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# **LABOUR MARKET TRENDS IN BULGARIA AND THE CEE REGION – OVERVIEW AND PERSPECTIVES**

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# Youth Unemployment and NEETs – Reasons and Treatment in Europe with Special Regard to Hungary<sup>1</sup>

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## Youth unemployment in the EU at a first glance

The phenomenon of youth unemployment is seen as one of the most severe problems in Europe. Not only because it costs a lot for the society, but also because it affects the future of the society. If an increasing part of the new generations begins its adult life with the feeling of being unnecessary and having no chance to integrate into the mainstream society, the future will be burdened with more and more inexperienced and disappointed people with all its consequences to the actual status quo.

The data illustrating the gravity of the situation are well known; below we refer only to some of them. It is important to know that “unemployment” means those persons who actively seek a job (ILO definition).

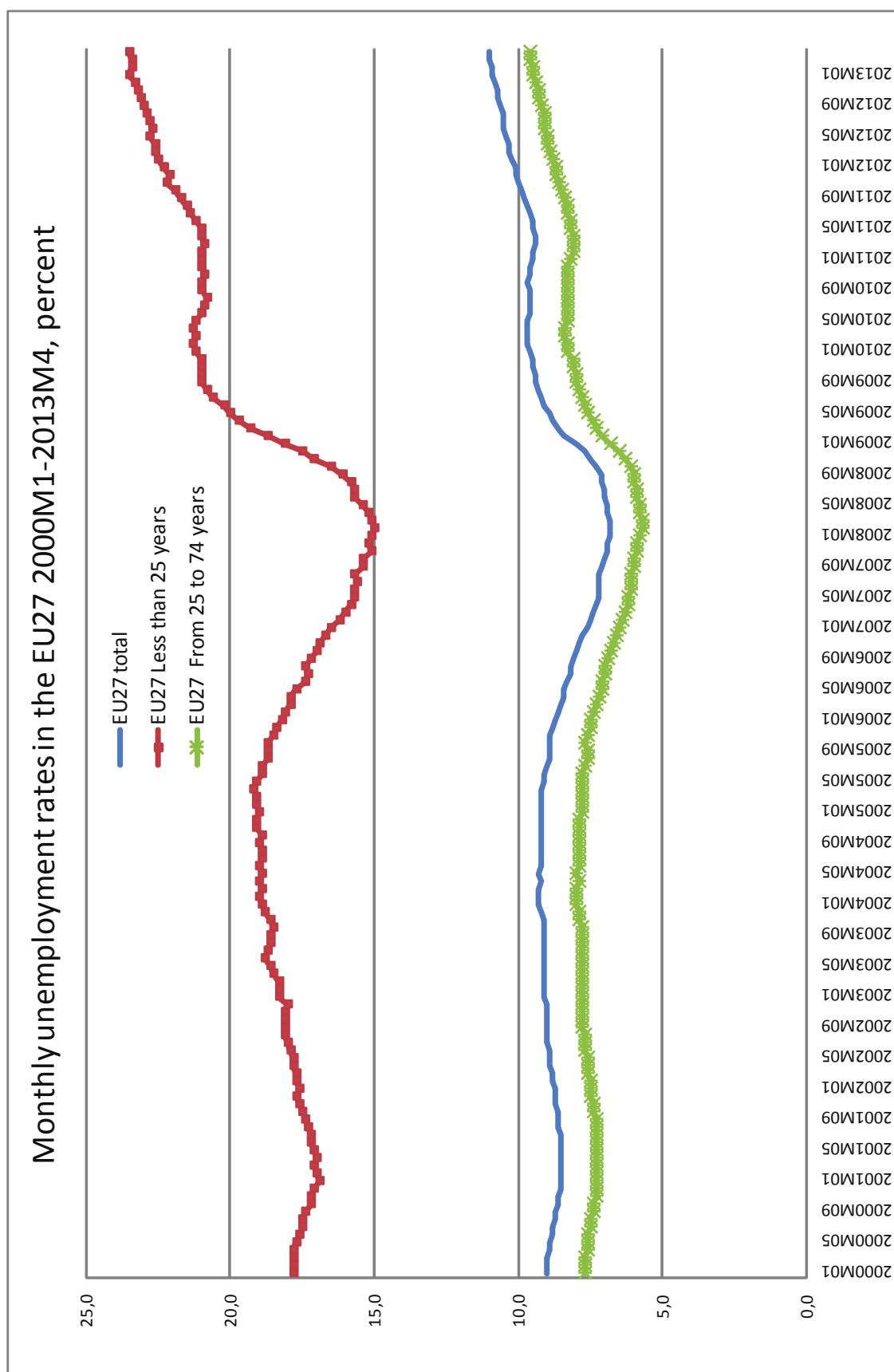
In the EU27 the unemployment rate of those less than 25 years of age increased from 15.7% in 2007 to 22.7% in 2012. The latter is more than twice as high as the rate of the adult unemployed, see Figure 1.<sup>2</sup>

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1 This study was sponsored by the Hungarian Scientific Research Found (OTKA) project No 104210K and delivered to the conference “Labour Markets in Central and South Eastern Europe –Implications and Perspectives” organized by the Economic Policy Institute in Sofia on 22 May 2013.

2 Eurostat Statistics by theme, Unemployment rate by sex and age groups - annual average

**Figure 1: Monthly unemployment rates in the EU27, 2000M1-2013M4, percent**



Source: Eurostat

Young people are more easily dismissed and their chance to find a job is very low – less than 30% of the unemployed aged 15-24 found a job in 2011, according to the data of the European Commission.<sup>3</sup>

Those who find a job, have to be satisfied with a less stable employment than adults as temporary and part-time contracts are offered to them much more frequently. In 2011-2012 as much as 42% of employment contracts of young people were temporary that is four times as high as in the case of adults. Almost every third young person is working part time, ca. twice the rate of the adults.<sup>4</sup>

Although the long-term unemployment<sup>5</sup> – if measured as a percentage of the total number of the unemployed in the given age-cohort – is lower for those of 15-24 of age than for those between 25-74 (31.9% and 48.5% respectively in 2012Q3) it is much higher if the denominator is the number of the total population in the given age-cohort: 7.3% of the young population and 4.3% of the adults were unemployed for 12 months or more in 2012.<sup>6</sup>

But it is not the unemployment itself that makes the problem of youth so severe. Unemployment conventionally means only those people who are not in education want to work and actively seek a job but cannot find one. Those are the so-called active unemployed (ILO definition). There is however a large group within the young generation that does not belong to the active unemployed. They are 1) the unavailables (e.g. young carers or disabled people), 2) the disengaged people (e.g. those who are not forced to seek a job), 3) the opportunity-seekers (those who are actively seeking employment or education but waiting for the opportunities that they see as best fitting for their expectations or those who are pursuing anti-social lifestyles) and 4) those, who are voluntarily not in employment or education as they engaged in other activities such as travelling, art, self-directed learning and so on. These four subgroups together with the active unemployed form the group of young people who are “not in employment, educa-

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3 EC (2012a) p 4.

4 Eurofound (2012) p. 14-16. and EC (2012a) p 4.

5 Unemployed for 12 months or more.

6 EC (2012a) p 4.

tion or training” or NEET. The identification of this group originates from the United Kingdom in the 1980s and the expression of NEET was formally introduced first in 1999.<sup>7</sup>

There is a difference between the concept of unemployment rate and the rate of NEETs. The denominator for unemployment rate is the active population (those who are neither employed nor in education but look for a job actively) while for the rate of NEET the denominator is the population of the age group. So, whereas the number of NEETs is higher than that of the active unemployed, the rate of the former is lower than that of the latter.<sup>8</sup>

$$\text{Youth unemployment rate} = \frac{\text{Number of young unemployed}}{\text{Number of young people economically active}}$$

$$\text{Rate of NEETs} = \frac{\text{Number of young NEET}}{\text{Total young population}}$$

In the EU, the concept of NEET gained importance as a consequence of the crisis that resulted in higher unemployment rates in general. The rate of NEETs stood at 13% of 15-24 years old and 20% of 25-29 years old people in the EU in 2011 that are by 2 and 3 percentage points higher respectively than there were in 2008.<sup>9</sup>

The Europe 2020 flagship initiative Youth on the Move mentioned the problem as a group of “young people at risk” beyond the active unemployed<sup>10</sup>. Active unemployed people are part of NEETs. In 2011, in the Union there were around 14 million young people of 15-29 years of age out of both education and work<sup>11</sup> from which 8.7 million are

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7 Eurofound (2012) p 20.

8 For further explanation of the NEET concept an indicator see Eurofound (2012) pp 20-24.

9 Eurofound (2012) p 1.

10EC (2010) p 16.

11Mascherini (2012), Eurofound (2012) p 1, 72, 76, 79.

active unemployed. For the 15-24 years cohort the data are 7.5 million and 5.3 million respectively. That means that besides those who are in the labor force statistics, either as employed or as active unemployed, there are 2.2 million young people less than 25 years of age and 3 million 25-29 years old (all together 5.2 million) who are inactive and not in any kind of education. This group, together with those who seek a job actively are at risk of being excluded from the labor market and become dependent on benefits in the long run.

Disengaged youth costs a lot. In 2011, member states of the EU paid EUR 153 billion or 1.2% of the GDP to the NEETs (15-29 years of age) in the form of both unemployment benefits and loss of tax revenues and earnings – according to Eurofound.<sup>12</sup>

### **Reasons for youth unemployment**

As a general opinion the youth unemployment is mainly explained by 1) the *insufficient* knowledge of the youth, 2) the *inadequate* education that means the structural mismatch between the skill of the young people and the demand of the market and 3) the *disappointment* of the youth. In this chapter we examine these factors.

The problem of youth unemployment is partly explained by the *insufficient* education and training. In this context, the high rate of early school leavers is one of the immediate reasons for the situation. More than half of the early school leavers are unemployed and close to three-quarters of them do not even want to work. Dropping out of the school, however, is only a consequence of the socio-economic circumstances – among them first of all the social position of the family that pupils are dependent upon. This means early school leaving cannot be decreased satisfactorily, unless the lagging behind strata of the society and regions they live in begin to catch up. If the circumstances (family, infrastructure, culture etc.) in which the children grow up develop, so the incentives and readiness to go to school strengthens. Although to reach this is an enormous task, the national and EU-level socio-economic policies must find a solution to it.

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<sup>12</sup> Eurofound (2012) p 2

After the early school leaving that results no or low qualification the second problem that is mentioned frequently in connection with the education and training is that the skills of those who complete their education do not match the needs of the market. We call it *inadequate* education.

