.5</td>
<td>18.6</td>
<td>12.6</td>
<td>11.2</td>
</tr>
</tbody>
</table>

Table 7 pursues further the issue of the characteristics of the unemployed and how these have changed over time in the United States. It reports the results of estimating dprobits where the dependent variable is one if the individual is unemployed, zero if employed. Columns 1-3 make use of data from the Outgoing Rotation Group (ORG) files of the Current Population Survey for 1979, 1982-1983 pooled and 2007. The final column for 2010 makes use of data from the most recently available Basic Monthly files of the CPS for January-July 2010, of which the ORG files are a subset. We choose these years to compare the incidence of youth unemployment in this recession with that of the early 1980s. In 1979, the annual unemployment rate was 5.8% compared to 9.7% in 1982 and

9.6% in 1983. In 2007 it was 4.6% but by 2010 it averaged 9.7% from January-July. Hence we can compare the changes that took place as the labour market went from boom to bust in both recessions.

It is noticeable that between 1979 and 1982-3 that the relative unemployment rate of the young increased markedly from 9pp higher than those aged 45-54 to 12.6pp. Increases were also observed in the black, male, Hispanic and education coefficients. A broadly similar picture has occurred, but on a smaller scale between 2007 and 2010 in terms of increases in the age variable, although the black variable has more than doubled. By 2010 it was becoming clear that once again unemployment was concentrated among the least educated. The picture painted in the various NBER volumes of rising youth unemployment in the recession is emerging again, but perhaps not yet to the same scale.

2.3. The United Kingdom
The majority of youth unemployment in the UK is in the 18-24 age group (the young), rather than in the 16-17 age group (the very young). For example, in 2010 June-August there were 177,000 unemployed 16 and 17 year olds compared with 742,000 18-24 year olds (Source: Labour Market Statistics, 13th October 2010, ONS). There were 415,000 claimants of unemployment benefits, who were aged 18-24, but none aged 16-17, as this age group is not eligible to claim unemployment benefits. The representation of those aged less than 25 among the unemployed is much greater than their representation in the overall population.¹⁴

Those unemployed aged 18-24 have increased as a share of total unemployment since the turn of the millennium. As can be seen below, despite a declining overall unemployment rate and a declining rate for the young between 1993 and 2004, their unemployment rate has risen since then. Moreover, their share of unemployment has risen steadily from 21.7% in 1999 to 31.4% in 2008 but fell back in 2009 and 2010.

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment rate</th>
<th>18-24 unemployment rate</th>
<th>18-24 as % overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>10.4</td>
<td>17.5</td>
<td>25.0</td>
</tr>
<tr>
<td>1994</td>
<td>9.5</td>
<td>16.3</td>
<td>23.9</td>
</tr>
<tr>
<td>1995</td>
<td>8.6</td>
<td>15.0</td>
<td>23.1</td>
</tr>
<tr>
<td>1996</td>
<td>8.1</td>
<td>14.3</td>
<td>22.7</td>
</tr>
<tr>
<td>1997</td>
<td>6.9</td>
<td>12.9</td>
<td>22.3</td>
</tr>
<tr>
<td>1998</td>
<td>6.3</td>
<td>12.0</td>
<td>22.8</td>
</tr>
<tr>
<td>1999</td>
<td>6.0</td>
<td>11.2</td>
<td>21.7</td>
</tr>
<tr>
<td>2000</td>
<td>5.4</td>
<td>10.6</td>
<td>22.4</td>
</tr>
<tr>
<td>2001</td>
<td>5.1</td>
<td>10.4</td>
<td>23.9</td>
</tr>
<tr>
<td>2002</td>
<td>5.2</td>
<td>10.5</td>
<td>23.8</td>
</tr>
<tr>
<td>2003</td>
<td>5.1</td>
<td>10.6</td>
<td>24.8</td>
</tr>
<tr>
<td>2004</td>
<td>4.8</td>
<td>10.4</td>
<td>26.2</td>
</tr>
</tbody>
</table>

Table 8 estimates the probability of being unemployed with data from the LFS data 2006 and 2007 pooled, when unemployment rates were low - 5.4% and 5.3% respectively. The final column models the bust with pooled data from January 2009 - June 2010. Unemployment rates were 7.7% in 2009 and 7.9% in the first half of 2010.

It is noticeable how the coefficient on the youth variable increased from .11 to .15 over this period. Also noticeable is the increase in the male and black coefficients. As in the US unemployment falls increasingly on the least educated. It is also clear that Tyne and Wear has a relatively large increase in unemployment rates.

