



## Youth Unemployment: Causes and Consequences

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### Abstract:

*Increase in the share of youth population due to demographic 'dividend' or the 'Youth bulge' seems to be one of the sources of future economic growth globally. An increasingly challenging phenomenon for both developing and advanced economies, the negative consequences of long-lasting youth unemployment both at the individual and the societal level are well established. This paper analyses the trends in labor forces and workforce participation rates, unemployment, joblessness, working poor, growth and employment elasticity etc. the problem of unemployment has become more acute in all over world as the anticipated additions of the existing unemployed persons' backlog have been increasing at a disquieting pace over the last few years. A new ILO report says the long-term impact of the youth employment crisis could be felt for decades, creating a generation at risk of suffering decent work deficits throughout their lives and causing distrust in the socio-economic and political systems.*

**Keywords:** *Joblessness, labor force, Workforce participation rates, Youth unemployment*

### 1. Introduction

Developing countries are becoming increasingly prominent in the world economy as emerging market share and responsibility within the global economy increases. Youth employment and unemployment is a challenging policy arena for developing countries, and little empirical evidence is available to inform policy planning and development. The importance of youth unemployment can hardly be overestimated. The youth are the potential and future of every country and governments with a long-term vision for welfare and development in their countries are concerned with the best ways to integrate the youth into the labor force. The topic has been receiving media attention and has been discussed in many business and policy forums.

The purpose of this brief paper is to introduce the reader to the topic. After defining youth unemployment, it provides an overview on the extent of youth unemployment, Global Employment Trends, discusses some of the main reasons and consequences for youth unemployment.

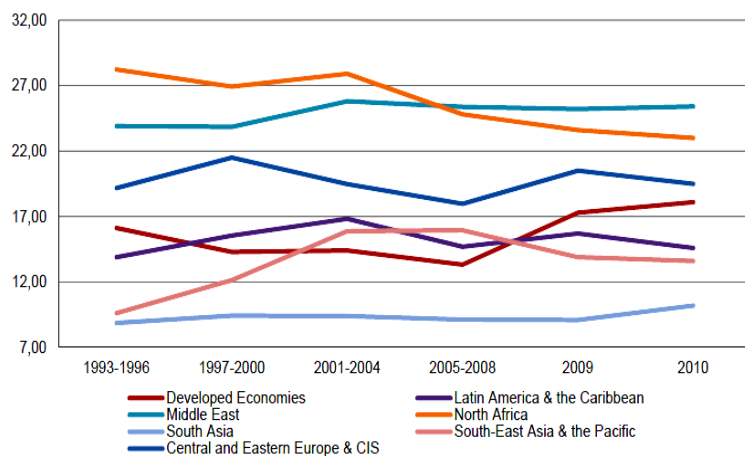
### 2. Definition of Youth Unemployment

The United Nations define youth as the age group between 15 and 24. Variation in the definitions of individual countries' official statistics makes cross-country comparisons difficult. In some analyses, the youth are further divided into teenagers (15-19 years old) and young adults (20-24 years old). Some authors argue that the unemployment numbers for these two groups and the challenges they face vary significantly and would thus call for separate approaches for alleviating unemployment.

An individual is typically considered unemployed when he or she has not worked for a specific period of time but would like to and is, hence, actively searching for work. Yet, the definition of unemployment can also vary from country to country. In some countries, students who are actively looking for a job is counted as part of the work force while, in others, they are not. The number of inactive youth, i.e. those not actively searching for work and not being in the labor force or in education can also exhibit quite a variation across countries.<sup>2</sup> Such data of the non-employed, which comprises of both unemployed and inactive individuals, can be more meaningful as it gives a clearer idea of the real magnitude of the problem. It is, however, less viable due to differences in definitions and problems with the availability.

There is a significant variation in youth unemployment rates across countries. The figure below shows the percentage of unemployed youth as a fraction of all youth in several regions of the world. The numbers show large differences between regions with the Middle East and North Africa with consistently higher rates.

**Figure 1:**  
Youth unemployment rate since the 1990s



Note: Youth unemployment rate is the unemployment rate among young workers aged 15–25.

