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Youth Unemployment in Romania: Post-Crisis Challenges

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Abstract

This article reviews the dynamics of the Romanian youth labour market between 2007 and 2013. Using total unemployment rate as benchmarking we describe the dynamics of youth unemployment during these years. We argue that the short time effects of the crisis on youth unemployment are just one side of the problem. The long term effects related to education and migration trends are the main challenges that labour market policies should address in the near future.

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1. Introduction

After more than six years from the beginning of the Great Recession, Europe is still struggling to recover. The youth unemployment is a challenge for all countries, regardless their socio-economic development. Among its South East European neighbors, Romania is a relevant example that the effects of the crisis were not equally distributed among countries, individuals and groups, and post-crisis recovery is a big challenge. This article analyses youth unemployment evolution between 2007 and 2013 in Romania, focusing on the specific causes like changes in educational trends and migration of young workers. The paper is trying to fill a gap in the literature in several ways:

Most of the studies on youth unemployment are made on OECD and Western European Countries. There are fewer on post-communists or transition countries, despite the fact they are facing some particular determinants. The paper focuses both on short-term reaction of the labour market and on the differences between the impact of the crisis on youth and adult employment.

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There is a debate in the literature regarding the effects of the crisis on youth unemployment: most of the authors have argued that young people were more severely affected by the recession than were other workers; there are some other authors who argue that the position of young people improved comparing to adults during the recession at least in terms of relative unemployment rates. Using the gap between adult unemployment rate and youth unemployment rate as a measure, the paper tries to identify some specific patterns in Romania in order to give an answer to this dilemma, at least for this particular time and space.

We begin our paper by setting the background context of long – run trends in youth unemployment. We describe the dynamics of youth unemployment during the last 6-7 years and we argue that the short time effects of the crisis on youth unemployment are just the tip of the iceberg. The long term effects related to the drop in interest for education and the changes in migration trends are the main challenges that labour market policies should address in the near future.

The youth unemployment rate was always higher than total unemployment rate, but the global financial crisis has aggravated the pre-existing crisis. Over the last two decades, youth unemployment on average has remained at three times that of adult unemployment and, in some regions, this proportion is now as high as five times the adult rate. In 1997-2007 the number of youth increased, on average, in the world by 60.000 per year; in 2007-2011 youth unemployment increased by 4 million (ILO, 2012). The figures after the crisis are particularly higher all over the world. In a report about youth unemployment crisis, International Labor Office (ILO, 2012) wrote about „staggering proportions” of youth unemployment and „social and economic catastrophe”: to have four out for every ten young people unemployed is a social and economic catastrophe (Spain and Greece 46% and 42% - the rate doubled between 2007 and 2011).

The problem is now a real challenge for economists and the debate is very actual. We identified three kind of contributions to the youth unemployment issue in the literature: empirical studies; papers about the causes and determinants of youth unemployment; literature on the impact of the economic and financial crisis on youth unemployment. Recent articles on the effects of the crisis on labour market, employment, unemployment, focus on the most vulnerable components: countries and regions with high risk of unemployment, the most sensitive age groups.

2. Youth unemployment – literature review

In a book published in 2011, former ILO staff provides new insights into macroeconomic and labour market dimensions of the Great Recession. The diversity of labour market reactions can be explained by a number of factors including differences in initial conditions such as stage of business cycle, presence of a housing bubble, strength of the labour market and the degree of fiscal space (Islam and Verick, 2011). As many other studies concluded, this book shows that the hardest hit have been young people, men, and temporary workers, the unskilled and migrant workers. All these can be mostly explained by the sectorial composition of the economic contraction. There are some other studies about unemployment during and after the crisis (Yiannaki, 2010, Cho and Newhouse, 2013, Krause and Uhlig, 2012, Pratap and Quintin, 2011, Vasile, 2012) but the youth unemployment during the crisis is less studied.

Looking at youth unemployment, Choudhry et.al. (Choudhry et al., 2010) show that financial crisis have impact on the youth unemployment rate that goes beyond the impact resulting from GDP changes and the effect on the youth unemployment rate is greater than the effect on overall unemployment. Regarding the timeframe of the effects of the crises on youth unemployment, their results suggests that financial crises affect youth unemployment five years after the crises, and the most adverse effects are found in the second and the third year.

The youth unemployment problem is not new. The interest in the literature begins debate in the 1980s when the core of the ‘baby-boom’ generation joined the jobs market. For Europe, unemployment was always on the agenda because EU historically registered higher values than US or Japan (Yiannaki, 2010) both for general rate of unemployment and youth unemployment rate.

There are many explanations regarding the wide variation in youth unemployment among different countries. Conducting a regression analyses using data from 27 OECD countries Breen (Breen, 2005) explain some of the variation on the basis of economic and institutional differences between countries. His paper focuses on two institutional features: degree of labor market regulation, and the extent to which the educational system sends clear signals to employers about the qualities of job seekers. The degree to which educational system inculcate specific,

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