Of particular concern also in the UK is the high proportion of young people who are not in education employment or training (NEET). In 2009 Q3 there were 261,000 16-18 year olds and 933,000 18-24 year olds classified as NEET.\(^{15}\) Overall 18% of 16-24 year olds were in this category. Low-skilled youth who become NEET find it more difficult to re-engage in employment and learning than 16-24-year olds on average and there is evidence that they may become trapped in NEET. In October 2008 The Prince’s Trust, conducted a survey of 2,004 16- to-25 year olds and found that 27% of NEETs reported that life has 'no purpose', compared with 14% overall. Only 60% of NEETs said they were happy compared with 71% for all young people.\(^ {16}\)

Godfrey et al (2002) estimated the costs of being NEET for the Department for Education and Skills.\(^ {17}\) They considered social costs as well as public finance costs over the current, medium and long-term. These included estimates of the costs of educational underachievement, unemployment, inactivity, crime and health. The authors were not able to estimates of the costs of the lowering of the skills base and hence their findings may underestimate the full costs. Their major finding was that the 157,000 NEETs aged 16-18 present in the UK population in 1999 would accrue additional lifetime costs of around £7bn (2001 prices) in resource terms and £8.1bn in additional public spending. The per capita equivalents are £45,000 in resource costs and £52,000 in public finance costs.

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\(^{16}\) ‘The Prince’s Trust YouGov Youth Index’, 2008 and D.G. Blanchflower (2011), 'The wellbeing of the young', *British Journal of Industrial Relations*, forthcoming

3. Causes of Unemployment

The orthodox explanation of unemployment that argues that institutions matter has been subject to fairly extensive econometric testing, and in recent years, the validity of the empirical results supporting this view has been called into question.\(^{18}\) It has proved difficult to estimate a set of cross-country panel unemployment regressions that contain a lagged unemployment rate and a full set of year and country dummies and show that any of the labour market rigidity variables work. This is a crucial test. This is the first main similarity between European labour markets: labour market institutions do not tend to cause unemployment.

The major exception is changes in the replacement rate, which, in some specifications, do appear to be negatively correlated with changes in the unemployment rate. Blanchard and Wolfers (2000) have argued that “the interaction of shocks and institutions does a good statistical job of fitting the evolution of unemployment both over time and across countries.” This result is questionable because it is obtained in an over-fitted model — few data points and lots of variables — and the results appear to be driven by the cross-section variation rather than by any time series changes.\(^{19}\) There are only eight time series data points as they use five-year averages from 1960-1995.

As an illustration, we ran a pooled cross-country time series using the CEP/OECD Institutions data for 1975-2002 for eighteen OECD countries (Australia; Austria; Belgium; Canada; Denmark; Finland; France; Germany; Ireland; Italy; Japan; Netherlands; Norway; Portugal; Spain; Sweden; United Kingdom, and the United States). We included controls for union density, the strictness of employment protection legislation, gross benefit replacement rates data and the tax wedge.\(^{20}\) The dependent variable was the log of the unemployment rate and the equation includes a full set of country and year dummies. Coefficients and t-statistics are as follows. Only the lagged dependent variable is significant in any specification, whether the model is run without year dummies or country dummies (column 1); with year dummies (column 2) or both country and year dummies (column 3). The 'flexibility' explanation of unemployment is wrong.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Column 1</th>
<th>Column 2</th>
<th>Column 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log of unemployment rate t-1</td>
<td>.9333 (80.39)</td>
<td>.9415 (70.61)</td>
<td>.9405 (72.11)</td>
</tr>
<tr>
<td>Union density</td>
<td>-.0004 (0.91)</td>
<td>-.0006 (1.52)</td>
<td>.0011 (0.89)</td>
</tr>
<tr>
<td>Employment protection</td>
<td>.0376 (1.62)</td>
<td>.0118 (0.55)</td>
<td>-.0442 (0.77)</td>
</tr>
</tbody>
</table>

---


\(^{20}\) The names in parentheses are variable names as explained in W. Nickell (2006), The CEP – OECD Institutions Data Set (1960-2004)', Centre for Economic Performance, LSE, September.
In a recent article, Howell et al (2007) econometrically examined the impact of these rigidity variables, or what they call Protective Labor Market Institutions (PLMIs), and concluded that: “while significant impacts for employment protection, benefit generosity, and union strength have been reported, the clear conclusion from our review of these studies is that the effects for the PLMIs is clearly not robust, with widely divergent coefficients and levels of significance.” Indeed, in his published comments on the Howell et al. article, Jim Heckman (2007) argues that the authors “…are convincing in showing the fragility of the evidence on the role of labour market institutions in explaining the pattern of European unemployment, using standard econometric methodology.”

Freeman (2007) also finds the evidence for the impact of these institutional variables less than convincing “despite considerable effort, researchers have not pinned down the effects, if any, of institutions on other aggregate economic outcomes, such as unemployment and employment”.21 In a recent article, Horst Feldmann examined how the quality of industrial relations affects unemployment in developing countries and found relatively moderate effects, especially for females.22

There is no evidence in any country over the last few years or so that union density, benefits, the tax wedge or employment protection has risen. Western Europe has more job protection, higher unemployment benefits, more union power, and a more generous welfare state and it has experienced a smaller rise in unemployment than the United States during the current recession. The US unemployment rate rose above that in the EU during 2009 - the first time it had done so for many years.

