The economic cost of the young people not in employment, education or training (NEETs).

Massimiliano Mascherini[1] and Alessandra Mattei[2]

Introduction

The immediate future of Europe depends upon the 94 million Europeans aged between 15 and 29. So it is a matter of great concern that these young people have been hit so severely by the economic crisis. Only 34% were employed in 2011, the lowest figure ever recorded by Eurostat. The unemployment figures also testify to an appreciably more difficult labour market for young people; since the start of the recession, youth unemployment has risen by 1.5 million, reaching 5.5 million (or 21%) in 2011.

Serious as these statistics may be, they do not adequately capture the situation of young people, not least because many are students and hence classified as being out of the labour force. For this reason, EU policymakers are increasingly using the concept of NEET – 'not in employment, education or training'. The definition is in principle straightforward, referring to those who currently do not have a job, are not enrolled in training or are not classified as a student. While the population of NEETs is highly heterogeneous, the concept of NEET permits to capture the more general vulnerabilities of young people in respect to labour market-

According to Eurostat, in 2011, 7.5 million young people aged 15–24 and an additional 6.5 million young people aged 25–29 were NEETs in Europe. This corresponds to 13% of those aged 15-24 and the 20% of those aged 25'29. While there is huge variation between Member States, in almost all the European countries a considerable increased has been recorded in the size of the population of NEETs in the period 2008-2011.

Spending time as NEET may lead to a wide range of social disadvantages for the individual, such as disaffection, insecure and poor future employment, youth offending, and mental and physical health problems. All these negative individual outcomes of NEET status have a cost attached to them. Therefore, being NEET is not just a problem for the individual but is also one for societies and economies as a whole. In this regard, in order to broaden understanding of the societal and economic benefits accruing from re-engaging young people and encouraging them to remain in education, training or employment, this paper aims to estimate some of the yearly costs faced by our societies from not being able of re-integrating 14 million of young people who are NEETS, (Eurofound 2012)..

Data and methods.

The computation of the economic cost of NEETs is a very complex exercise and in the literature only limited research efforts have been dedicated to it. In particular, it should be noted that all the previous studies are limited to Britain or the UK, (Coles et al, 2010; Prince's Trust 2010). This study is the first providing an estimation of the economic cost of NEETs at European level.

The analysis is performed using the 2008 cross-sectional European Union Statistics on Income and Living Conditions (EU-SILC). The estimate is performed on 26 countries – all MSs excluding Malta. The population of interest is the 16–29 year-olds and NEETs are identified as those young

[1] European Foundation for the Improvement of Living and Working Conditions – Dublin, Ireland – mam@eurofound.europa.eu – corresponding author.
[2] Department of Statistics, University of Florence, Italy – mattei@ds.unifi.it

people who have been unemployed or inactive for a period of six months or more during the reference period of the survey.
The cost of being NEET is the sum of the resources costs (foregone earnings and unpaid taxes) and public finance costs (excess transfer in welfare benefits). Foregone earnings are estimated as the difference between the earnings generated by the NEET and the earnings generated by those in employment. Similarly, excess transfer is computed as the difference between the total amount of benefits received by the NEET and the benefits received by those in employment.

Given the characteristics of NEETs, it is natural to assume that their potential earning capacity is reduced in comparison to the 'average' young employed person. For this reason simplistic methods such as the simple difference cannot be applied. In order to take into account the different characteristics of the NEET, in this paper the so-called statistical method of the 'propensity score matching' is applied, (Rosenbaum and Rubin, 1983). Instead of assuming that the level of potential earnings and the level of transfers of a NEET person is exactly the same as for a young employed person, with this method each NEET is matched with the most comparable young employed on the basis of a set of characteristics that explain the NEET status. The income of each NEET person is then compared with the income of one or more young employed persons who have the same characteristics of the NEET. A good way of thinking about this method is in terms of statistical twins who have identical characteristics but one respondent is a NEET and his twin is a young employed person.

Results

On this basis of our estimation, the cost for EU economies in 2008 due to the lack of NEETs' labour market participation can be estimated to be €2.3 billion per week. Based on this calculation, the total estimated economic costs of NEETs in 2008 were approximately €119.2 billion. This figure corresponds to approximately 1% of the aggregated GDP of these 26 Member States.

At country level, the highest bill is paid yearly by Italy (€25 billion), France (€17 billion), Germany (€16.4 billion), the UK (€13 billion) and Spain (€10.7 billion). Conversely, small countries such as Latvia (€335 million), Lithuania (€223 million), Estonia (€210 million) and Luxembourg (€122 million) pay the lowest amount.

The total annual cost comprises €8.8 billion of public finance cost and €111.3 billion of resource costs. While it is interesting to know the economic losses in absolute terms, this information is not very informative for cross-country comparison. In fact, differences in the cost of living and the size of the population of NEETs greatly inflate or deflate the absolute figure and make such comparisons unfeasible. In order to perform such a comparison, the economic loss due to the disengagement of NEETs from the labour market is calculated as a percentage of GDP. In this case, the country that pays the highest bill is Bulgaria, with a loss equal to 2.36% of GDP, followed by Greece and Ireland (both at 1.74%), Cyprus (1.65%) and Italy (1.60%). The countries that pay the lowest bill are Luxembourg (0.31%), Denmark (0.33%), Sweden (0.36%).

Bibliography

Eurofound 2012 – "*NEETs, young people not in employment, education or training: characteristics, costs and policy responses.*" Luxembourg.

Coles, B., Godfrey, C., Keung, A., Parrot, S. and Bradshaw, J. (2010), *Estimating the life-time cost of NEET: 16-18year olds not in Education, Employment or Training,* research conducted for the Audit Commission by University of York.

Prince's Trust (2010), *The cost of exclusion: Counting the cost of youth disadvantage in the UK*, Prince's Trust, UK

Rosenbaum, P. R. and Rubin, D. B. (1983), 'The central role of the propensity score in observational studies for causal effects', *Biometrika*, Vol. 70, No. 1, pp. 41–55.