Source: ILO, Trends Econometric Models, taken from various issues of the ILO Global Employment Trends.

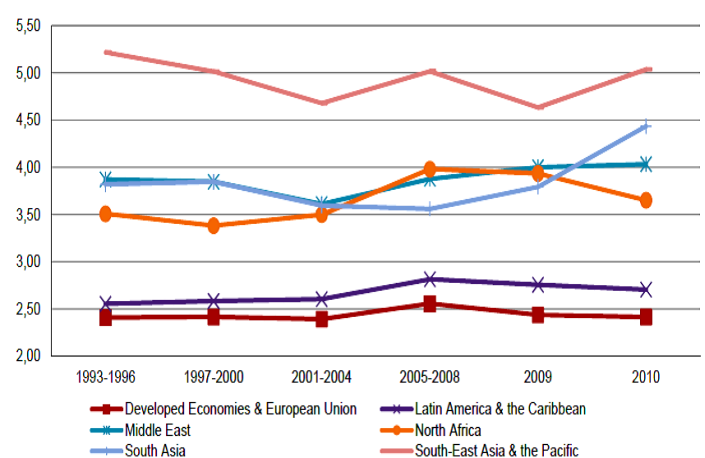
The unemployed often belong to particular groups: ethnic minorities, high school dropouts, residents of poorer areas (Freeman & Wise, 1982). As the socio-economic situation of these groups is problematic in general, this underlines the importance of tackling youth unemployment. The numbers of figure 1 do not only expose the large regional differences but also the fact that youth unemployment has been consistently very high. The next figure shows how it compares to adult unemployment in the same regions and for the same periods. The striking

fact is that youth unemployment is considerably higher than unemployment among adults and has been so throughout the last two decades. The biggest relative difference is in South-East Asia and the Pacific, while developed economies and the European Union seem to have youth unemployment on average about two to two and a half times higher than adult unemployment.

### 3. Global Employment Trends

The International Labour Organisation in a recent report says the global youth unemployment rate in most countries, especially developing ones, is close to its crisis peak. According to a report released by the International Labour Organisation, 73.4 million young people are expected to be out of work in 2013, an increase of 3.5 million between 2007 and now.

**Figure 2:**  
Ratio of youth unemployment over adult unemployment rate



Source: ILO, Trends Econometric Models, taken from various issues of the ILO Global Employment Trends.

The report entitled, ‘Global employment trends for youth 2013: A generation at risk’, stated that 90 per cent of the global youth population was from developing countries, with Nigeria being one of them.

It said, “Developing regions face major challenges regarding the quality of available work for young people. This report confirms that in developing economies, where labour market institutions, including social protection, are weak, large numbers of young people continue to face a future of irregular employment and informality.



Fig. 3

unemployment rate is projected to rise to 12.8 per cent, with growing regional disparities as expected improvements in advanced economies will be offset by increases in youth unemployment in other regions, mainly in Asia. In 2012, the youth unemployment rates were highest in the Middle East and North Africa at 28.3 per cent and 23.7 per cent, respectively, and lowest in East Asia (9.5 per cent) and South Asia (9.3 per cent).

“Young workers often receive below average wages and are engaged in work for which they are either overqualified or under qualified. As much as two-thirds of the young population is under utilised in some developing economies, meaning they are unemployed; in irregular employment, most likely in the informal sector; or neither in the labour force nor in education or training.”

The global youth unemployment rate, which had decreased from 12.7 per cent in 2009 to 12.3 per cent in 2011, increased again to 12.4 per cent in 2012, and has grown to 12.6 per cent already this year. This is 1.1 percentage points above the pre-crisis level in 2007 (11.5 per cent). By 2018, the global youth

unemployment rate is projected to rise to 12.8 per cent, with growing regional disparities as expected improvements in advanced economies will be offset by increases in youth unemployment in other regions, mainly in Asia. In 2012, the youth unemployment rates were highest in the Middle East and North Africa at 28.3 per cent and 23.7 per cent, respectively, and lowest in East Asia (9.5 per cent) and South Asia (9.3 per cent).