Between the second quarter of 2011 and 2012 the hiring of waiters and bartenders grew at the largest extent, by close to 40%. After that agricultural, forestry and fishery laborers, personal care workers in health services, administration professionals, shop salespersons and cooks were demanded mostly<sup>13</sup>. But these are not the occupations that are the most attractive for young people and these jobs neither represent the technological restructuring and upgrading of the economy that is necessary for the climbing out of the crisis.

In this respect the new technologies are of high importance as these can and have to lead the restructuring of the production and hereby improve the competitiveness of the economy and increase employment in Europe. This might inspire the Commission to draw the attention to the needs of the information and communication sector, one of the leading sectors among the high technologies. It can be especially adequate, we can think, for the young people who use these technologies in their personal daily life. As the Commission staff working document<sup>14</sup> states, now virtually all young people are familiar with internet and office applications, e.g. excel, ppt, creating a web page etc. so have at least basic ICT skills. In spite of this and the relatively good employment prospects only limited number of young people entering ICT education.

Indeed, within the new jobs offered by European employers the Information and Communication Technologies (ICT) sector takes a great part. According to the latest estimations, the unfilled vacancies in the European ICT sector, partly due to retirements, can grow to 900,000 by 2015.<sup>15</sup> In order to encourage young people to learn ICT-skills and seek a job in this sector, the European Commission launched a program called Grand Coalition for Digital Jobs in March 2013.

The importance of the ICT sector, however, is not a new phenomenon.

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13 EC (2013b) p 10.

14 EC (2012) p 8.

15 EC (2013a)



This sector has led the upswing in the US and partly in Europe and raised the Irish economy in the 1990s. The ICT sector (ICT manufacturing and ICT services) itself has never generated much employment (around 7 million employees or ca. 3.2% in the EU27 total employment<sup>16</sup>). Besides, the wage premiums for ICT skills are not high enough to be able to attract young people. Still, the sense of learning professional ICT is underlined by the specific needs of new or technologically developing sectors such as cyber-security, cloud computing, eHealth applications or green technologies.<sup>17</sup> But in fact, as the latest European Vacancy Monitor<sup>18</sup> indicates, there are around 2 million job vacancies across the EU (most of them in Germany) against 26 million unemployed and within this more than 5.6 million young unemployed, that means there are much less jobs available than would be needed. This discrepancy cannot be bridged solely by restructuring education, be it as important as it is.

This situation directs our attention to the general problem of decreasing employment opportunities, and especially “decent work” opportunities and leads us farther into the explanation of youth unemployment. The former reasons of youth unemployment, namely insufficient and inadequate education, can explain why young people do not *find* job but say less about the question whether they *seek* job at all.

The third reason that explains youth unemployment in a great extent is the *disappointment* of youth because of the loss of life perspectives. The resignation and hopelessness is spreading among the youth: one eighth of them want to work but do not seek a job because they do not believe they can find one that would satisfy their expectations concerning both the content of the job and the salary they can get for that. The number of those who are not in employment, education or training (NEET) has been on the rise in the past, but after a period of decline, the number has been growing especially fast since 2008. In 2011, there was around 1 million more NEETs than in 2008 reaching 7.5 million or 12.9% of the 15-24 years of age cohort. The increase was especially fast in the crisis countries of the euro zone like Greece, Spain and Cyprus and in the least developed countries of the EU-periphery namely in Romania, Bulgaria and Latvia too.<sup>19</sup>

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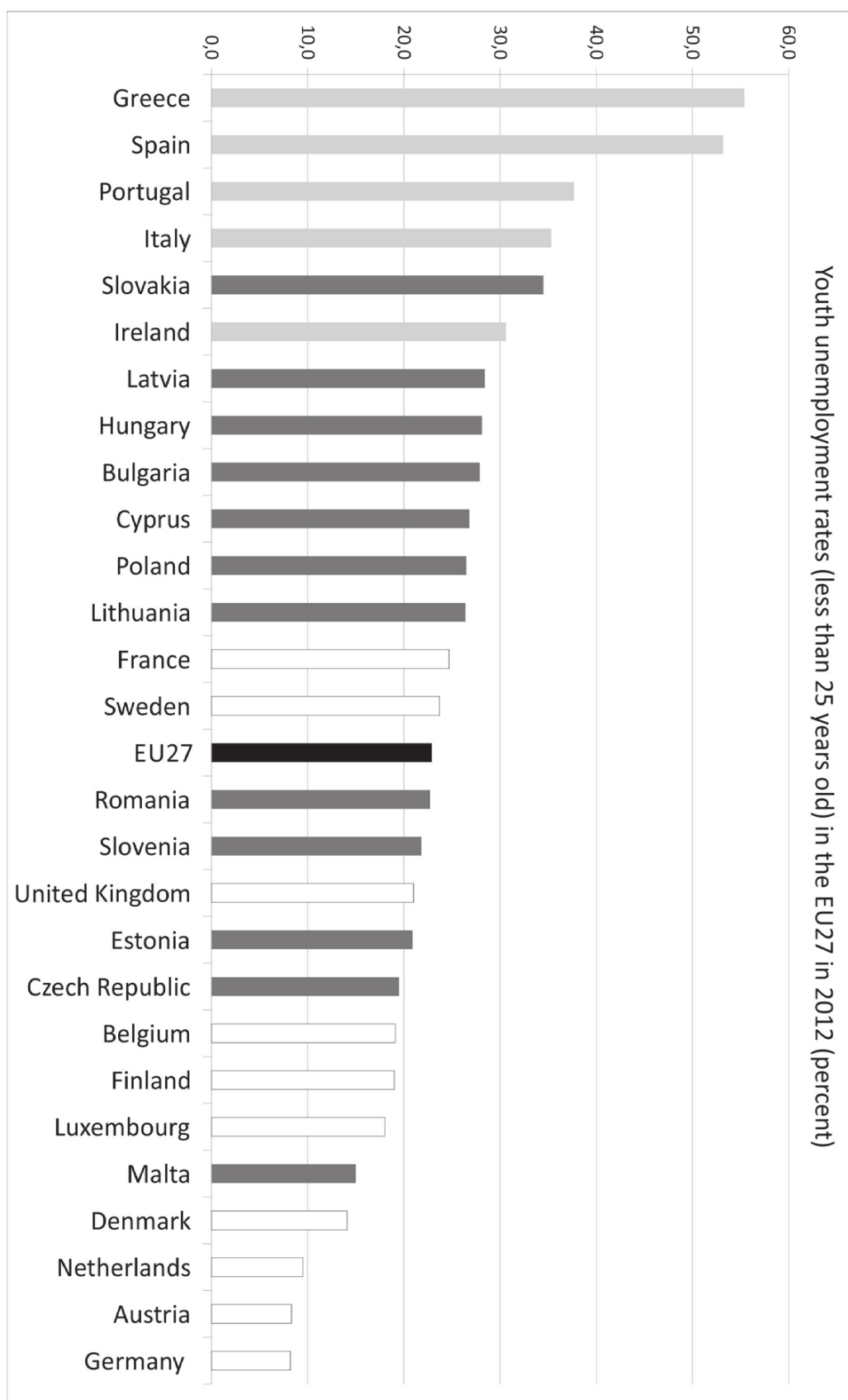
16 EC (2012d) p 6.

17 EC (2012d) p 9

18 EC (2013b)

19 EC (2012b) p 26.

**Figure 2: Unemployment rate of the youth (less than 25 years old) in the EU27 in 2012 (percent)**



Source: Eurostat

Dark grey: developed members; grey: less developed members of EU15 i.e. euro-crisis countries (PIIGS); white: least developed members (accession in or after 2004)

In many member states, the majority of students in third level education graduate after the age of 24 and would become new entrants in the labor market. The present crisis hit them also. As we mentioned in Chapter 1, according to the estimations of Eurofound, in 2011 there were 6.5 million individuals or 19.8% NEET among those aged 25-29 years.<sup>20</sup>

### **The Hungarian case**

According to the European Commission<sup>21</sup> the youth unemployment rate of Hungary increased by 6.2 percentage points to 26.1% between 2008 and 2011. Positive developments are that the rate of tertiary education attainment increased by 5.7 percentage points to 28.1% whereas the rate of early leavers from education decreased by 0.5 percentage points to 11.2% in the same period.

In Hungary, the number of NEETs in the 15-24 years age group was over 375 thousand in 2008 and increased by 12% to 420 thousand in 2011. This means that the rate of NEET aged 15-24 years increased by 1.8 percentage points to 13.3%. While the disengagement of the youth costs 1.2% of the GDP on average in the EU27, it costs 2.1% in Hungary, the 6<sup>th</sup> biggest burden within the Union in 2011. More is paid in percentage of GDP in 3 euro-crisis countries, namely Cyprus, Greece, Ireland, and 2 new member states, Latvia (2.67%) and Bulgaria (3.31%) where the expenses are the highest within the EU.<sup>22</sup>

The employment situation of the youth has deteriorated in Hungary after 2011. The unemployment rate of those less than 25 years old reached 28.1% in 2012. The long-term data show an increasing trend since 2001 when the youth unemployment rate was only 11%.<sup>23</sup>