The increases in unemployment we have observed in the OECD over the last year or so are not due to decreases in labour market flexibility. It is not that frictions in the market have increased: rather, there has been a collapse in the demand for labour as product demand has fallen, which in turn reflects severe credit rationing, falling consumer

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>-.0002</td>
<td>-.0002</td>
<td>-.0002</td>
</tr>
<tr>
<td>Tax wedge</td>
<td>.0002</td>
<td>.0009</td>
<td>.0030</td>
</tr>
<tr>
<td>Year dummies</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Country dummies</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>R²</td>
<td>.9434</td>
<td>.9540</td>
<td>.9647</td>
</tr>
<tr>
<td>N</td>
<td>480</td>
<td>480</td>
<td>480</td>
</tr>
</tbody>
</table>

(Dependent variable = log of unemployment rate).

---


confidence, responses to transitory shocks in raw materials prices and delayed response by monetary authorities to these developments. None of these issues directly impinge on the labour market or on the extent to which institutional arrangements affect its efficiency. It is *the fall in demand for labour that is the culprit*. This has hit young people especially hard in a number of countries such as the UK where firms have responded by freezing hiring and reducing hours. Public sector hiring freezes have added to the problem at a time when the cohort is large.

4. Happiness and the young

There is a growing body of research that finds that young people are especially happy. Indeed, it appears that there is a U-shape in age in happiness equations across countries.\(^{23}\) There is also evidence to suggest that, in contrast to adults, the happiness of the young has trended up over time. Recently, though, the happiness of the young - defined here as being under the age of 30 because of limited sample sizes - appears to have fallen. In the US General Social Survey the distribution of responses to the question how happy are you, suggests that there was a drop in the happiness of the young in 2008.

<table>
<thead>
<tr>
<th>Year</th>
<th>% very happy</th>
<th>% quite happy</th>
<th>% not too happy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>27</td>
<td>62</td>
<td>11</td>
</tr>
<tr>
<td>1998</td>
<td>26</td>
<td>59</td>
<td>15</td>
</tr>
<tr>
<td>2000</td>
<td>28</td>
<td>63</td>
<td>9</td>
</tr>
<tr>
<td>2002</td>
<td>29</td>
<td>56</td>
<td>15</td>
</tr>
<tr>
<td>2004</td>
<td>32</td>
<td>55</td>
<td>13</td>
</tr>
<tr>
<td>2006</td>
<td>27</td>
<td>60</td>
<td>13</td>
</tr>
<tr>
<td>2008</td>
<td>24</td>
<td>58</td>
<td>18</td>
</tr>
<tr>
<td>Average</td>
<td>28</td>
<td>59</td>
<td>12</td>
</tr>
</tbody>
</table>

Similarly, in the Eurobarometer there has also been a drop in the happiness of the young under the age of 25. We compared the average weighted life satisfaction scores based on a scale of 1-4 from Eurobarometer #71.1 for January-February 2009 and contrasted it with the results from the same question asked in Eurobarometer #68.1 taken between September and October 2007, at the height of the boom. Results are shown below.

<table>
<thead>
<tr>
<th>Country</th>
<th>2007</th>
<th>2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>3.07</td>
<td>3.20</td>
<td>-0.13</td>
</tr>
<tr>
<td>Belgium</td>
<td>3.25</td>
<td>3.35</td>
<td>-0.10</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>2.62</td>
<td>2.66</td>
<td>-0.04</td>
</tr>
<tr>
<td>Cyprus</td>
<td>3.36</td>
<td>3.49</td>
<td>-0.13</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>3.05</td>
<td>3.13</td>
<td>-0.08</td>
</tr>
<tr>
<td>Denmark</td>
<td>3.60</td>
<td>3.68</td>
<td>-0.08</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Germany</td>
<td>2.84</td>
<td>2.81</td>
<td>+0.03</td>
</tr>
<tr>
<td>Estonia</td>
<td>2.91</td>
<td>3.05</td>
<td>-0.14</td>
</tr>
<tr>
<td>Finland</td>
<td>3.30</td>
<td>3.32</td>
<td>-0.01</td>
</tr>
<tr>
<td>France</td>
<td>3.10</td>
<td>3.27</td>
<td>-0.17</td>
</tr>
<tr>
<td>Great Britain</td>
<td>3.33</td>
<td>3.32</td>
<td>0.00</td>
</tr>
<tr>
<td>Greece</td>
<td>2.64</td>
<td>2.89</td>
<td>-0.25</td>
</tr>
<tr>
<td>Hungary</td>
<td>2.62</td>
<td>2.64</td>
<td>-0.01</td>
</tr>
<tr>
<td>Ireland</td>
<td>3.09</td>
<td>3.27</td>
<td>-0.17</td>
</tr>
<tr>
<td>Italy</td>
<td>2.78</td>
<td>2.86</td>
<td>-0.08</td>
</tr>
<tr>
<td>Latvia</td>
<td>2.64</td>
<td>2.99</td>
<td>-0.35</td>
</tr>
<tr>
<td>Lithuania</td>
<td>2.78</td>
<td>3.00</td>
<td>-0.22</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>3.42</td>
<td>3.42</td>
<td>0.00</td>
</tr>
<tr>
<td>Malta</td>
<td>3.19</td>
<td>2.98</td>
<td>+0.21</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3.56</td>
<td>3.61</td>
<td>-0.04</td>
</tr>
<tr>
<td>Poland</td>
<td>2.94</td>
<td>3.15</td>
<td>-0.21</td>
</tr>
<tr>
<td>Portugal</td>
<td>2.60</td>
<td>2.87</td>
<td>-0.28</td>
</tr>
<tr>
<td>Romania</td>
<td>2.81</td>
<td>2.65</td>
<td>+0.16</td>
</tr>
<tr>
<td>Slovakia</td>
<td>2.95</td>
<td>2.92</td>
<td>+0.03</td>
</tr>
<tr>
<td>Slovenia</td>
<td>3.20</td>
<td>3.50</td>
<td>-0.30</td>
</tr>
<tr>
<td>Spain</td>
<td>3.22</td>
<td>3.27</td>
<td>-0.05</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.46</td>
<td>3.34</td>
<td>+0.12</td>
</tr>
<tr>
<td>Turkey</td>
<td>2.76</td>
<td>3.01</td>
<td>-0.25</td>
</tr>
<tr>
<td>West Germany</td>
<td>3.08</td>
<td>3.14</td>
<td>-0.07</td>
</tr>
</tbody>
</table>