Between 2011 and 2012, regional youth unemployment rates increased in all regions except in Central and South-Eastern Europe (non-European Union), Commonwealth of Independent States, Latin America and the Caribbean, and South-East Asia and the Pacific. From 2012 to 2018, the youth employment-to-population ratio is projected to decrease in all regions except in the developed economies and the European Union. The largest decrease is projected in the Asian region, ranging from 1.1 percentage points in South Asia to 2.5 percentage points in East Asia.

In countries and regions with high poverty levels and high share of vulnerable employment, the youth employment challenge is as much a problem of poor employment quality as one of unemployment. For instance, South Asia and sub-Saharan Africa present relatively low regional youth unemployment rates, but this is linked to high levels of poverty, which means that working is a necessity for many young people. In India, there is evidence that youth unemployment rates are higher for families with incomes over the \$1.25 poverty rate than for those with incomes under the line.

#### 4. Causes

There are a number of causes of youth unemployment on many of which there is a fair amount of consensus. The most significant is poor macroeconomic performance. Lack of growth affects everyone in the economy and some groups are particularly hard-hit. In fact, youth are more affected because youth unemployment tends to be super-cyclical. It fluctuates stronger than adult unemployment (Ryan 2001).

The factors contributing to this higher cyclical volatility are several: young workers usually have lower job protection. In addition, they are most likely to have gained less job-specific experience; the

companies have invested less in training them and therefore lose less when laying them off relative to an adult experienced worker. Also, severance pay tends to increase with tenure, making it less costly to fire a young worker (cf. Pagés, Montenegro 2007).

Youth may also be more likely than adult workers to resign voluntarily because they are more likely to be willing to explore different opportunities before they settle. This also holds in times of economic downturn (O'Higgins 2001: 40). In addition, they face a lower opportunity cost for resigning, are less likely to have dependents that they need to support, and turning to higher education is a more natural and viable option for them than for adults.

Youth also face higher barriers to entry into the labour market due to their lack of experience. Shorter credit history and lack of access to business networks makes it more difficult for them to become successful entrepreneurs (Coenjaerts et al. 2009: 6). Moreover, in a recession, before starting to lay people off, firms first stop hiring. Given that young workers are represented disproportionately within the pool of searching individuals, they will be disproportionately affected by such a slowdown in hiring (O'Higgins 2001). Another important contributor to higher youth unemployment is a rising youth population.

This is particularly relevant in the Middle East and Northern Africa (MENA) and in South and Sub-Saharan Africa, where limited labour demand prevents many youth from finding a proper job (cf. Biavaschi et al. 2012). It can be effectively counterbalanced by a steady economic growth (O'Higgins 2001). In the ageing societies of developed nations, we rather observe a shrinking youth population. Some contributors have suggested that this will help the problem of youth unemployment to solve itself. Yet, youth outcomes have deteriorated despite an ageing population (Ryan 2001)

Employment protection legislation (EPL) also affects youth unemployment. During the 1980s, European economies suffered from high rates of unemployment. Policy makers consequently introduced a wide array of reforms. A common measure has been to ease EPL for temporary (fixed-term) contracts, while leaving EPL for permanent contracts unchanged.

These reforms have contributed to raising employment during upturns, but many of the new jobs have been temporary jobs (Bentolila, Boeri, Cahuc 2010). These temporary jobs are mainly held by youth (e.g. Ryan 2001; OECD 2004). During recessions, many of the temporary jobs were the first to be shed, hence creating youth unemployment (e.g. Boeri 2009).

Indeed, during the recent great recession, youth have been hit particularly strongly and temporary contracts have become the dominant contract type for newly established contracts of young people (O'Higgins 2012). The problem of segmented labour markets is particularly severe in Mediterranean countries of Europe, most notably Spain. Some authors argue that employment protection legislation, and also minimum wages, do not play any significant role for the level of youth unemployment (O'Higgins 2001; Freeman 2005; Cazes, Nesporova 2003; Godfrey 2003). Others claim that the effects are unclear (Coenjaerts et al. 2009: 7).