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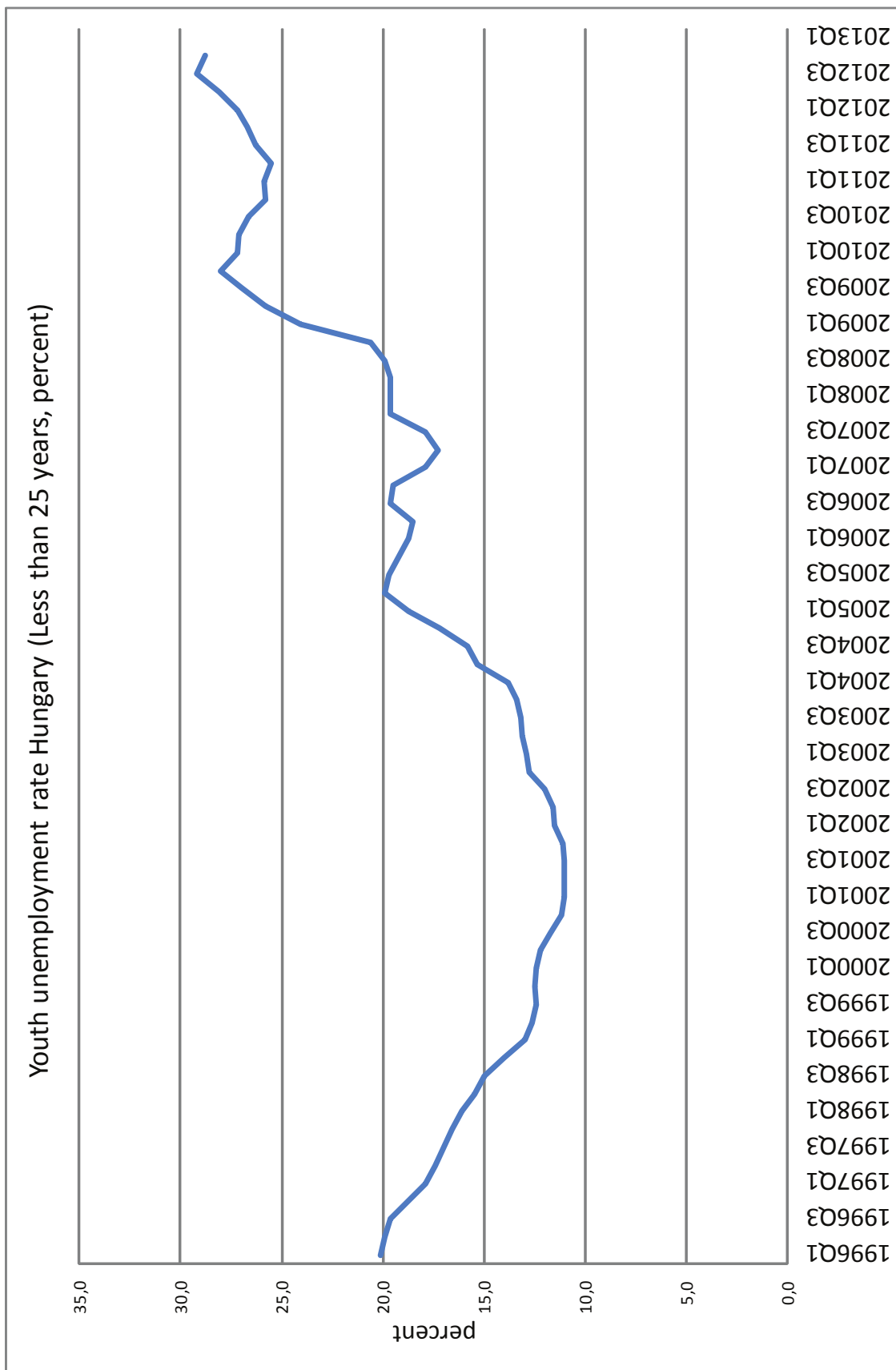
20 Eurofound (2012) p 33.

21 EC (2012a)

22 Eurofound (2012) p 74-78

23 Eurostat Statistics by theme, Unemployment rate by sex and age groups - annual average, %

**Figure 3: Youth unemployment rate in Hungary 1996Q1-2013Q1  
(less than 25 years, percent)**



Source: Eurostat

In 2012, the Hungarian youth unemployment rate was the 9<sup>th</sup> highest within the EU27 and higher than the rates of the majority of Central and Eastern European Countries (CEECs). The picture is even gloomier if we look at the employment rate of the different age-cohorts. As Figure 4 shows, the employment rates of Hungary are the lowest within its narrow East European neighbourhood, i.e. it is lower in every age-cohort than in the Czech Republic, Slovakia, Poland, Romania or Bulgaria.

There are 220 thousand young people less than 25 years of age who are working and 86 thousand who are registered unemployed in Hungary. In the latter group, 58 thousand people are new entrants and from those more than 24 thousand are unskilled.<sup>24</sup>

While in the third quarter of 2012 in the EU27 the rate of temporary employment for those between 15-24 years was over 44% and their part time employment was more than 30%, in Hungary both rates were considerably lower with 24% and 9% respectively.

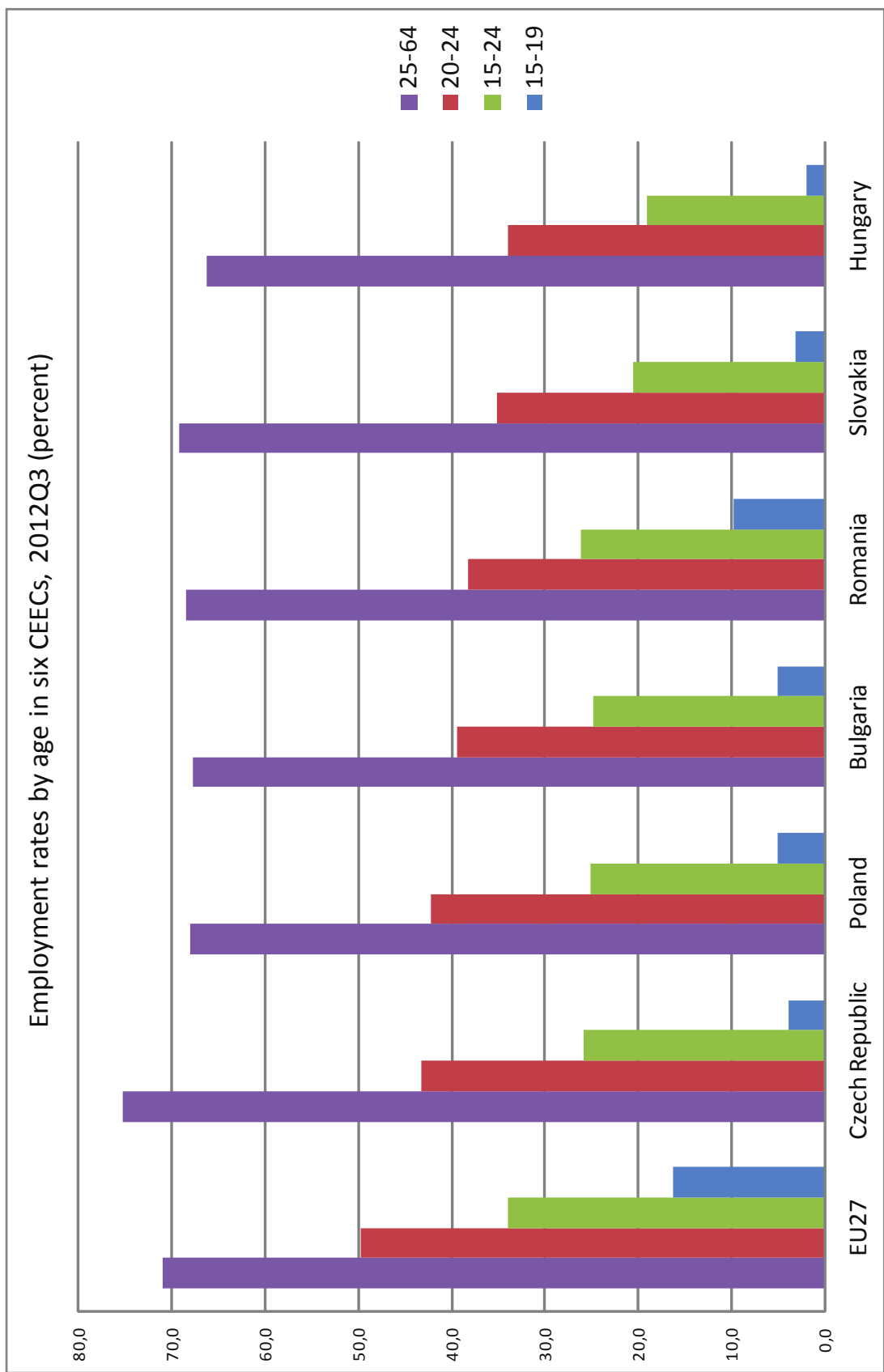
In 2012, the temporary employment rate was smaller than in Hungary in 10 EU member states, among them Slovakia, Bulgaria and Romania. The incidence of part time work of youth in Hungary is however among the smallest within the EU27 overtaking only Slovakia, Croatia and Bulgaria. The Czech rate is only a little bit higher than the Hungarian one.<sup>25</sup>

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24 NGM (2012b)

25 Eurostat online statistics.

**Figure 4: Employment rates by age in six CEECs, 2012Q3 (percent)**



Source: Eurostat

## **Hungary's policy to tackle youth unemployment**

The Hungarian governments have addressed the problem of youth unemployment since the accession to the EU.

In 2005, the so-called START program was launched and later expanded, with the aim of encouraging the employment of the three most vulnerable groups of unemployed. The original initiative was "START for entrants" that targeted students seeking their first job after completing their education. By the extension of the program, the so-called "START Plus" was launched for the re-entrants i.e. those who return from their maternity leave (child-care) or want to work part time during it. Since 2007, the third element ("Start Extra") began to operate facilitating the employment of those aged over 50 years of age and/or who are unemployed for more than a year. In the frame of the START programs the jobseekers applied for a card on the basis of which their employers enjoyed reductions from social insurance contributions on up to 150-200% of the national minimum wage in the first two years of employment.

Since 2010, the new Hungarian government has launched a number of smaller programs while maintained and somewhat extended the earlier ones. All these are parts of the "three pillar employment policy" of the government. The first pillar is the encouragement of employment with special regard to the handicapped people. For them the government applies direct wage and tax supports to the employers. The second pillar is the "social economy", that is also known as "second job market". This means the government supports employment that is primarily using local production forces. This form of employment is temporary only but helps to pave the way for the participants to the competitive job market. The third pillar is the new system of public employment that aims at transforming the system of social benefits into a system encouraging wage-earning labor.

Within this conceptual frame the following steps have been made until now.

The START program continued until the end of 2012. Since January 2013 no new START-cards have been issued. Instead, the government

introduced a new system of assistance based on the “Job Protection Action Plan (JPAP)” (“Munkahelyvédelmi Akcióterv”<sup>26</sup>) and on the Act No CXLVI 2012 built upon the Plan. According to the minister of employment, the Action Plan costs ca. 300 billion HUF or 1% of GDP and contains measures that reduce the costs of employment for the employers. 90% of the allowances will be realized in the private sector and the estimated number of employees affected by the Plan is 1.2 million.

In the Action Plan the government stipulated 5 target groups of employees: 1) less than 25 or 2) more than 55 years of age, 3) unskilled, 4) long-term unemployed 5) parents with small children (returning to the labor market after the child-care allowance or wanting to work part-time during this period).