The happiness scores of the young fell in twenty-two out of twenty-nine countries as unemployment increased. But increases were found in Romania (+.16) and Sweden (+.12).

**Table 9** allows us to examine how unemployment impacts the happiness of the young in Europe using data for 2009 from Eurobarometer #71.1 for 2009 used above. Column 1 estimates an ordered logit where the dependent variable is how satisfied the individual is with the life they lead, in four categories. A positive coefficient implies happier. It is apparent, consistent with the literature (Blanchflower and Oswald, 2004, Blanchflower, 2009) that happiness is U-shaped in age - in this case lowest for the age group 45-54 and highest for the young. Happiness is lower among men, the least educated, separated and people who had previously been living together but were single at time of interview and right-wingers. The Danes, Swedes and Dutch were especially happy and young people from Eastern Europe and Greece were particularly unhappy.

Unemployment lowers people's happiness and life satisfaction. The effect is less for the young though than older individuals. This is shown by the positive and significant interaction term between unemployment and ages 15-24 dummy in the first column. The second column is restricted to youngsters only and the unemployment result remains. Unemployment makes young people unhappy but less so than for adults. These results are confirmed in the final two columns that estimate ordered logits relating to an individual's 'job'.
In Table 10 we estimate a 4-step *happiness* equation using ordered logit across thirty four countries which permits a comparison of well being in the United States and Europe using data from the 2008 ISSP. The exacted form of the question is reported at the bottom of the table. Controls include age and its square, gender, schooling, labour force and marital status. In column 1 for the whole sample, happiness is U-shaped in age, rises with education and is especially low for the unemployed, the disabled and the unmarried. Mexicans and residents of the Dominican Republic and Ireland are surprisingly happy. The happiness levels of residents of the United States rank higher than those in the UK or Sweden. The French are especially unhappy.

The second column is for the young. The patterns across countries are similar to those in column 1. The young are especially happy in Mexico and the Dominican Republic, Ireland and Belgium.

In Table 11 in the first three columns we examine responses from Eurobarometer 72.1 from August-September 2009 on other aspects of wellbeing - *homelessness*, *optimism* and an individual's *perceived level in society*. In the final column we estimate an equation using pooled data from Eurobarometers #73.2 and #73.3 for 2010 on the difficulties a youngster under the age of twenty five has had paying their bills. Exact questions asked are set out at the end of the table.

It is apparent that, as might be expected, the unemployed and the least skilled are especially fearful of being homeless. This is a big concern in the Czech Republic, Estonia, Latvia and Lithuania, Poland, Spain and the UK. The French are the most pessimistic of the future. Those aged 25-34 have the highest fears of being homeless followed by the young.

Column 2 looks at reported levels of optimism - the unemployed are pessimistic. The Swedes, the Estonians, the Danes and the Finns, seem especially optimistic. The young are optimistic (Blanchflower, 2011). Column 3 suggests that the young are especially content with their place in society. Once again the unemployed are clearly downbeat.

Column 4 restricts itself to young people under the age of twenty-five. Young men are less likely to have problems paying their bills than young women. As would be expected these problems are higher for the less educated. Youngsters in Sweden, followed by Luxembourg, Iceland and Denmark report the least difficulty paying their bills, while those in Bulgaria, and in Greece, Latvia and Lithuania, where youth unemployment is particularly high (Table 2)

Table 12 performs a similar exercise to Table 10, estimating a series of life satisfaction equations for the United States using data for 2008 and 2009 pooled, from the Behavioral Risk Factor Surveillance survey (BRFSS). Note the life satisfaction question in the two surveys is slightly different.

Eurobarometer question
'On the whole are you not at all satisfied; not very satisfied; fairly satisfied or very satisfied with the life you lead?

BRFSS question

'In general, how satisfied are you with your life? Very dissatisfied; dissatisfied; satisfied or very satisfied’?

