Tamesberger, Dennis; Bacher, Johann

Article

Combating Youth Unemployment with a Fair EU Youth Guarantee

CESifo Forum

Provided in Cooperation with:
Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Tamesberger, Dennis; Bacher, Johann (2021) : Combating Youth Unemployment with a Fair EU Youth Guarantee, CESifo Forum, ISSN 2190-717X, ifo Institut - Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, Vol. 22, Iss. 04, pp. 03-07

This Version is available at:
https://hdl.handle.net/10419/250925

The Corona Generation: (Not) Finding Employment during the Pandemic

The Covid-19 pandemic and the accompanying policy measures implemented by governments worldwide in order to contain the spread of the coronavirus have strongly affected labor markets. As a consequence, most countries experienced sharp increases in unemployment rates especially at the onset of the pandemic. In many countries, the increase in unemployment was due to a reduction in hiring, thus affecting young job seekers. In this issue of CESifo Forum we provide deeper insights into the labor market effects of the crisis looking at various European countries, the US and Australia over the course of the pandemic. The authors find that young people were hit particularly hard. Furthermore, they analyze and propose policies mitigating these negative effects.

Dennis Tamesberger and *Johann Bacher*

Combating Youth Unemployment with a Fair EU Youth Guarantee*

INTRODUCTION

Young people have been hit hard by the current Covid-19 crisis. The correlation between youth unemployment and economic downturns is well documented (Bell and Blanchflower 2011; Clark and Summers 1982; Dietrich 2013). As a consequence of the financial and economic crisis of 2008, youth unemployment increased significantly, reaching 24.4 percent in 2013, the highest youth unemployment rate in the history of the EU 27 (Tamesberger and Bacher 2020). The circumstance that youth unemployment peaked five years after a recession shows the long-lasting effects of an economic crisis on the youth labor market and the importance of quick and comprehensive policy responses at the national and supranational level. If political responses are too hesitant, like the EU youth guarantee in 2013 (Council of the European Union 2013), or policy interventions are restricted by fiscal consolidation (Heimberger 2020), youth unemployment will become a permanent problem. Entrenched youth unemployment has a wide range of negative scarring effects on the lives of young people (Bartley 1994; De Fraja et al. 2017; Morz and Savage 2006).

It seems that the European Commission (EC) has learned these lessons of the past because they already suggested on July 1, 2020—just four months after the outbreak of Covid-19 crisis—a proposal for a new European Youth Guarantee (EC 2020a). Even though this proposal seems promising, we emphasize in this article the importance of sufficient and fairly targeted EU funding. We propose introducing sufficient funding of EUR 70 billion per year to ensure fiscal relief for those countries that suffer the most economically. Furthermore, we suggest a new formula-based co-financing model[1] in order to guarantee solidarity between the member states.

THE EXTENT OF THE PROBLEM SO FAR

As a result of the recession, youth unemployment has risen in almost all EU member states, but not

* We are indebted to Viktoria Reisinger for her academic assistance.

[1] A first version of this model was published in Tamesberger and Bacher (2020).

Johann Bacher

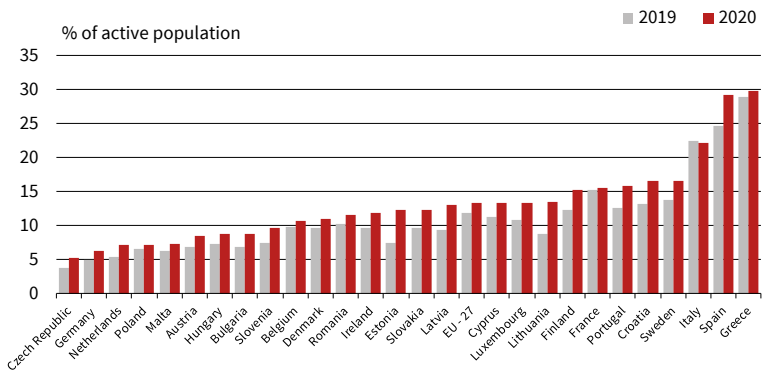
is Full Professor at the Department of Empirical Social Science Research, Johannes Kepler University, Linz, Austria.

Dennis Tamesberger

is a Labor Market Expert at the Department for Economic, Welfare and Social Policy, Upper Austrian Chamber of Labour, Linz, Austria.

