

Youth Labour Market Problems in Spain. Overview, Gender Issues and Policies¹

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1. Overview

The youth unemployment rate (16-24) in Spain reaches 52.4% according to the latest available Spanish Labour Force Survey (EPA, 2014Q3). Given a 41% labour force participation (LFP) rate for this age group, this means that, out of 4.03 million young people, 867 thousand are on the dole. Furthermore, half of them have been unemployed for over a year (long-term unemployed) and only 54% have completed compulsory education (ESO). These figures can only be qualified as dramatic. Yet, it is important to stress from the outset that Spain does not have a specific youth unemployment problem.

In effect, the ratio between youth and adult unemployment rates (henceforth, u-rates) has moved between 2.0 and 2.5 over the last twenty five years. This ratio is similar to the average ratio in the EU and happens to be rather lower than in countries like Italy, Sweden and the UK, where it ranges between 3.0 and 4.0.² Notwithstanding, doubling an adult u-rate of around 25% implies a much more alarming figure than tripling u-rates of 10% or less. Thus, the first conclusion to be drawn is that youth u-rates in Spain will remain very high in the future as long as its labour market continues to be dysfunctional.

At any rate, the serious threat of high and persistent youth unemployment in several EU countries, especially for those in the periphery, explains the emergence of strong social pressure. Effective policies are badly needed to fight the scarring effects that frequent spells of unemployment and precarious jobs have on the future well-being of many young people. More specifically, these features are behind the well-known phenomenon of *hysteresis* which hinders seriously the reduction of high u-rates after a recession. One important indicator of these scarring effects is the so-called *Neets* (not employed nor in education or training,

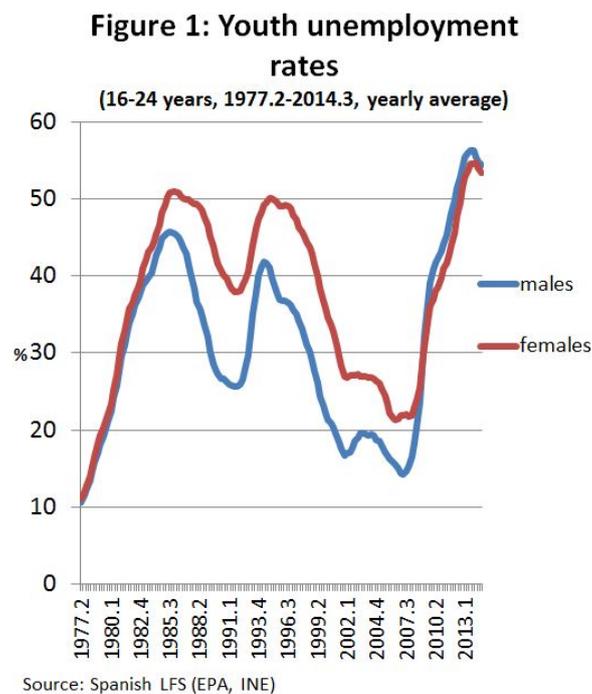
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² See Dolado, J, Felgueroso, F, Jansen, M, Fuentas, A. and A. Wolf (2013), "Youth Labour Market Performance in Spain and its Determinants. A Micro-level Perspective," OECD Economics Dept. WP 1039.

known as *Ni-nis* in Spanish) rate. This group includes those individuals aged 15-24 who bear higher risk of being left behind. It mostly captures unemployed young people not enrolled in training courses, but also includes school dropouts and those with a college- or even a higher degree- who are jobless and have exhausted all educational attainments. In Spain, they represent nowadays around 18% of youth population, having soared from 13% in 2007 , out of which 70% are unemployed, 10% are school dropouts and 10% have completed a college degree.

2. Gender Issues

However, given the goal of the COSME Newsletter, before discussing these policies and their specific implementation in Spain let us have a look at whether the previous problems have affected young men and women differently.