For earlier work with these data see Oswald and Wu (2010, 2011) and Blanchflower (2009).24

RHS controls are as in Table 10 for Europe, along with controls for states plus Guam, US Virgin Islands and Puerto Rico; although here the sample does not include youngsters under the age of eighteen. Controls for income are also included. In total there are nearly 800,000 observations and just over 26,000 for those age 18-24. Happiness is U-shaped in age, lower for separated people and the least educated and men are less happy in the overall sample. When the sample is restricted to the young in column 2 the sign reverses and young men are happier than young women. In both columns, unemployment lowers happiness, but just as we found for Europe this effect is smaller for the young than for adults. This is also true in columns three and four, which include controls for income. Young students are especially happy.

So increasing levels of youth unemployment will likely lower the levels of happiness of the young, but perhaps by less than older groups, presumably because they have fewer responsibilities. But fears of homelessness are greater among the young. Since this is not a longitudinal study, we cannot comment on the duration of unhappiness associated with unemployment spells. Such effects may be relevant for our next contribution – the long-term effects of youth unemployment.

5. Youth unemployment creates permanent scars rather than temporary blemishes

We now turn to examine recent evidence on youth unemployment in the UK. We find evidence that spells of youth unemployment have harmful impacts on a number of outcomes - happiness, job satisfaction, wages and health - many years later.

There is new evidence that even youngsters who choose to go to college or university are hurt if they enter the labour market during a recession. Lisa Kahn (2010) has recently shown that the labour market consequences of graduating from college in a bad economy have large, negative and persistent effects on wages.25 Lifetime earnings are substantially lower than they would have been if the graduate had entered the labour market in good times. Furthermore, cohorts who graduate in worse national economies


tend to end up in lower-level occupations.

Work by Giuliano and Spilimbergo (2009) suggests that the period of early adulthood (between 18 and 25) seems to be the age range during which people are more sensitive to macroeconomic conditions.\textsuperscript{26} They found that being exposed to a recession before age 17 or after age 25 has no impact on beliefs about life chances. However, youngsters growing up during recessions tend to believe that success in life depends more on luck than on effort; they support more government redistribution, but have less confidence in public institutions. Recessions seem to adversely effect youngsters’ beliefs.

In order to explore the impact of unemployment while young on subsequent outcomes we examined data from the 1958 birth cohort, the National Child Development Study (NCDS). The NCDS has followed a cohort of people who were born in one week - the 3\textsuperscript{rd} to the 9\textsuperscript{th} March 1958. The National Child Development Study (NCDS) is a continuing longitudinal study that seeks to follow the lives of all those living in Great Britain who were born in one particular week in 1958.

To date there have been seven attempts to trace all members of the birth cohort in order to monitor their physical, educational and social development. The first three sweeps were carried out by the National Children's Bureau, in 1965, when respondents were aged 7, in 1969 (NCDS1), aged 11 (NCDS2), in 1974, aged 16 (NCDS3). The fourth sweep, NCDS4, was conducted in 1981, when respondents were aged 23. The fifth sweep was carried out in 1991, when respondents were aged 33 (NCDS5). For the sixth wave, conducted in 1999-2000, when respondents were aged 41-42 (NCDS6), fieldwork was combined with the 1999-2000 wave of the 1970 Birth Cohort Study (BCS70). The seventh sweep of NCDS was conducted in 2004-2005, when respondents were aged 46-47 years (NCDS7). It was conducted by telephone, and aimed to update the information gathered at NCDS6 in 1999-2000.

We have information available to us at age 23 in 1981 on 12537 respondents whether a) the respondent had ever been unemployed since the age of 16. Unemployment rates in the UK had risen from 5.4% in 1979 to 6.8% in 1980 and 9.6% in 1981, when the UK had moved into recession. Unemployment would eventually peak at 11.4% in the spring of 1984. In the sample, 44% reported that at some time in their working lives they had been unemployed. The question is whether unemployment when young impacts outcomes later in life and whether the effect an unemployment spell when young is greater than when older.

Here we examine four outcomes in 2004/5 when the respondents were aged 46-47 years a) life satisfaction b) self-reported health status and two for workers only c) job satisfaction and d) (log of) gross weekly wages in 2004/5 in NCDS7. We also make use of data on whether the respondent was unemployed at age 33 in NCDS5 in 1991. The issue is whether a period of unemployment when young has lasting effects; it turns out

that it does. We also include a unique set of controls identifying father's social class when the respondent was born (and reported in the PMS 1958) as well as ‘11-plus’, verbal and non-verbal test scores reported at age 11 in NCDS2 in 1969 - tests at the local level called 11-plus were given a that time to determine entry to grammar school. We are also able to include an indicator variable on health at age 23 measured by the malaise score (indicating a tendency towards depression), which is highly significant. In addition we can include controls for marital status (5), highest qualification (7), region (8) labour force status (11) home ownership (5), registered disability and gender. In the job satisfaction equations we only include three labour force status dummies, exclude the marital status and home ownership dummies and include 58 industry dummies. In the wage equation the sample is limited to employees and hence only has a part-time employee dummy. The results show that youth unemployment continues to hurt two decades later for the four 2004/5 outcome variables listed above, while unemployment in one’s early thirties has little effect. As we will see, there are permanent scars from youth unemployment.