**Table 1: Target groups of the Job Protection Action Plan**

<b>Element of the Plan</b>	<b>Target group</b>	<b>Potential number of participants ('000)</b>
<b>Allowances for employment of youth</b>	Youth less than 25 years of age	200
<b>Allowances for employment of entrants</b>	Youth less than 25 years of age with less than 180 days of employment practice	
<b>Allowances for employment of elderly people</b>	People more than 55 years of age	500
<b>Allowances for employment of unskilled</b>	Employees doing unskilled work	250
<b>Allowances for employment of long-term unemployed</b>	People unemployed for more than 6 months	30
<b>Allowances for employment of parents seeking job</b>	Parents seeking a job after the period of child-care allowance	30

Source: Czomba (2013)

26 NGM (2012a)



With the new legislation the bureaucracy has been simplified as the employees do not have to procure the START-card. The basic goals and means remained more or less the same. The allowance, however, that employers can get has been increased in the case of the long-term unemployed, those who return from maternity leave and the youth. In case of employing them, the employers do not have to pay social security contributions at all (i.e. 0% instead of 28.5%) in the first 2 years of employment. This support is eligible until 100,000 HUF (cca. 350 EUR) per month salary. In the case of a young employee, the same allowance is possible if he/she is a new entrant i.e. has not done wage work for more than 180 days before.<sup>27</sup> In other cases, employment of people less than 25 years of age enjoys half of this allowance (employers have to pay 14.5% instead of 28.5%). As a result, around 25 thousand young entrants were employed until April 2012 and cca. 200 thousand more can benefit from the program thereafter.<sup>28</sup>

**Table 2: Benefits of the Job Protection Action Plan**

<b>Target group</b>	<b>Years</b>	<b>Rate of allowance (percentage point)</b>	<b>Maximum of the allowance per month (HUF)</b>
<b>Less than 25 years of age</b>	continuously	14.5	14,500
<b>Entrants</b>	1st and 2nd year of employment	28.5	28,500
<b>More than 55 years of age</b>	continuously	14.5	14,500
<b>Long-term unemployed</b>	1st and 2nd year of employment	28.5	28,500
	3rd year of employment	14.5	14,500
<b>Parents seeking a job</b>	1st and 2nd year of employment	28.5	28,500
	3rd year of employment	14.5	14,500

Source: Czomba (2013)

<sup>27</sup> NGM (2012a) p 5

<sup>28</sup> EC (2012a) p 39-40

The government has been continuously extending and modifying its active labor market policy for which the JPAP serves as a framework program. So besides the above described original benefits some other initiatives have been made according to the Youth-Related Country Specific Recommendations of the European Commission. In line with these, the Hungarian government undertook the implementation and development of various initiatives and programs to support employability of young people, to introduce new measures for the development of the vocational training system and also to modify the ESF Operational Program in order to relocate more resources to active labor market policies.

- The “First Job Guarantee” program was initiated in August 2012 for the encouragement of youth employment between 1 September 2012 and 31 December 2012. The target group was composed of those of less than 25 years of age. Originally 3 billion HUF (cca. 10 million EUR) was devoted to the program from the National Employment Fund. Later the budget was extended by 20%. In the program all the labor costs (salary + employers’ social insurance contribution) could be covered for those who employ registered unemployed new entrant youngsters. The allowance was eligible for up to 200% of the minimal wage provided the employment would last 50% longer in time than the period of getting the allowance. The priority target groups were the unskilled and long-term unemployed young people. This program reached 7,200 beneficiaries in four months.<sup>29</sup>
- The “First Job Guarantee” program continued in 2013. The budget has been increased to 5 billion HUF for the year. The duration of the allowance has been extended to six months, but the ceiling was cut back to 150% of the minimal wage. All other terms remained the same. There will be another 7,200 potential recipients.
- The employers may enjoy further support after the allowance from the “First Job Guarantee” program has ended, by applying to the Job Protection Action Plan mentioned above.

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<sup>29</sup> NGM (2012b), NGM (2012c)

- Since the last quarter of 2012, youngsters are also encouraged to obtain their first job experience in NGOs. This program aims to reach cca. 2,000 participants.
- Another program supports young first job seekers to gain work experience as trainees at 2,000-4,000 small and medium sized enterprises.
- The program for mobility offers housing subsidy that covers rent fees and overhead for one year for long-term (more than 6 months) unemployed. In this program the youngsters will represent 23% (ca. 21,000) of the participants.<sup>30</sup> People less than 25 years of age enjoy special advantage, as for them the grant is eligible after 3 instead of 6 months of unemployment.<sup>31</sup>
- Within the “New Széchenyi Plan” (Új Széchenyi Terv) 7 billion HUF (cca. 25 million EUR) is devoted to help people aged 18-35 to start their own businesses. For those who intend to launch a micro-entrepreneurship, the program offers advice, training, assistance in drawing the project scheme and non-refundable grant to cover the costs of the start up to 3 million HUF.<sup>32</sup> Training programs are expected to reach at least 3,200 participants and have already started in 2012. The financial support is available in 2013. According to the plan cca. 1,500-1,600 new small undertakings can be launched until 2014.<sup>33</sup>

These programs are financed by national and EU funds. From national funding 152.8 million EUR, from ESF, ERDF and EAFRD combined 236.2 million EUR have been allocated to youth employment measures.<sup>34</sup>

In order to improve the flexibility of the labor market – a requirement for enhancing the profitability of firms – several amendments have been made to the Hungarian labor law in the last few years. The

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30 EC (2012a) p 40.

31 BFK (2012)

32 BFK (2012)

33 EC (2012a) p 40.

34 EC (2012a) p 40.

*Act on vocational training* fits very well into these, as far as it lowers the compulsory age of education, prefers practice-oriented approaches in schools, thereby decreasing the time allocated to acquire key competences. The new legislation enables young people to obtain a qualification and enter the labor market already at the age of 17. This meets the short-term interest of the employers but depresses the level of knowledge of the population, and so it is counterproductive in the long run from the viewpoint of national socio-economic development and hence the competitiveness of the country too.

As we mentioned earlier the Action Plan has been developing according to the needs of the labor market and the intentions of the government. The results are not yet measurable exactly especially that employment does not hang upon the effectiveness of the labor market programs lonely. The main developments on the Hungarian labour market since January 2012 are the following.

The Ministry of National Development stated that 680 thousand employees were affected by the allowances of the Job Protection Action Plan. Among them 105 thousand were less than 25 years of age and more than half of the total number of participants was older than 55.<sup>35</sup> The data of the Hungarian Central Statistics Office show that between the first quarter of 2012 and 2013 the unemployment of those over 55 years of age decreased by 6,600. The unemployment shrank in the 50-54 years age group too. The decrease concentrated to the women: the number of the 50-60 years old female unemployed decreased by 13,400 whereas that of the males by 1,200. On the other hand the first year of program could not help much on the situation of the young people. The number of unemployed less than 25 years of age increased by 13,200 in the period, and the number of 25-34 years old unemployed increased by 12,100.

On the other hand the number and rate of employment were a little bit higher in the first quarter of 2013 than a year before both in the case of older and younger age groups. This increase is due mainly to

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<sup>35</sup> Jankovics (2013)

the low-paid and low quality public employment (second job market) in the frame of which 91 thousand people worked on average in 2012.<sup>36</sup> But in spite of the slightly increasing employment of the people under 25 years of age their unemployment has become increasingly severe not in itself only but relative to the older generations too: in 2012 17.8% of the unemployed were less than 25 years old of age, a share that is by 1.4 percentage point higher than in 2011. Since 1998 there has been no such a big increase in this share of youngsters within the total unemployment. Between 1998 and 2011 the proportion of the young people within the total Hungarian unemployment has almost continuously decreased.

### **From youth unemployment to the problem of labor market in general**

In order to better understand the problem of youth unemployment and to evaluate the youth employment policy of the EU more properly we have to analyze the situation from several aspects. First, we investigate the unemployment in the sense of ILO-definition. For this we use static and dynamic (historical) data. Three rates are relevant:

1. The rate of unemployment in the cohort of less than 25 years of age and its change over time.
2. The change of the absolute magnitude of youth and total unemployment and the relation between these two after the outbreak of the crisis, i.e. after 2007.
3. The share of youth unemployment (less than 25) in the total unemployment and its change over time.

After analyzing these data (Subsection 4.1.-4.3.) we will dig deeper into the problem of inactive unemployed i.e. the NEETs (4.4.) and the policy recommended by the European Commission aiming to handle this problem (4.5.). Last but not least we aspire to direct the attention to the fundamental roots of youth unemployment and NEETs (4.6.).

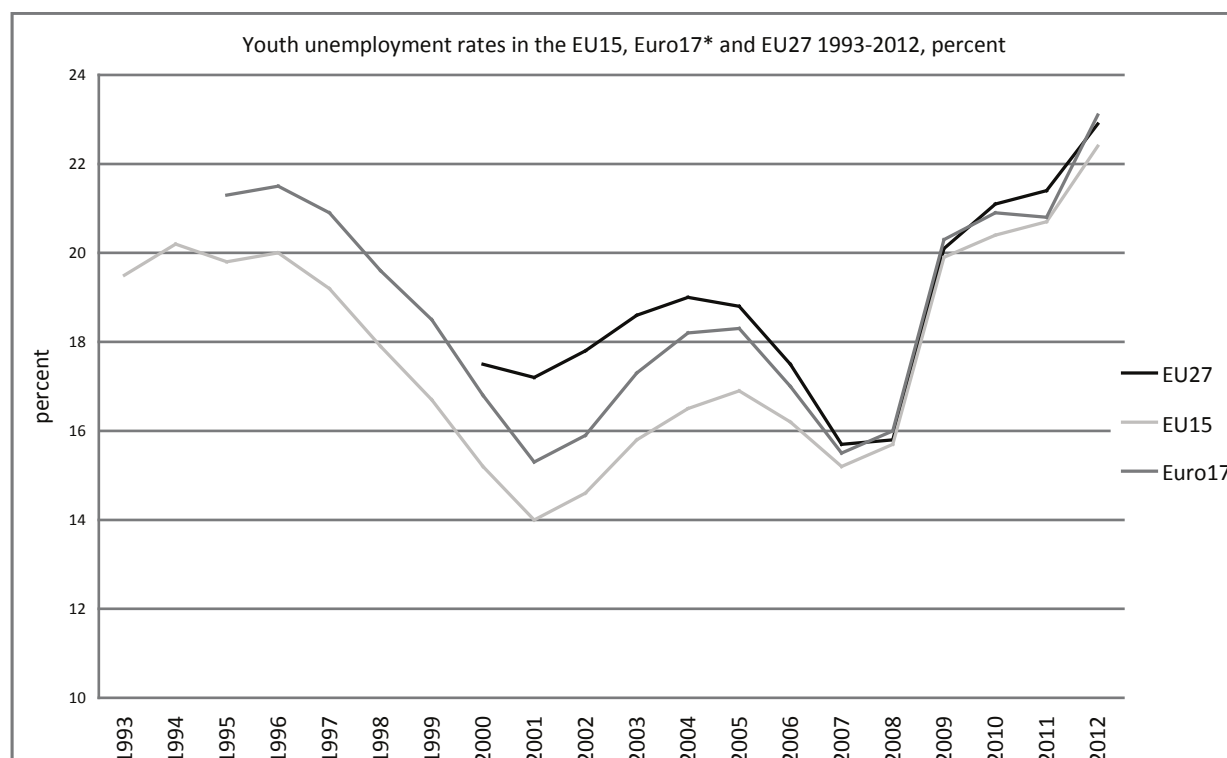
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<sup>36</sup> KSH (2013) p 1.