Figure 1

EU Youth Unemployment Rates (15–29 years)



Source: Eurostat; authors' calculations. © ifo Institut

as dramatically as expected (Tamesberger and Bacher 2020). Expansionary fiscal policy (Anderson et al. 2020) and the intensive use of short-time work (Schulten and Müller 2020) were able to prevent even more job losses. Youth unemployment among those aged 15–29 years increased in the EU-27 from 4.7 to 5.1 million between 2019 and 2020, which means an increase of about 400,000 young unemployed people. The youth unemployment rate increased from 11.9 to 13.3 percent (Figure 1). The youth unemployment rates vary between 5.3 percent in the Czech Republic and 29.8 percent in Greece. Spain and Italy reach values over 20 percent; their youth unemployment rates were already high in 2019 but have since increased, especially in Spain where the youth unemployment rate rose by 4.5 percentage points.

The Czech Republic, Germany, and the Netherlands are the countries within the EU-27 with the lowest youth unemployment rates. However, even in these countries, youth unemployment rates rose by 1.6, 1.4 and 1.7 percentage points, respectively. Despite the Covid-19 pandemic undeniably having a negative impact on youth unemployment in these states, it had already been an issue before the outbreak.

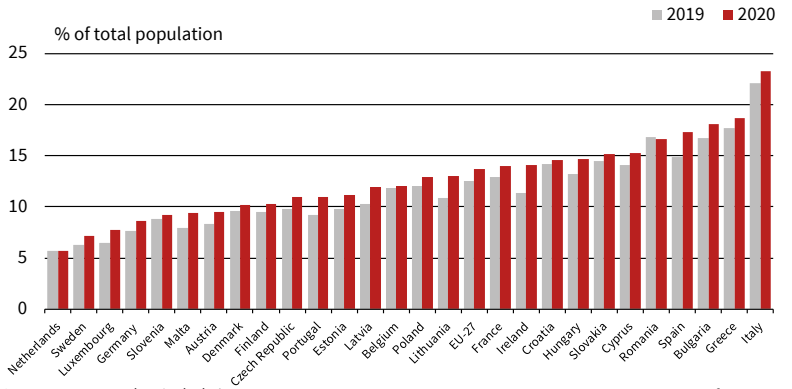
Due to the limited relevance of the youth unemployment rate, researchers focus on an additional indicator known as "not in employment, education or training," abbreviated as NEET (Maguire 2013; Tamesberger et al. 2014). The underlying assumption is that NEET better captures young people who are at high risk of social exclusion. The number of NEETs increased from 9.1 to 9.8 million. The NEET category includes young people who are actively searching for a job (unemployed), as well as those who are inactive or not looking for work. The increase of 700,000 implies that both groups have increased: the rise in unemployed people amounted to about 400,000, while the number of inactive NEETs grew by about 300,000, resulting in a total increase of 700,000.

In the year 2020, Italy had the highest NEET rate at 23.3 percent (Figure 2). Very high NEET rates were also observed in Greece (18.7 percent), Bulgaria (18.1 percent) and Spain (17.3 percent). In contrast, the Netherlands (5.7 percent), Sweden (7.2 percent) and Luxembourg (7.7 percent) had the lowest NEET rates in the EU-27 in the first year of the pandemic. Sweden and Luxembourg are especially interesting cases because they had relatively high youth unemployment rates but very low NEET rates.

It should be remembered that this NEET phenomenon already existed prior to the Covid-19 pandemic. The NEET group is heterogenous (Eurofound 2016; Tamesberger and Bacher 2014). For example, Eurofound (2016) differentiates between the following groups: re-entrants, short-term unemployed NEETs, long-term unemployed NEETs, NEETS unavailable for work or training due to illness or disability, NEETs with family responsibilities, discouraged workers, and other inactive persons. A differentiated view is important in order to be able to design programs tailored to individual target groups.

Figure 2

EU NEET Rates (15–29 years)



Source: Eurostat; authors' calculations. © ifo Institute

THE EUROPEAN YOUTH GUARANTEE IN A NUTSHELL

In the face of the Great Recession, the European Union introduced a Youth Guarantee scheme in 2013 to ensure that all young people under the age of 25 would receive an offer of employment, continued education, an apprenticeship, or a traineeship within a period of four months of becoming unemployed (Council of the European Union 2013). Between 2014 and 2020, the Youth Guarantee was partly financed to a total of EUR 12.7 billion from the EU budget (European Court of Auditors 2015; Andor and Veselý 2018). Even though the aim of the European Youth Guarantee was reasonable, its implementation has caused problems. Rautner et al. (2019) mainly criticize the insufficient funding, the inadequate targeting, the quality of the programs and the slow bureaucratic start. Moreover, the European Court of Auditors highlighted the inadequacy of total funding as one of the risks to the successful implementation of the Youth Guarantee (European Court of Auditors 2015).