Results are reported in Table 13. We look at the four outcomes in turn.

i) **Life satisfaction.** Respondents in NCDS7 were asked "On a scale from 0 to 10, where ‘0’ means that you are completely dissatisfied and ‘10’ means that you are completely satisfied, what number corresponds with how satisfied or dissatisfied you are with the way life has turned out so far?" The mean life satisfaction score was 7.57 and 7.71 if the respondent had not been unemployed at age 23 or before and 7.42 if they had. Column 1 reports the results of estimating an ordered logit. Most of the results are standard; life satisfaction is higher for married people, the educated, workers, especially those who work full-time, those from higher social classes home owners and those who are not disabled or sick or depressed (a low malaise score). Those currently unemployed are less happy; there are enduring effects from spells of unemployment while young, which continues to lower happiness more than two decades later. Clark et al (2001) also found, using panel data for Germany from the GSOEP that past unemployment lowers life satisfaction.28

In column 1 it is apparent that, as is consistently found in all happiness equations, the current unemployed are less happy. Also, if the individual had experienced any spell of unemployment before the age of twenty-three, this lowers happiness over twenty years later at age 46. In contrast, a spell of unemployment at age 33 has no effect on current

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27 For a study using the NCDS Malaise scores at ages 23 and 33 see S.Y. Cheung and A. Buchanan (1997), 'Malaise scores in adulthood of children and young people who have been in care', *Journal of Child Psychology and Psychiatry*, 38(5), pp. 575 - 580. For an analysis of unemployment before the age of 23 and work histories of the NCDS birth cohort see P.E. Elias and D.G. Blanchflower (1989), *Occupational earnings and work histories: who gets the good jobs?*, Department of Employment Research Paper No. 68. D.N.F. Bell and D.G. Blanchflower (2010), 'Young people and recession: A lost generation?' also use NCDS to examine subsequent outcomes at age 50.

happiness. In column 2 it is notable from the significance of the interaction term between having had a spell of unemployment up to and including age 23 and present unemployment in column 2, that the impact of past unemployment on wellbeing is greatest for those currently unemployed. This contrasts with the findings of Clark et al’s who found that “the negative well being effect of current unemployment is weaker for those who have been unemployed more often in the past” (2001, p. 221). The main difference though is that their measure of past unemployment relates to the proportion of the preceding three years that had been spent in unemployment, whereas in Table 9 it refers it an unemployment spell over twenty years earlier.

ii) Health status. Respondents in NCDS7 were asked "Please think back over the last 12 months about how your health has been. Compared to people of your own age, would you say that your health has on the whole been' - 1=excellent; 2=good; 3=fair; 4=poor or 5= very poor?" Of those who had been unemployed in NCDS4 27.8% said they were in excellent health compared with 34.3% of those who had not been unemployed. Column 3 of Table 13 estimates an ordered logit with self-reported health as the dependent variable. Once again the youth unemployment variable enters significantly and negative, whereas being unemployed at age 33 did not have a significant impact on health. The Malaise score is strongly negative also. Social status of father at birth matters for health nearly fifty years later. The currently unemployed are not less healthy than full-time employees.

iii) Job satisfaction. Workers were asked for their degree of satisfaction with their current job. Possible answers were “very dissatisfied; somewhat dissatisfied; neither; somewhat satisfied and very satisfied". Column 3 reports the results of estimating an ordered logit. Youth unemployment lowered job satisfaction whereas middle-age unemployment did not.

iv) Log of gross weekly wages. Column 5 of the table estimates a log wage equation. Past unemployment is also significantly negative. Those with more education earn more, as would be expected. High IQ score at 11 continues to raise wages two decades later.

People are impacted adversely, in terms of reduced wellbeing, by increases in unemployment. The unemployed themselves lose their jobs but there is a much wider loss of wellbeing. High national unemployment lowers wellbeing especially of the unemployed. It turns out that spells of unemployment are especially harmful to the individual - and to society - when young people become unemployed. A spell of unemployment when young continues to have a negative impact in later life.

Youth unemployment is especially harmful. As we noted above there is scant evidence to suggest that increases in unemployment are attributable to the introduction of the minimum wage or to the presence of temporary workers from Eastern Europe or that the young have priced themselves out of work. The onset of recession, at a time when the size of the youth cohort has temporarily increased, has made matters considerably worse as youths are especially vulnerable to movements in the business cycle. Now is the time to act.
6. Conclusions
In this paper we have documented the increase in youth unemployment since the start of the great recession. While youth unemployment rates have increased in almost all countries, there has been wide divergence in the size of this increase. Particularly large increases have occurred in countries that have suffered financial crises such as Spain, Greece and Ireland. In contrast, youth unemployment has remained relatively low in Austria, Denmark, Germany and the Netherlands. It appears that this is in large part due to government intervention through active labour market policies and by reducing hours.