## The youth unemployment rate

It is worth to look back in time. In the middle of the 1990s, the youth unemployment rate in the EU15 and the Euro17<sup>37</sup> was not much lower than today: 20-21% in 1995-1996 against 22-23% in 2012. Between 1996 and 2001, the rate fell to 14-15%. For the EU27 data are available only from 2000 on. Since 2000, the trends are similar in the three country-groups. Between 2001 and 2004-2005, the youth unemployment rate increased by 2-3 percentage points then fell again until 2007. After that it jumped up, and in 2009 reached the trend-line that began in 2000 and the rates of the three country groups became similar on the 22-23% level. (Figure 5)

**Figure 5: Youth unemployment rates in the EU15, Euro17\* and EU27 1993-2012, percent**



\* 17 members of Eurozone

Source: Eurostat

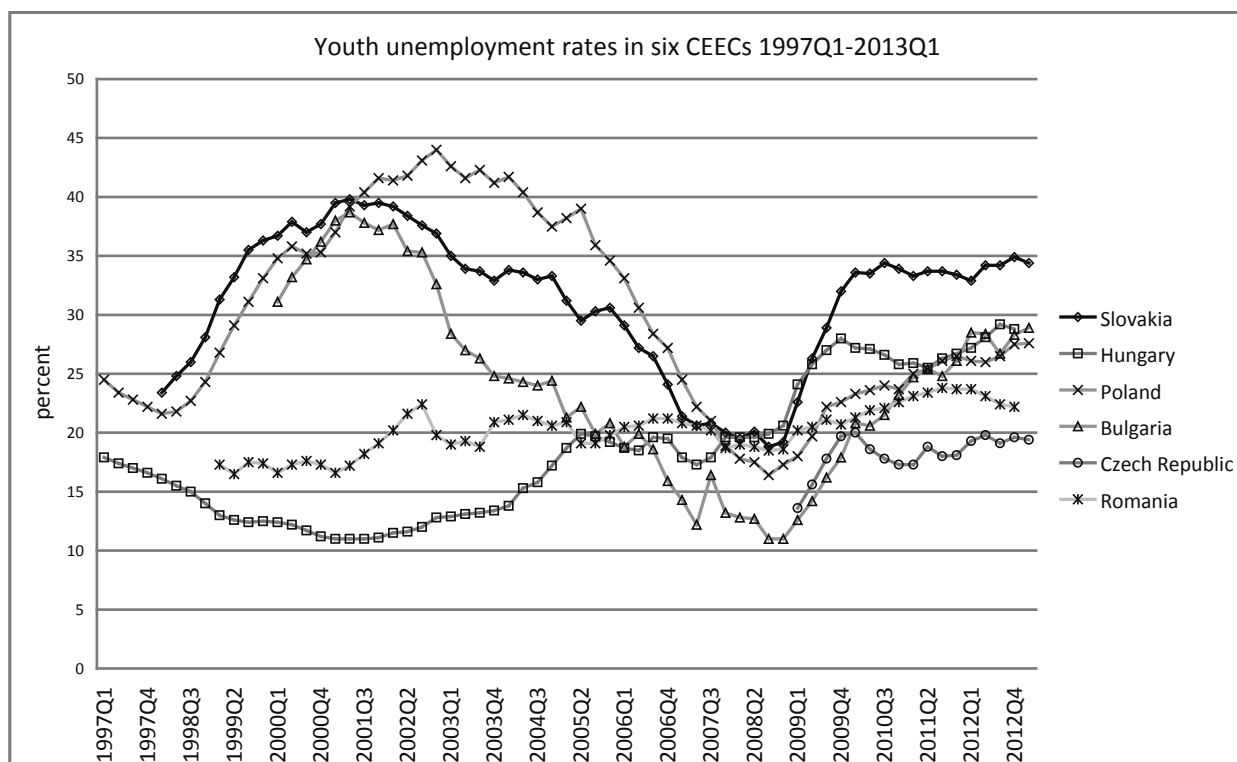
The averages of the groups, however, hide important inner differences. For example in Spain, youth employment has always been the most fragile segment of the labor market. The rate of unemployment for people less than 25 years of age was above 40% at the time of the Spanish accession to the EU (1986) and after a period of decrease this rate jumped over 40%

<sup>37</sup> 17 members of the Eurozone.

again in 1993-1994. The youth unemployment rate of Spain has been the highest in the EU15 until 1998. Since then, for a decade until the explosion of the crisis, Greece and Italy, then also some Eastern European new members have taken over the lead from Spain.

In the CEECs the trends are partly similar. The Baltic States, Hungary and Croatia have higher rates of youth unemployment than ever in the past one and a half decade but the other five countries (the Czech Republic, Poland, Romania, Bulgaria and Slovakia) have already produced rates in the first years of the 2000s that were close to or even higher than those at the end of 2012. (Figure 6)

**Figure 6: Youth unemployment rates in six CEECs, 1997Q1-2013Q1 (percent)**



Source: Eurostat

To sum it up, today the youth unemployment rates in most of the EU27 are varying and mostly high but these phenomena are not new at all.

## **Youth unemployment in numbers**

In the first quarter of 2008, the youth unemployment in the EU27 enjoyed a decade-long minimum by slightly over 4 million persons. Since then it has increased by 41% or by more than 1.6 million. However, the present level (close to 5.7 million in 2012Q4) is higher only by 5-800 thousand or ca. 12% than it was in the first half of the 2000s.

On the other hand, the total number of unemployed in the EU has increased much more dynamically than that of the young unemployed persons and far outstripped not only the best years before the crisis, but also the worst quarter of the 2000s (21.3 million in 2004Q4). Between 2008Q1 and 2012Q4, as a result of the crisis the number of total unemployment jumped by 61.3% or by almost 10 million.

These data hide the differences between the member states. In 2012 in Spain there were half a million more young unemployed than before the crisis, but the number for 2012 (945,000) is less than it was in 1996 (973,000) or in 1983-88 and 1993-95 when there were more than 1 million young unemployed in the country. Between 2008Q1 and 2012Q4 the youth unemployment rose by 92%. This pace of increase, however, is much lower than that of the total number of unemployment (189%) or the number of adult (25-74 years old) unemployed people (220%).

This is true also for Greece, where the youth unemployment was not more numerous at the end of 2012 than it was at the end of the 1990s. In Italy, the number of unemployed of less than 25 years old was twice as much in the 1980s than it is now. Even Portugal or Ireland had more young unemployed in some years of the 1980s than in 2012. After 2007, in all of the above mentioned countries the level of unemployment in general and in the 25-74 age cohort increased faster than the number of young (less than 25) unemployed. After 2007, in the CEECs the total number of young unemployed has grown slower or at about the same pace as the total number of unemployment.

On the other hand, the number of young unemployed has grown



more dynamically than that of the other age groups in the majority of the more developed member states.

As a result, the share of youngsters within total unemployment is smaller now than it was before the crisis in the majority of the less developed countries of the EU. The following chapter discusses this further.

### **The share of youth unemployment in total**

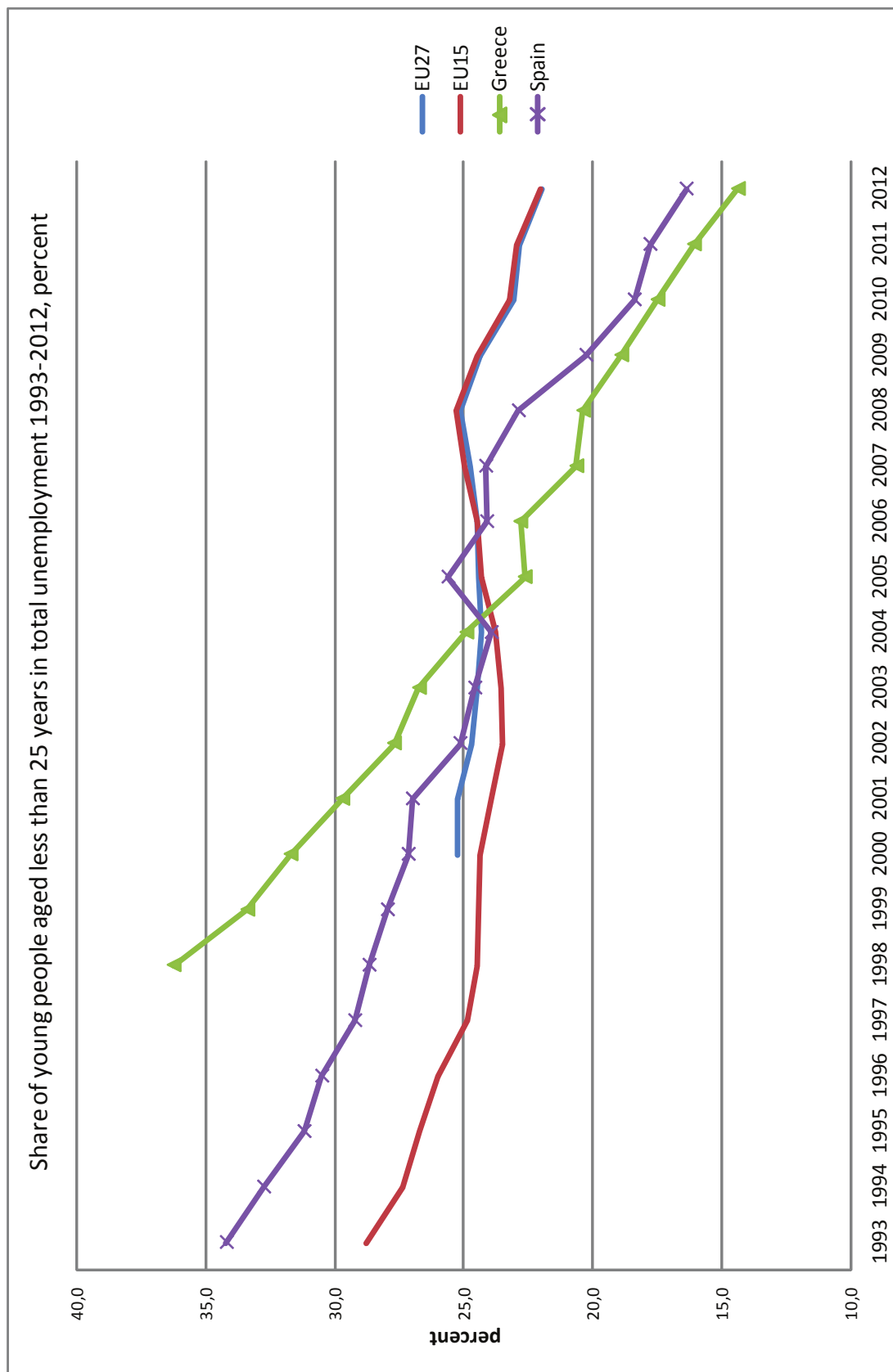
First of all we have to draw the attention that the rate of youth unemployment and the *share of the young people within the total number of the unemployed people* are two different ratios. The former is defined in Chapter 1 whereas the latter is:

$$\text{Share of young unemployed} = \frac{\text{Number of young unemployed}}{\text{Number of all unemployed}}$$

When in the following we write “share” we refer always to this ratio.

The share of young unemployed in total unemployment was 24.3-25.2% in the EU27 between 2000 and 2008. Since 2008 this share has been continuously decreasing and stood at 21.2% in April 2013, the lowest level ever since 2000 (the first year since when data are available). This is especially true for the EU15, where the share of youth unemployment in the total was 26% in 1996, a record that was not beaten even in 2008 – the worst year since 1997. Since 2010 young people have represented a smaller part in total unemployment than one and a half decades before. The decreasing trend of youth unemployment share in total is even more pronounced in the case of Greece and Spain – the countries that are well known from their high rate of total and youth unemployment. (Figure 7)

**Figure 7: Share of young unemployed aged less than 25 years in total unemployment 1996-2012 in the EU15, EU27, Greece and Spain, percent**



Source: Eurostat

As we can see, the attention that youth (active) unemployment gained in the past few years is not justified on the ground of the above data, since the unemployment of adults is a more serious issue than that of the youth. So we have to do more investigation in order to understand what brought youth unemployment into the focus of politics in Europe. For this we examine the differences between the developed and less developed member states as regards the age-characteristics of unemployment.

In 2012, almost all CEECs have smaller share of youth unemployment in total than it was in 2008, and no CEEC has a higher rate than it had already experienced sometimes in the last 10-15 years. (Figure 8)

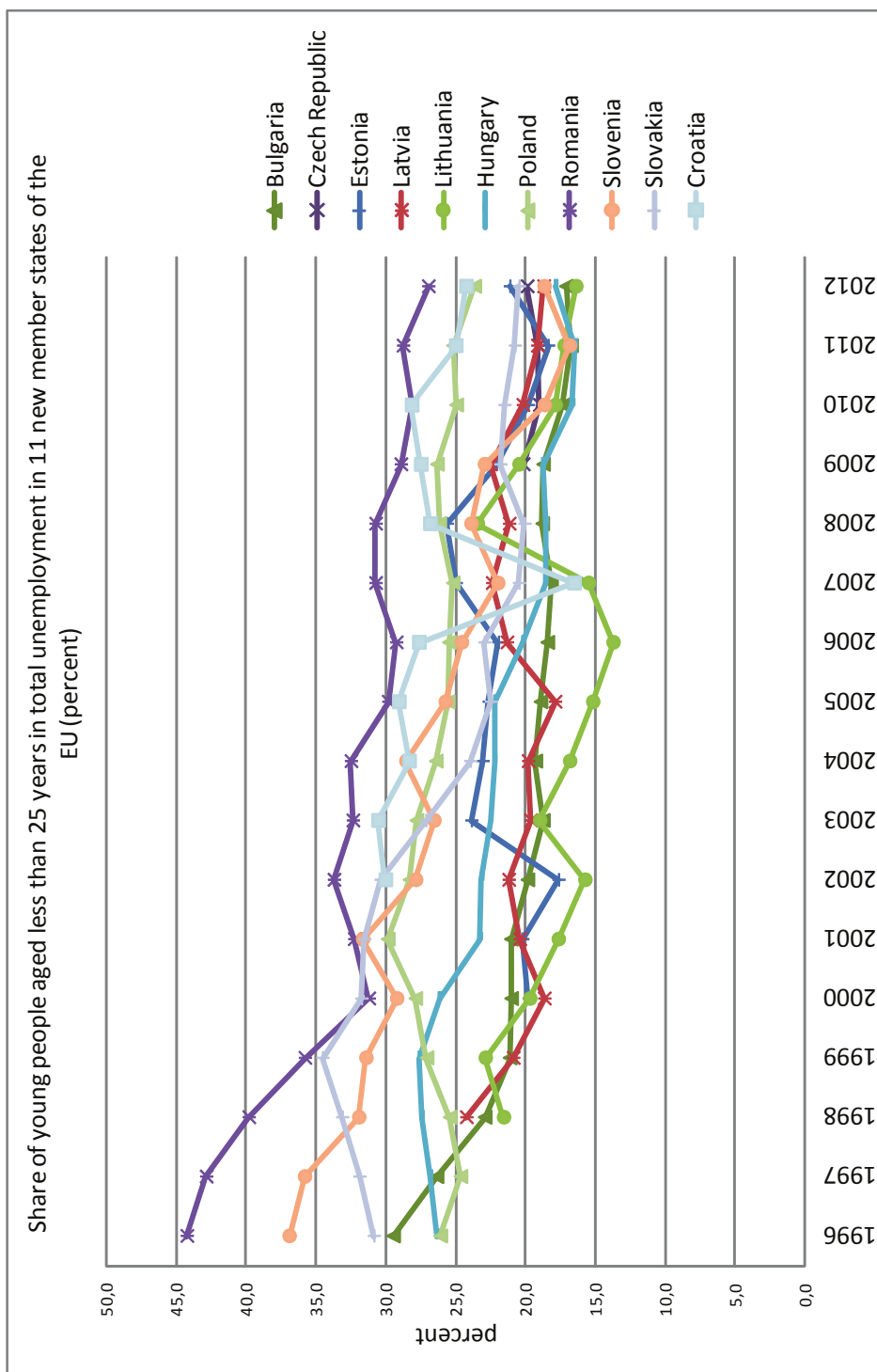
This trend is even more pronounced in the case of the Eurozone crisis countries, the so-called PIIGS.<sup>38</sup>

All in all, the weight of young people in total unemployment has as a tendency been declining in the “inner periphery” (in the less developed members) of the EU. The trend however is just the opposite in the developed or “core” countries of the Union. In Austria, Germany, Finland, Sweden, Denmark, and the United Kingdom the youngsters took a higher share in total unemployment in 2012 than 10 years ago, although their share in 2012 was usually lower than in 2008. It is because, and this is important, the unemployment of those aged 25 and over increased more than those of under 25 years of age.

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38 Portugal, Ireland, Italy, Greece, Spain.

**Figure 8: Share of young people aged less than 25 years in total unemployment in 11 new member states of the EU (percent)**

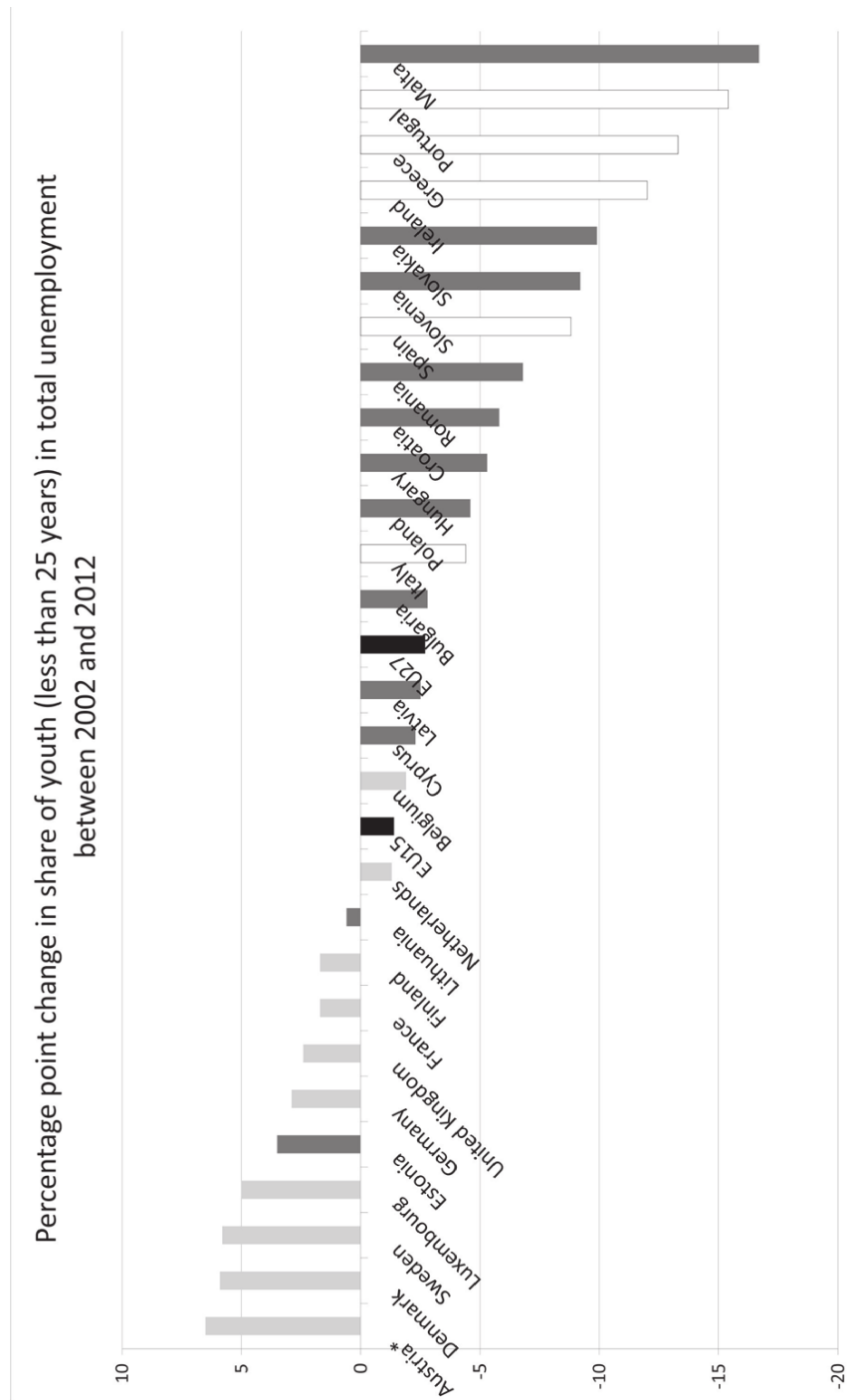


Source: Eurostat

Thus it can be stated, and Figure 9 testifies it unambiguously, that the relative weight of the youth unemployment has increased mostly in the developed EU-members, while, on the other hand, its share has decreased considerably in the countries most hit by the crisis or in

other less developed peripheral members of the Union. (Figure 9)