On July 1, 2020, the European Commission presented the Youth Employment Support package, which is based on on four pillars:

- a reinforced Youth Guarantee
- future-proof vocational education and training
- a renewed impetus for apprenticeships
- a number of additional measures to support youth employment

The new proposal (EC 2020a) for reinforcing the Youth Guarantee has been changed in the following manner. It covers young people between 15 and 29 years old (up from 25) and it aims to be more inclusive and provide more skills companies require. To tackle youth unemployment, there are different EU funds. It is intended that an additional approx. EUR 22 billion will be spent on youth employment in the form of the European Social Fund, Youth Employment Initiative investments and national co-financing (EC 2020a).

In addition, the EC announced a program called "Recovery Assistance for Cohesion and the Territories of Europe" (EC 2020b). REACT-EU provides an additional fund of EUR 55 billion for 2020 to 2022. Youth unemployment is one criterion for distribution: "The REACT-EU funding will be distributed among Member States, taking into account their relative prosperity and the extent of the effects of the current crisis on their economies and societies, including on youth unemployment" (EC 2020b, p. 1).

The European Economic and Social Committee (EESC 2020) points out that insufficient national capacity for co-financing may hamper the EU Youth Guarantee. Against this background, we suggest a concrete concept of formula-based co-financing for the European Youth Guarantee (see below).

The budget for the Youth Guarantee ought to be higher than the proposed EUR 22 billion. If this amount were available every year, it would mean EUR 2,250 for each NEET young person. If the amount were for three years, the annual budget per NEET would be reduced to EUR 750. The budget of EUR 2,250 or EUR 750 is significantly below Eurofound's proposed budget of EUR 6,670 (2013, adjusted for 2020: EUR 7,140) for each NEET (Eurofound 2015, p. 72). Using the Eurofound budget for each NEET results in a fund of EUR 70 billion per year. This amount may be too high, but it can be used as a rough guideline. The EU Youth Guarantee can serve as a shock absorber similar to the proposed job guarantee by Tcherneva (2020). Accordingly, the budget of the EU Youth Guarantee can be raised in times of economic hardship, for example, to EUR 70 billion and can be reduced in times of economic prosperity.

It is important to point out that due to changing parameters, Eurofound's estimations might need updating. However, calculating our own estimate would go beyond the scope of this article.

FAIR DISTRIBUTION OF EU FUNDING

Our concept is inspired by ideas of formula-based financing for educational systems (Levacic 2008). One main component of formula-based financing is to provide those schools with additional resources that have more disadvantaged students. More equity and transparency are important advantages of formula-based financing (ibid.). One main critique is that the output is neglected (ibid.; Hanushek 2003). In the long term, formula-based financing can integrate the output (outcome) as an additional component.

On the one hand, our concept tries to avoid a substitution effect, i.e., that countries finance their existing programs and reduce their national budget, so that there is no additional effect. On the other hand, the model promotes solidarity among the countries; hence, countries facing high youth unemployment, or a high NEET rate should co-finance less. The further elaboration assumes that the NEET young people are the target group. It is based on the NEET rate in general and not on the increased NEET rate due the Covid-19 pandemic because all NEET youths, especially those needing an intense intervention, and not only those who acquired a NEET status during the coronavirus pandemic, should benefit from the Youth Guarantee. Nonetheless, it might be necessary to include the different economic, social and fiscal problems caused by the Covid-19 pandemic. This will be discussed later.

Our proposal is:

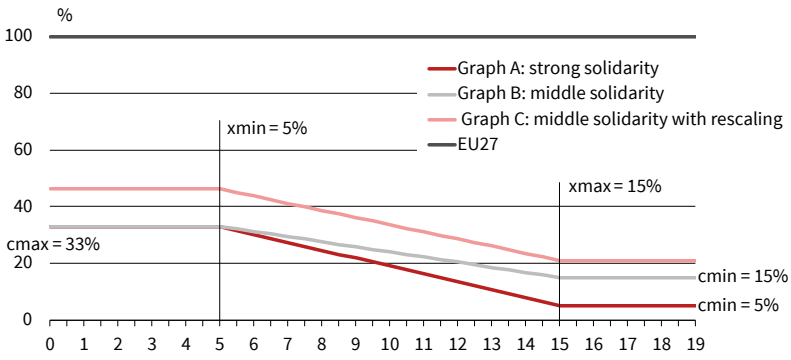
- If the NEET rate x is lower than a threshold $x_{\min}$ ($x < x_{\min}$), the country co-finances $cf = c_{\max}$. The country still receives $1–c_{\max}$ from the EU.
- If the NEET rate x exceeds a certain threshold $x_{\max}$ ($x > x_{\max}$), the EU will co-finance a higher percentage and the country only has to co-finance $cf = c_{\min}$ ($< c_{\max}$) percent of the Youth Guarantee.
- If the NEET rate x lies within the interval ($x_{\min}$, $x_{\max}$), the country co-finances.