Finally, the mismatch between the demand and supply of skills possessed by young workers has been mentioned to contribute to higher youth unemployment rates (Coenjaerts et al. 2009). Manacorda and Petrongolo (1999) show that there is a relationship between skills mismatch and total unemployment across OECD countries. The skill mismatch issue is particularly important in the developing world. For example, firm surveys in the MENA region show that entrepreneurs regularly cite the lack of skills as an important constraint to hiring, in some cases suggesting that it outweighs concerns with labour market regulations (Assaf, Benhassine 2003). Skill mismatch, combined with a growing share of youth in the labour force in MENA, has created a situation in which too many young people have a hard time finding jobs (Assaad, Roudi-Fahimi 2007: 6). Besides the MENA region, skill mismatch also

characterizes the youth labour markets in Latin America, Central and Eastern Europe, and in parts of Asia.

## 5. Consequences

For various reasons, youth unemployment rates are higher than adult unemployment rates. However, it remains disputed whether this is problematic as such. In fact, unemployment may be a smaller problem for the youth because it typically is of shorter duration (O'Higgins 2007).<sup>3</sup> Moreover, youth may simply switch jobs more often because they are seeking for the right job, so that the higher unemployment rates which we observe are mainly search unemployment and, thus, not particularly harmful. Yet, unemployment early in life may have persistent negative consequences for the persons' subsequent career, as it may impair their productive potential and employment opportunities (O'Higgins 2007; Ryan 2001). Indeed, there appear to be scarring effects attached to early unemployment spells, which significantly reduce subsequent wages and increase the probability of future unemployment spells (Nordström Skans 2005; Arulampalam 2001). Several reasons for such scarring effects have been suggested: 1. Patterns of behaviour established at an early stage tend to persist. Thus, certain behaviour "inherited" from unemployment spells may make these workers less productive (e.g. O'Higgins 2007). 2. Skills and motivation may decay during the unemployment spell (Ryan 2001). Skills may become obsolete due to non-use, or because organizational or technological developments make formerly acquired skills less valuable (De Grip, van Loo 2002). 3. Employers may take unemployment spells as signalling device, suggesting to them that the person is potentially less productive (e.g. Gibbons, Katz 1991).

Apart from scarring effects, youth unemployment has been found to be associated with drug use and crime (O'Higgins 2007; Fougère, Kramarz, Pouget 2009). This is particularly severe as youth unemployment is typically concentrated among groups which have additional social problems (cf. Freeman, Wise 1982). To the extent that partial reforms of EPL have pushed young people into temporary jobs, further costs are incurred by youth. □ Temporary jobs are the most fragile and least protected, paying lower wages while also giving lower job security. As a result, access to credit and mortgages is often limited for these workers (Boeri 2009).

1. Firms are often reluctant to transform temporary jobs into permanent ones (Bentolila, Boeri, Cahuc 2010).
2. Temporary workers often receive less training, hence harming their long-term employment prospects.
3. Temporary workers are most strongly affected by globalization. It has been shown that labour market adjustment to offshoring occurs mainly via temporary workers. In particular, off shoring is associated with lower wages and higher unemployment probability of temporary, and hence, young workers (Görg, Görlich 2011).

## 6. Conclusion

The employment crisis is severe, especially for young persons. Labour markets worldwide are characterized by fewer, lower-paying jobs that are increasingly vulnerable and proliferating the incidence of working poverty that had trapped nearly one billion workers and their families through 2011. Many developing countries are further facing unsettling high youth unemployment rates and a quickly expanding supply of young labourers in need of work- a result of the youth bulge. These are dangerous conditions indeed. For poor households, smaller and erratic incomes are leading to hunger and malnutrition, worse health, lower educational outcomes, child labour, unsupervised and even abandoned children, escalating vulnerabilities to ongoing or future shocks, and rising rates of domestic violence. For societies at large, labour market frustrations are catalyzing civil unrest unseen in decades.

Reducing unemployment is a challenging task. Tackling youth unemployment without doing it at the expense of other age groups can be even more difficult. However, solutions are abundant: some more specific and applicable only to particular environments, others more general and flexible; some are more disputable, others more widely accepted. The purpose of this paper has been to inform and to serve as a foundation for a discussion that would generate more and novel solutions.

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