**Figure 9: Change in share of young people aged less than 25 years in total unemployment between 2002 and 2012 (percentage point)**



Source: Own calculations on the basis of Eurostat online database, Statistics by theme, various data for unemployment

\*Austria: 2002-2011. Data for Czech Republic between 2002 and 2012 are not available  
 Dark grey: developed members; grey: less developed members of EU15 i.e. euro-crisis countries (PIIGS); white: least developed members (accession in or after 2004)

This is an important difference between the member states and – considering that the core countries have always had a bigger say in the EU – it explains to a large extent why tackling youth unemployment became a priority issue in the EU in the past few years. But this is still not a sufficient explanation as the more developed members have usually lower total and youth unemployment rates than the others (Figure 10) and these countries have also more resources and more efficient institutions than the less developed ones to handle the problem.

### **The genesis and challenge of NEETs**

The developments of the European job market are not new at all. The crisis has only worsened the already existing problems and rendered them acute; thus putting the issue into the limelight. This is true for the unemployment in general and for its special characteristics too. For example, the problem of the NEET has already appeared long before the crisis although not in continental Europe. As we mentioned earlier, the phenomenon has already been discovered in the UK in the 1980s, but as a crucial problem, that affects several countries, was identified in Latin-America as “ni-ni” (‘ni estudia ni trabaja’ – neither studying nor working) generation in the 1990s. At the end of that decade, more than 20% of the youth was outside the school and without a job according to the ILO<sup>39</sup>. Almost half of them was not even seeking a job, i.e. belonged to the “ni estudian, ni trabajan, ni buscan trabajo” (“neither studying, nor working, nor wanting to work”) – group, practically to the NEET.<sup>40</sup>

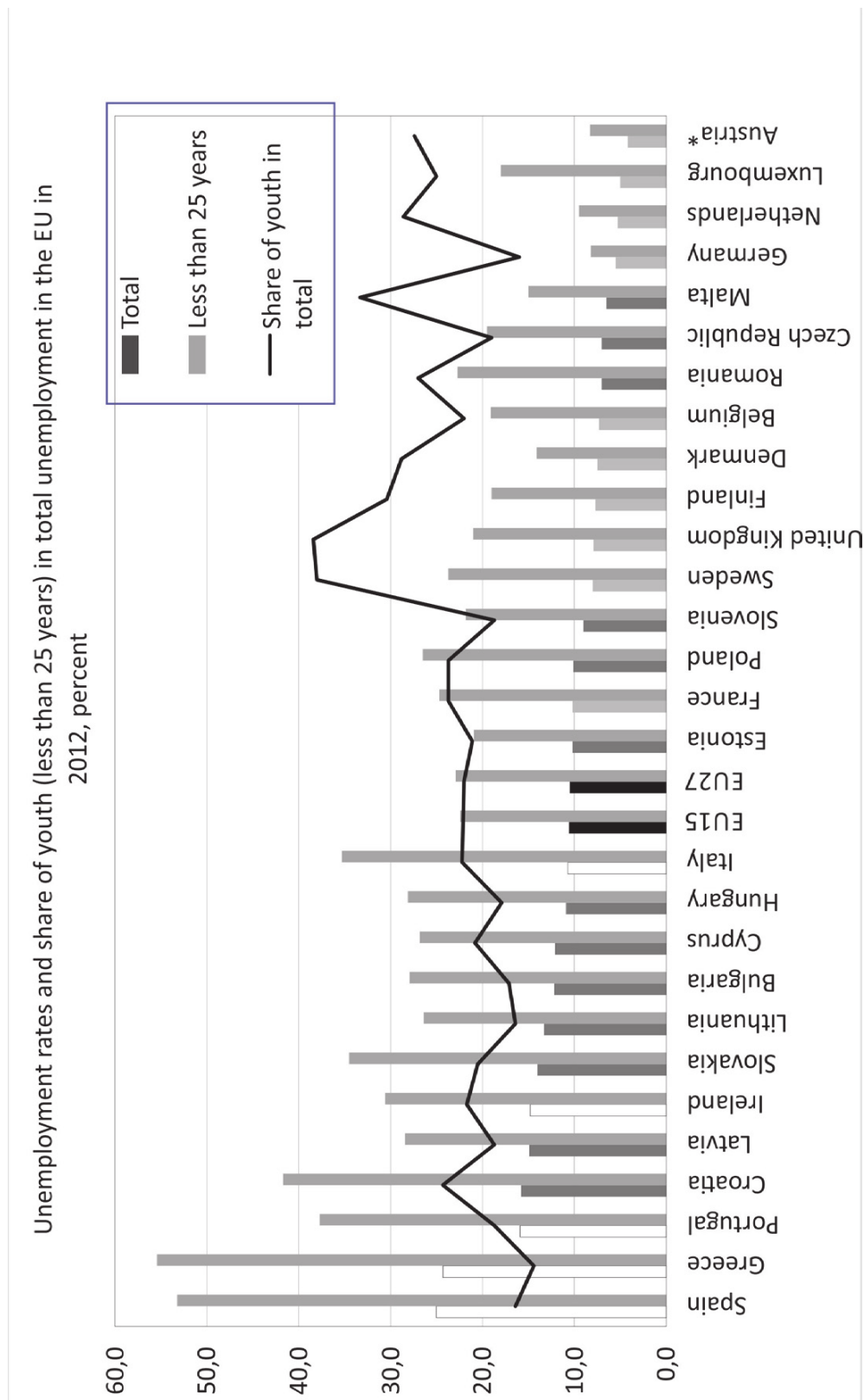
In Europe, the phenomenon first became apparent as a Spanish, then as a Greek “peculiarity”, but as the unemployment in the EU was on the rise and proved to be persistent, the attention was directed to the issue of youth unemployment. However, as we presented above, those under 25 have been affected proportionally less than those between 25 and 74.

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39 Diez de Medina (2001) p 48.

40 Filgueira – Fuentes (2001) p 19.

**Figure 10: Unemployment rates and share of youth (less than 25 years) in total unemployment in the EU in 2012, percent**



Source: Own calculations on the basis of Eurostat online database, Statistics by theme, various data for unemployment

\*Austria, share of youth: 2011.

Dark grey: developed members; grey: less developed members of EU15 i.e. euro-crisis countries (PIIGS); white: least developed members (accession in or after 2004)

At the same time, the employment rate of the youth decreased also faster than that of the other age groups. Between 2008 and 2012, the youth employment rate dropped from 37.3% to 32.9%. In the same period, the employment of those between 25 to 54 years of age decreased only from 79.5% to 77.2% while the employment rate of the 55-64 years age group increased. In 2012, there were close to 2.5 million less active young people in the EU27 than in 2007. There were by 3.7 million or by 16.5% less employed youth in 2012 than in 2008, whereas the number of employees aged 25 years or over declined by 1.5 million only (0.8%). While the activity rate of the population over 25 years of age picked up, that of the youth decreased. Hence, the inactivity of youth has become a major challenge especially that it is not explicable by growing involvement in education. At this point, the attention has been directed to the problem of NEETs.

Above we saw that the youth unemployment is a relatively more severe problem in the more developed countries than in the less developed ones of the EU. We saw also that the unemployment in general is more pronounced and that the general increase of unemployment stands behind that of youth unemployment. We mentioned that about 2 million jobs are offered only in the EU against the high unemployment (26.4 million in the first quarter of 2013). There are millions of “dispensable” people in the EU. Among them the youth are an important group by their age and by the growth of their “passive inactivity” (i.e. inactivity not because of being in education or training). NEETs are more numerous and represent a larger share of the youth in less developed countries of the EU than in the developed ones. The ten most developed member states<sup>41</sup> have a diminishing share in the total number of NEETs of the Union with 35.3% in 2011.<sup>42</sup>

All this leads up to the conclusion that it is the NEET-phenomenon instead of conventional youth (active) unemployment that means a threat to the European labor market and to the European society in general.

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41 Benelux, Austria, Denmark, Finland, France, Germany, Sweden, UK.

42 Own calculation from data in Eurofound (2012) pp 76 and 79.



First, it is well known that young people in work can be more easily fired because of the temporary and other less safe or “precarious” forms of their employment and they, as new entrants, find job on a shrinking labor market with more difficulty. This left them without perspectives. Second, due to decreasing jobs and changing technologies, employment increasingly depends upon skills and knowledge that correspond to the specific and immediate needs of the companies. This means, new entrants have to surrender their life – their personal wishes, imaginations, dreams, talent etc. – increasingly to the needs of the “labor market”, or, more directly speaking, to the “profitability” of firms. If they want to subsist, they have to earn money in deteriorating social circumstances as the welfare state has gradually been dismantled since the 1980s. The price of their subsistence is the giving up of their life in a wider sense. They have to be wage-earners as the “market” i.e. profitability requires, instead of having the possibility to live and work as they would like to. What is more, depressed wages allow them a little room to maneuver between wage-work and self-realization. This makes youth disappointed and angry and inspires them to turn away from or even against the society. Third, youngsters have less social responsibilities as they have usually no own family, property or social position to fear for. As a consequence, they give way to their dissatisfaction and anger more easily. They are among the first who are ready to protest, fight, occupy, insist upon their demands or to pursue a “dangerous” life.

