

The short and medium term impact of the great recession on youths' non-employment rates and transitions in Europe

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Paper proposal for 4th European User Conference in Mannheim, March 5-6, 2015

Abstract

This paper seeks to understand the cross-country variation in youth non-employment rates and transitions in Europe during the economic crisis. Our descriptive comparative trend analyses show that, in addition to country differences in pre-crisis non-employment *levels*, the impact of the economic crisis in terms of *changes* in youth non-employment risks varied enormously. The different reaction patterns include stability on a high level (e.g. Romania, France) or on a low level (e.g. Netherlands, UK). Abrupt increases appeared in Estonia, Latvia and Ireland. In the Southern European countries as well as Denmark the increase was also dramatic, but gradual. Another important observation is the variance of cross-country developments in the post-crisis period from 2010 until 2012. Whereas in the Southern European countries the peak of the crisis impact in terms of non-employment seems not yet to be reached, other states like the Baltic States already show declining youth non-employment rates since 2011.

Against this background we investigate which factors can explain this cross-country variation. Relying on micro-data for 27 European countries from the European Labour Force Survey (EULFS) for the period from the pre-crisis years to the latest available wave of 2012, we adopt both a static perspective (looking at youth *non-employment rates*) and a dynamic perspective (looking at *transition rates between employment and non-employment*). The latter dynamic analysis allows us to distinguish whether higher relative youth non-employment rates are due to disproportionately lower hiring rates for youths (i.e. decline in job creation) or disproportionately higher firing rates (i.e. increase in job separation).

From a methodological point of view we use a *multi-level design* with different subgroups of young persons (level-1) nested in time periods before, during and after the recession (level-2) as well as different European countries (level-3). At the macro-level we distinguish three main explanatory factors. First, we expect that the strong variation in the strength of the economic crisis might be responsible for different reactions of youth labour markets. Second, we address the role of interactions between shocks and institutions as the impact of the economic crisis on youth labour market might be shaped by the nation-specific institutional setting (e.g. the education and training system, employment protection regulation as well as active labour market policy) that existed at the onset of the economic crisis. Third, countries differed in their policy responses to the crisis.