Can welfare and labour market regimes explain cross-country differences in unemployment of young people during the crisis?

Dennis Tamesberger[1]

Abstract

The financial and economic crisis, beginning in the year 2007, produced painful outcomes in the labour market and society in general. A number of studies (Bell and Blanchflower 2011; Cahuc et al. 2013; O'Higgins 2012; Scarpetta, Sonnet and Manfredi 2010) point out that youth unemployment in particular has become a major problem. Less recognised is the fact that the increase of long-term unemployment was much higher for young people than for adults. This unexpected finding is of particular concern because of the long lasting negative consequences that occur when unemployment goes beyond being only a short and temporary experience for young people.

If we look at youth unemployment ratios and youth long-term unemployment (Eurostat 2015) we see remarkable cross-country variation, which is not exclusively explainable by the different economic developments of the respective countries during the crisis. On the one hand, there are countries like Finland and Sweden, which have the lowest percentage of youth long-term unemployment. Despite a noticeable decline in economic growth, Finland was able to reach the same level of long-term unemployment as before the crisis. But the youth unemployment ratios of Finland and Sweden are higher than in countries like Denmark, Austria, the Netherlands, Lithuania, Luxembourg and Germany. Germany, Austria and Luxembourg have the lowest youth unemployment ratios in the EU, though in these countries young unemployed individuals have a higher risk of being unemployed long-term compared to Finland and Sweden. Denmark seems to be a special case. Denmark was able to keep the youth unemployment ratio and youth long-term unemployment relative low, despite the fact that Denmark was badly affected by the crisis with three years of GDP contraction. On the other hand, the countries with the highest percentage of youth long-term unemployment are Slovakia, Italy, Greece and Bulgaria. Interestingly, it can be observed that in Slovakia the growth of the GDP by about 10% since 2007 has not lead to the easing of tension on the youth labour market.

This background leads to the research question of how cross-country differences in youth unemployment and in particular in long term unemployment can be explained. Siebert (1997: 39) points out that "any labour market is surrounded by an array of institutional arrangements that form

[1] Department of Economic, Welfare and Social policy, Chamber of Labour, Linz, Austria.

a complex web of incentives and disincentives on both sides of the market”. Therefore, it is a plausible assumption that institutions and labour regimes contribute to cross-country differences. The literature, however, provides no consensus on the influence of institutions on unemployment (e.g. Baccaro, Rei 2007; Bassanini, Duval 2006, Blanchard 2006; Nickel 1997; Stockhammer, Klär 2011). The knowledge concerning the relation of youth unemployment and institutions is even less satisfying. There are only a few works with this focus (e.g. Biavaschi et al. 2012; Breen 2005; Isengard 2003). Also in the literature on welfare state regimes, the issue of unemployment and youth unemployment is underexposed (Cinalli, Giugni and Graziano 2013). The present article contributes to this discussion and tries to deepen the knowledge by analysing the influence of welfare and labour market regimes on youth unemployment, in particular on long term unemployment. For this aim, first a cluster analysis with youth relevant institutions will be applied and second, it will be proved if these welfare and labour market regimes are able to explain cross-country differences in youth unemployment.

References

Baccaro, L.; Rei, D. (2007): Institutional Determinants of Unemployment in OECD Countries: Does the Deregulatory View Hold Water? *International Organization* 61 (3), 527–569.

Blanchard, O. (2006): European unemployment: the evolution of facts and ideas. *Economic Policy* 21 (45), 5–59.

Bassani, A.; Duval, R. (2006): Employment patterns in OECD countries: Reassessing the role of policies and institutions. OECD Publishing (OECD Social, Employment and Migration Working Papers, 35).

Bell, D. N. F.; Blanchflower, D. G. (2011): Young people and the Great Recession. *Oxford Review of Economic Policy* 27 (2), 241–267.

Biavaschi, Costanza; et al. (2012): Youth unemployment and vocational training. *IZA Discussion Paper* No. 6890. Bonn. http://ftp.iza.org/dp6890.pdf (accessed on 10.01.2015).

Breen, R. (2005): Explaining Cross-national Variation in Youth Unemployment. Market and Institutional Factors. *European Sociological Review* 21 (2), 125–134.

Cahuc, P.; Carcillo, S.; Rinne, U.; Zimmermann, K. F. (2013): Youth unemployment in old Europe: the polar cases of France and Germany. IZA Journal of European Labor Studies 2 (18), 1–23.

Cinalli, M.; Giugni, M.; Graziano, P. R. (2013): The policies of unemployment protection in Europe. *International Journal of Social Welfare* 22 (3), 287–289.

Eurostat 2015. Eurostat Database. http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database (accessed on 10.01.2015).

Isengard, B. (2003): Youth unemployment: Individual risk and institutional determinants; a case study of Germany and the United Kingdom. *Journal of Youth Studies* 6 (4), 358–376.

Nickell, S. (1997): Unemployment and Labor Market Rigidities: Europe versus North America. In: *Journal of Economic Perspectives* 11 (3), 55–74.

O'Higgins, N. (2012): This Time It‘s Different? Youth Labour Markets During ‘The Great Recession’. *IZA-Discussion paper* (6434).

Scarpetta, S.; Sonnet, A.; Manfredi, T. (2010): Rising Youth Unemployment During The Crisis: How to Prevent Negative Long-term Consequences on a Generation? OECD Publishing (OECD Social, Employment and Migration Working Papers, No. 106).

Siebert, H. (1997): Labor Market Rigidities: At the Root of Unemployment in Europe. *Journal of Economic Perspectives* 11 (3), S. 37–54.

Stockhammer, E.; Klär, E. (2011): Capital accumulation, labour market institutions and unemployment in the medium run. *Cambridge Journal of Economics* 35 (2), 437–457.