$$cf = c_{\max} - \frac{c_{\max} - c_{min}}{x_{\max} - x_{min}} \cdot \left(x - x_{\min}\right).$$

Figure 3 illustrates the underlying idea. The thresholds $c_{\max}$ and $c_{\min}$ should avoid the free rider problem because countries are forced to invest their own money. On the one hand, $c_{\max}$ should not be too high in order to guarantee participation. The factor $\frac{c_{\max} - c_{min}}{x_{\max} - x_{min}}$ and the thresholds $x_{\min}$, $x_{\max}$ ensure solidarity. Higher values of $\frac{c_{\max} - c_{min}}{x_{\max} - x_{min}}$ and of $x_{\min}$, as well as a lower $x_{\max}$ value, express higher solidarity. Line B is characterized by lower solidarity than line A because the slope is flat and countries with higher NEET rates have to co-finance more (the thresholds are constant).

Figure 3

Cofinancing of the European Youth Guarantee



Source: Authors' calculations. © ifo Institute

The contribution c_i of a country to the fund is $c_j = n_j \cdot c_{max} \cdot cf_j \cdot a$, with n_i meaning the number of NEET young people on a certain reference year, e.g., 2021. cf_i refers to the co-financing factor, a = to the scaling factor, if countries should on average finance a certain amount. If $a > 1$, the countries' co-financing obligation increases so that the required limit can be reached (see line C in figure 3).

The model requires the four thresholds to be operationalized. They should be chosen so that the countries can implement sufficient programs on the one hand and that the EU can finance as much as necessary on the other hand. This is clearly a difficult task, but its solution may contribute to a sustainable youth policy in the long run.

After paying into the fund, each country receives an amount s_j according to the number of NEET young people n_j, the purchasing power parities (comparative price level) ppp_j and a normalization factor b:

$$s_j = n_j \cdot ppp_j \cdot b.$$

The normalization factor guarantees that the sum $\sum s_i$ is the amount of the total Youth Guarantee (e.g., EUR 70 billion per year). The integration of purchasing power parities considers the fact that labor market programs cause different costs among the countries due to differences in wages, operating costs, etc. that are reflected in the level of prices.

The specification of the model's parameters requires further research. It might be useful to integrate additional social and economic factors as co-financing factors. Additional criteria might be the poverty rate as a measure of the social component and the general government gross debt as an economic component. Member states with a higher poverty rate and/or a higher debt rate should co-finance less because of their restricted means. Finally, factors could also be included to record how severely the Covid-19 pandemic has affected a country.

In this case, the co-financing factor contains four components (NEET rate, poverty rate, general governmental gross debt, Covid-19 pandemic factor).

CONCLUSION

Although the Covid-19 recession has not caused youth unemployment and the NEET rate to rise as sharply as expected, reducing youth unemployment and the NEET rate is a political necessity at regional, national and European level. In the EU-27, there were around 9.8 million young people in a NEET situation in the year 2020; 5.1 million were unemployed.

Experience from the financial and economic crisis of 2008, when the rise in NEET numbers occurred not immediately but with a delay, suggests that a longer timeframe for action in the form of a Youth Guarantee is essential. This also appears necessary because it is difficult to assess whether sufficient jobs will be available after the Covid-19 crisis has passed.

We propose formula-based financing and distribution for this fund. On the one hand, the concept intends to avoid the substitution effect, whereby countries finance their existing programs with EU funds and do not undertake any additional efforts. On the other hand, the concept clearly promotes solidarity: countries that are more affected by the Covid-19 crisis and the NEET problem should co-finance less in relative terms than countries that are less affected.

Similar to the formula-based financing of school systems, the proposed model could promote transparency and equity in EU funding. Finally, an EU Youth Guarantee with a sufficient budget and rational solidarity distributions would not only show that the EU cares about the next generation but also emphasize that the EU is eager to support economically struggling regions.

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