Cross-country differences in youth unemployment rates may reflect variations in willingness to cohabit with parents across Europe, differences in the size of the youth cohort, in education and skill levels and in the efficiency of labour markets, both on the intensive and extensive margins. In common with our past work, we find that those on the margins of the labour market such as foreigners and those in nonwhite ethnic groups are more likely to be unemployed. Thus far, the recession also seems to have borne more heavily on males than on females.

Our micro-econometric analysis confirms that broadly the same specification provides a consistent explanation of higher rates of youth unemployment in Europe, the USA and the UK. We also find that these specifications are also consistent through time in the UK and USA, though typically it appears that the relative disadvantage of youth in the labour market has increased during the Great Recession.

Separate analyses of other labour market characteristics such as having lost a job, being able to keep the job, or being likely to find a job, are consistent with much higher job turnover among youths. Thus, while those aged 15 to 24 are more likely then it any other age group to lose a job, they are also the most confident about their ability to find a new job. They are also gloomy about their ability to keep job. Our analysis of the company survey showed that smaller firms have more benevolent work climates. It also indicated that work conditions were particularly positive in Denmark and Sweden but negative in the Baltic States. The economic situation was viewed particularly negatively in Hungary, Ireland and the Baltic States.

Our analysis of life satisfaction showed that the young were particularly happy, but that other characteristics such as unemployment and lack of education had a negative effect on subjective well-being.

There are clear cross-country differences in the experience of youth unemployment during the Great Recession, but it is acknowledged to have become a much more important policy issue in the last two years by bodies such as the EU, OECD and ILO. Our analysis suggests that lack of effective demand played a key role in increasing youth unemployment: the cause was not a sudden change in institutional labour market frictions.

It is especially worrying that youth unemployment rates are so high in a number of the A8 Accession countries including Latvia, Lithuania, Estonia and Slovakia that have been
hit hard by recession. In part this reflects the fact that the scale of the output drop experienced during the recession especially in Latvia, Lithuania and Estonia was especially large. The continuing sovereign debt crisis problems in Spain and Ireland also appear to be hitting the young, and particularly the least educated, the hardest. Many of these youngsters report having trouble paying their bills. The concern is that such spells of unemployment while young have long lasting effects, which would be bad for the individuals and for the countries themselves, potentially raising the natural rate of unemployment in the long run. The youngster's optimism that we have observed may yet prove to be misplaced. That could have dire consequences for society if they, meaning young men principally, turn to crime as an alternative to a lack of employment opportunities (Freeman, 2000). Crime rates are presumably set to rise, and especially street crimes and burglaries.

The immediate policy response could therefore be to increase the demand for labour generally, or to seek to change the balance of demand in favor of younger workers. The most readily available lever for either of these approaches is fiscal policy. Possibilities include temporary payroll tax holidays for firms who employ young people which would subsidize their employment.

But this should not be taken as suggesting that efforts to improve the education, skills and employability of the young in the long-term as suggested by the OECD as part of its Jobs for Youth programme in 16 countries (www.oecd.org/employment/youth) should not also be a focus of policy intervention. This age group was not responsible for the recession. Youngsters should not be expected to pay for it through potentially long-run adverse labour market outcomes.

---

Table 1. Employment and GDP during the Great Recession (%)

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Source: Eurostat.
http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home
Table 3. Share of young adults living with their parents by gender, 2008, in %

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Source: Young adults in the EU27 in 2008, Eurostat 149/2010 - 8 October 2010
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Source: Eurobarometers #73.2, February-March 2010 & #73.3 March-April 2010, pooled; Eurobarometers #73.1 Jan-Feb 2010; #71.1 Jan-Feb 2009; #69.1, Feb-March 2008, #67.1, Feb-March 2007 and European Social Survey, 2008.

Notes: excluded categories Belgium, Age left school<16 and 45-54. T-statistics in parentheses.
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<th>(2) Ability to keep job</th>
<th>(3) Likely to find a job</th>
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Source: Eurobarometer #71.2, May - June 2009, ZACAT Study# 4972.
Notes: excluded categories Belgium, Age left school<16 and 45-54. 'Health problems' variable relates to whether the individual suffers from a chronic physical or mental health problem, which affects their daily activities. In column 1 the dependent variable is set to one if the respondent says that "as a result of the economic crisis they have lost their job", zero otherwise and includes the full sample including those studying. Column 2 the dependent variable is 'How confident would you say you are in your ability to keep your job in the coming months? Are you not at all confident; not very confident; fairly confident or very confident? and is estimated as an ordered logit. Column 3 the question is "if you were to be laid-off, how would you rate on a scale of 1 to 10, the likelihood of you finding a job in the next six months? '1' means that it 'would be not at all likely' and '10' means that it 'would be very likely'. T-statistics in parentheses.
Table 6. Economic conditions according to company representatives, 2009

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<th>Economic Situation</th>
<th>Problems recruiting</th>
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<tr>
<td>Croatia</td>
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<td>-.5052 (4.89)</td>
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Q1. How would you rate the current general work climate in your establishment? Is it very good, quite good, somewhat strained or very strained?
Q2. How would you rate the economic situation of this establishment? Is it very good, quite good, neither good nor bad, quite bad or very bad?
Q3. Does your establishment encounter difficulties in finding staff for skilled jobs?
Q4. Does your establishment encounter difficulties in finding staff for low skilled or unskilled jobs?
Table 7. Probability of being unemployed in the USA, 1979-2009 (dprobits)