Disappointed youngsters are dangerous for the status quo. This is obvious if we think of the movements that popped up in the last 5 years of the crisis in Europe and also in America.<sup>43</sup> Young people are not identical with the unsatisfied protesting mass at all, but they are the engine of the protests, as they were in 1968. They are going to play a more significant role in articulating the indignation of the unemployed and underpaid, or indebted population, especially in the countries where the austerity measures seem to be never ending and/or the institutions and culture of democratic interest-representation

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43 See e.g. Afatsawo (2011), Huffington (2011), Karimi and Sterling (2011), Sassen (2011)

are not developed enough. This is the case not only in countries like Greece or Spain, but also in the CEECs including Hungary, where the mobilization ability of the old-type trade unions and grassroots civil organizations is rather weak.

For 2011, Eurofound presented maps that show the density and activity of the NEETs by countries. The proportion of the NEETs is very high in Spain, Italy, Greece, Bulgaria, Romania and Ireland, and high in United Kingdom and Latvia. The political and social disengagement of the NEETs is the highest in the most crisis-hit Eurozone members, namely Portugal, Spain, Italy and Greece.

### **The Youth Guarantee Scheme – a solution?**

The Youth Guarantee Scheme of the EU aims at ensuring that young people under the age of 25 are in either job or education within four months after having left the school or their last job. The program can be seen as an initiative that aims to eliminate the NEET-phenomenon. To this purpose the Commission devotes EUR 6 billion in addition to the already existing EU funds between 2014 and 2020. The scheme is to be introduced by each member state in 2014.

This initiative is one of the best the EU has ever designed in order to mitigate the labor market and social crisis in Europe. The idea is not new in Europe as there have been similar systems for example in Finland (what was a kind of “pattern” for the initiative of the Commission) and also Austria, France, the Czech Republic, Denmark. Hungary launched its “First Job Guarantee” program in August 2012. In Austria, the “Training Guarantee” program was introduced in 2008. This program aims to help young people up to 18 years of age who cannot find a company-based apprenticeship. The program gives them the opportunity to learn and gain vocational experience in designated training centres. Besides, Austria has established 20 so-called Production Schools until 2012. These schools have the mission to reintegrate young people – having dropped out from school – into the education, training and/or job market. There are other measures that

offer support to NEETs in the age group of 19 to 24 years.<sup>44</sup>

The question is, however, what kind of education, training, job and, first of all, what perspective young people will get and at what age. For example, the present Hungarian legislation concerning vocational training is in line with the Youth Guarantee Scheme of the EU inasmuch as it supports vocational education in secondary schools. On the other hand, the government lowered the school age to 16 years that can hardly be called beneficial for the long-term socio-economic development of the country, since this measure testifies that the goal of the education system is to create new labor force as quickly as possible for the “business” i.e. for making profit. In this process of vocational education no general knowledge is taught as there is obviously no need for that in most segments of production where the “skilled” young people will be employed. In this policy the priority is the employability of youth. By this way it is easy to produce droids for the production. This however, contradicts to the other slogan that is frequently voiced in a broader context, namely that Europe has to become a “knowledge-based society” in the 21<sup>st</sup> century.

Another and probably even more important question is financing. The Youth Guarantee Scheme aims to put a brake on the increase of NEETs but the budget of the scheme is insufficient and definitely much smaller than the hundreds of billions of Euros that were devoted to bailing out banks. The Youth Guarantee Scheme offers 6 billion Euros for 7 years, which means 857 million per year for regions with levels of youth unemployment of those less than 25 years of age higher than 25%. In 2012 there were more than 7.5 million NEETs under 25 years of age in the EU. If we estimate that half of them are living in regions with levels of more than 25% youth unemployment rate we got that YGS offers around 1,500-1,600 Euros per head of NEETs for seven years, or 220-2230 Euros per head per year. This amount is to be supplemented by national or regional budgets.

According to a Swedish study based on the evaluation of 28 projects, since 2007 the potential gains from the measures helping young

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44 EC (2012a) p 14-15.

people (between 18 and 30) to reintegrate into the labor market reach 4,200 Euros in the first year. The study forecasts an average profitability of 51,870 Euros per participant over five years. For this, however, Swedish authorities together with the European Social Fund have spent 7,810 Euros per participant of the projects on average.<sup>45</sup> This sounds nice, but there were still over 130,000 NEETs in Sweden in 2011, by only 4 thousand less than in 2008. To reintegrate them would cost over 1 billion Euros more. For the EU27, where there are more than 14 million NEETs, a similar result would cost cca. 54 times more if we calculate with only half of the Swedish average costs of measures per participant.

According to the ILO<sup>46</sup>, in 2010 the cost of the Swedish job guarantee program for those between 18 and 24 years of age was less than 6,000 Euros per participant. As a result 46% of the participants had „successful outcomes”. This means, however, that around 12,000 Euros are needed to help one NEET back to the labor market or education.

Member states can and surely have to supplement the budget if they want to reach any result. There are however no additional resources, particularly in those countries where the problem is the most severe, moreover, tackling the high level of general unemployment demands also extra efforts from them. Because of the excessive deficit procedure, Hungary had to block 92.9 billion HUF (EUR 317 million) in 2013. Calculating with only the half of the above mentioned estimation based on the data of ILO, what is 6,000 Euros per head with “successful outcomes”, this sum would be enough to help effectively on 53,000 Hungarian NEETs out of 420,000.

The Commission is aware of the problem but argues that the cost of NEETs in the form of unemployment benefits and lost revenues is more substantial than the cost of the action would be.<sup>47</sup> This is true, but the lost revenues are only theoretical sums while the cost of the action has to be effectively paid in advance. The discrepancy entails

45 EC (2012c) p 13.

46 ILO (2012) p 46.

47 EC (2012e)

extra burden on the governments. The Commission stresses also, that not everything is a question of money. For example partnership-based approaches in the labor market programs and redirecting the money from the old type measures to the newer ones do not require extra expenditures. This is also true but it decreases the necessary extra costs only without eliminating them.

All this means, that although the Youth Guarantee Scheme is a good step in the right direction, it is not a sufficient remedy to the long-term problem of youth unemployment or NEETs. Especially, that these are the consequences of the tendentially increasing total unemployment and the increasing polarization of the society for what neither YGS nor other EU programs offer a solution.

### **The problem of labor market in general**

It has to be stressed that the underlying reason behind the disengagement and exclusion from the society of an increasing part of young people is the generally high unemployment. There have never been so many people without a job in Europe as today. Since 2009, in the EU15 the level of unemployment is higher than it was at its peak after the WWII. Then, in 1994, it was 17.7 million or 10.5%. In the EU15 the unemployment reached 20.6 million (10.6%) in the average of 2012 and 22.3 million (11.5%) in March 2013.<sup>48</sup>

As for the EU27, the figures far outstrip also the worst year (2004) since 2000 for which data is available. In 2012, there were 4.1 million unemployed more than in 2004. In 2012, the rate of unemployment in the EU27 reached 10.5% whereas it was 9.3% in 2004.<sup>49</sup>

The mounting unemployment coupled with the austerity measures of the governments left many families with less and less real income. This means that young people are left not only without a job, but also without the support of their relatives.

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48 Eurostat. Statistics by theme. Unemployment by sex and age groups – annual and monthly average, 1,000 persons and unemployment rate, seasonally not adjusted data.

49 Ibid.

To sum it up, the core problem of today is neither the youth unemployment nor the NEETs in itself. It is the total unemployment that makes the youth disengagement basically unsustainable. As long as the older generations are able to earn sufficient money, they are able also to help younger generations. There has been a growing tendency all around Europe – and especially in the peripheral countries, among them in Hungary – in the past decades, namely, that parents and grandparents have been supporting their children and grandchildren from their salaries and pensions, paying their children’s or grandchildren’s education, credit, overhead, car etc. at least partly. As however in the crisis parents and grandparents became increasingly unemployed, the possibility for this type of assistance has shrunk or even disappeared. This happens in a time when intra-family solidarity would be even more important, as children and grandchildren have also been fired and/or found a job with even more difficulty, very probably for less salary than earlier.

Thus, the problem of youth unemployment and NEETs is only the tip of the iceberg and cannot be solved without solving the general problem of unemployment. The growth of the latter, however, is a historical tendency within capitalism, and this tendency becomes more pronounced for Europe with outward foreign investments to low-wage countries outside Europe. Behind the tendency of rising unemployment and the collateral deterioration of working conditions, such as decreasing wages, increasing intensity of work, spread of “atypical” or – to put it less euphemistically – precarious forms of employment, there is the profit motive that requires a continuous lessening of unit labor costs. This causes the decreasing trend of the compensation of employees within the GDP, which itself is the basic reason for crisis and unemployment.

## **Conclusion**

The phenomenon of youth unemployment is seen as one of the most severe problems in Europe. The youth unemployment is mainly explained by 1) the *insufficient* knowledge of the youth, 2)

the *inadequate* education that means the structural mismatch between the skill of the young people and the demand of the market and 3) the *disappointment* of the youngsters. These factors result not only in active unemployment but a “lost generation” of cca. 14 million NEETs aged less than 30 in EU27. Their number in Hungary is estimated to be 420 thousand in 2011 and only one third of them are active unemployed. The costs of NEETs reach 1.2% of the GDP at the EU27 level but the ratio is almost double of that in Hungary. The Hungarian government works on to mitigate the problem of unemployment by offering allowances from the social insurance contribution of the employers in order to lessen labor costs but the efforts have not been successful just in the case of youth unemployment as yet. The slight increase of both youth and total employment in Hungary has been possible primarily by favor of the public work programs launched in 2011.

The problem of youth unemployment has been with Europe since decades. Although the crisis hit youngsters badly, the unemployment of older people grew more. The share of youngsters within total unemployment is smaller now than it was ten years ago in the majority of the less developed countries of the EU. On the other hand, in the majority of the most developed member states the weight of the youth unemployment in total tends to be higher and has increased more than in the less developed members since the beginning of the 2000s. It is the NEET-phenomenon instead of conventional youth (active) unemployment that means a great threat to the European labor market and to the European society in general. But all-important is that the long-term problem of youth employment and the increasing number of NEETs are only the consequences of the tendentially increasing total unemployment and the increasing polarization of the society for what the EU and its Youth Guarantee Scheme does not offer adequate solution.

The engine of our market economy today is the imperative to be competitive on the market. That means a requirement to be sufficiently profitable. The profit motive presses for a continuous lessening of

unit labor costs, hereby causes a historically and tendentially increasing unemployment that inevitably leads to the rise of workless and disappointed generations.



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