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N: 208,716  447,684  209,432  485,243
Pseudo R²: .0782  .0806  .0635  .0589

Notes: excluded categories 16 years of age; 1st grade, and white.
Columns 1-3 use Matched Outgoing Rotation Group files of the CPS while column 4 uses the CPS Basic monthly files January-July. T-statistics in parentheses. Sample is the workforce (employed + unemployed). Equations include 50 state dummies. 2010 data include 6 month dummies.
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Notes: excluded categories: Tyne and Wear; degree and white.
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Notes: excluded categories - Belgium; Age Left school (ALS) <16; Left-right scale - left and single. All equations also include a further fourteen occupation dummies for the employed.

Q1. On the whole are you not at all satisfied; not very satisfied; fairly satisfied or very satisfied with the life you lead? Q2. How would you judge the current situation in each of the following? Your personal job situation - very bad; rather bad; rather good or very good. T-statistics in parentheses.

Source: Eurobarometer #71.1, January-February 2009
Table 10. Happiness ordered logit, 2008

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/cut1        | -5.0682     | -9.2255    |
/cut2        | -2.9865     | -7.3331    |
/cut3        | -.0582      | -4.4083    |

Adjusted R² | .0785       | .0619      |
N           | 48781       | 5414       |

Source: International Social Survey Programme, 2008
Notes: excluded categories; employed full-time; Austria; no formal qualification and never married.
Q. If you were to consider your life in general these days, how happy or unhappy would you say you are, on the whole? Would you say… 4=Very happy; 3=Fairly happy; 2=Not very happy, or 1=Not at all happy?
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<th>Optimism</th>
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cut2  2.4110  -.1741  2.2954
cut3  4.1344  2.0649
N     25,618   26,164  26,170    6060
Pseudo/Adjusted R² .0575  .0589  .2024  .0916

Source: Columns 1 -3 Eurobarometer #72.1, August-September 2009. Column 4 Eurobarometers #73.2, February-March 2010 & #73.3 March-April 2010, pooled.

Notes: excluded categories Belgium, age 45-54, employed and ALS<16. T-statistics in parentheses. Columns 1, 2 and 3 ordered logits and column 3 is an OLS. Column 4 also includes an insignificant survey dummy.

Questions - with Euro 27 weighted proportions
Q1. How likely is it you will become homeless yourself - not at all likely (60.9%); not very likely (32.2%); fairly likely (5.6%) and very likely (1.3%)?
Q2. Please tell me whether you totally disagree (8.7%), tend to disagree (28.5%), tend to agree (44.0%) or totally agree (17.4%) with each of the following statements - You are optimistic about the future?
Q3. On the following scale, step '1' corresponds to the 'lowest level in society', step '10' corresponds to 'the highest level in society'. Could you tell me which step you would place yourself on? (mean=5.61, SD=1.49)
Q4. During the last twelve months would you say you have had difficulties to pay your bills at the end of each month - 3=most of the time (9.0%); 2=from time to time (33.1%); 1=almost never/never (57.9%)?
Table 12. Life satisfaction, United States, 2008-2009 (ordered logits)

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<th>All ages</th>
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</table>
Notes: all equations include 50 state dummies plus Guam, Puerto Rico and US Virgin Islands and 10 income dummies. Excluded categories ages 45-54; wage worker and no schooling and age 18 in column 3.
Q. 'In general, how satisfied are you with your life? Very dissatisfied; dissatisfied; satisfied or very satisfied'? T-statistics in parentheses.
<table>
<thead>
<tr>
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<th>Life satisfaction</th>
<th>Life satisfaction</th>
<th>Health status</th>
<th>Job satisfaction</th>
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<td>Unemployed age ≤23</td>
<td>-1.270 (2.62)</td>
<td>-1.169 (2.40)</td>
<td>-1.534 (3.05)</td>
<td>-0.1965 (3.65)</td>
<td>-0.0770 (3.82)</td>
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<td>Unemployed age 33</td>
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<td>Unempd*Unemp ≤23</td>
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<td>-0.9090 (2.17)</td>
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<td>-0.4446 (7.89)</td>
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<td>-0.4094 (5.90)</td>
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<td>0.0857 (1.19)</td>
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<td>-0.7876 (29.18)</td>
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<td>0.5117 (5.76)</td>
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<td>PT self-employed</td>
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<td>0.2870 (1.02)</td>
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Figure 1. Cohort size, United States 2008
Figure 2. Cohort size, UK 2008

The graph shows the cohort size for each age group in the UK in 2008. The x-axis represents age groups, starting from less than 1 year to 30 years, and the y-axis represents the cohort size in thousands. The data indicates a significant increase in cohort size from ages 10 to 25 years, with a peak around 23 years.
Figure 3. Cohort size, Sweden, 2008

[Bar chart showing cohort sizes for different age groups in Sweden in 2008]
Figure 4. Fear of Unemployment, 2007-2010