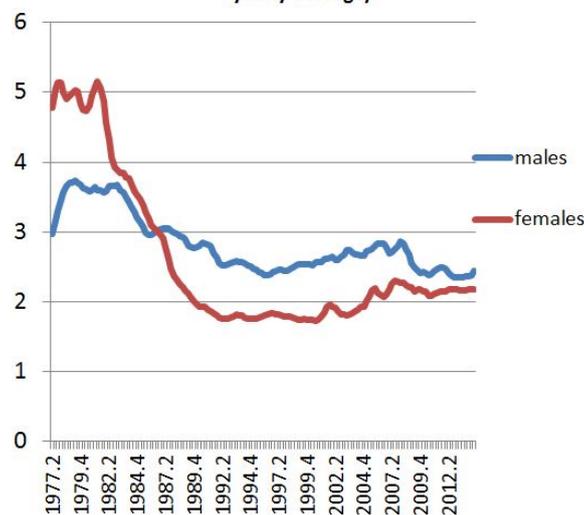


First, Figure 1 depicts youth u-rates by gender from 1977 to 2014.³ As can be observed, gender gaps (male-female) in u-rates are pro-cyclical (they are lower in recessions and higher in expansions), basically because male youth u-rate increases by more than the female u-rate in downturns and goes down by more in upturns. This cyclical pattern may reflect changes in

³ A similar time span is used in the other figures.

the sectoral composition of the Spanish economy, dominated by large employment shedding in male labour-intensive sectors (like construction and its ancillary industries) during the current and earlier recessions and high employment growth over the 2000s, prior to the housing bubble burst. Notice that, lacking these sectoral changes, the larger share of temporary work among women would predict the opposite cyclical pattern. In effect, given the much lower termination costs of fixed-term contracts, the standard predictions would be both a much stronger female job creation in upturns and job destruction in downturns.

Figure 2: Youth relative unemployment rates
(UR 16-24/ UR 25-54, 1977.2-2014.3, yearly average)

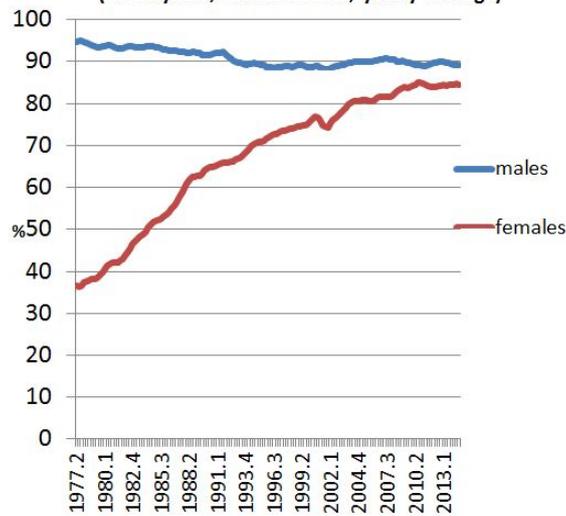


Source: Spanish LFS (EPA, INE)

Second, Figure 2 presents the ratios between youth and adult u-rates by gender. The female ratio has plunged from 4.0 in the late 1970s to 2.0 in the late 1990s, having later stabilized around that value. By contrast, the corresponding male ratio has been more or less stable around 2.5-3.0. This again reflects that youth unemployment is a more severe problem among male than among female youngsters, given the lower LFP rate of the latter. Yet both ratios are below the EU average discussed above, which just confirms that the real problem lies in the malfunctioning of the Spanish labour market at the overall level.

Figure 3: Youth labour market participation rates

(25-29 years, 1977.2-2014.3, yearly average)

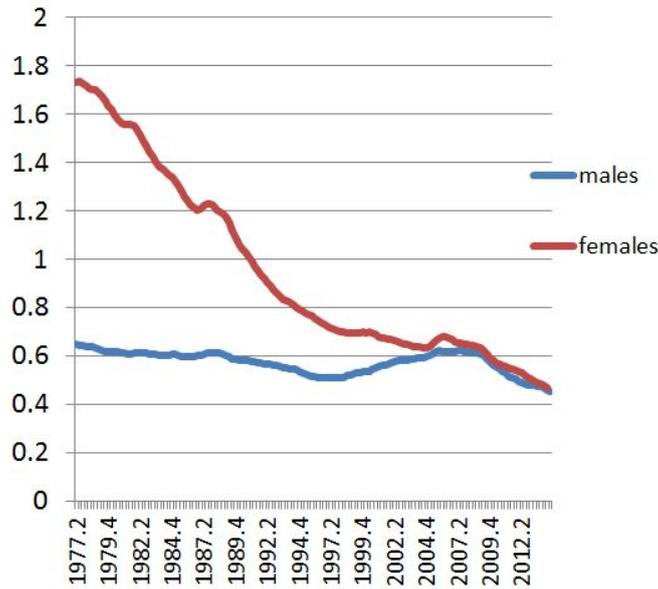


Source: Spanish LFS (EPA, INE)

Third, Figure 3 depicts the LFP rate by gender, this time restricted to the age group between 25 and 29 since for younger people they are much lower. Once more we find convergence because, although both rates fall since the onset of the Great Recession, the reduction in the male LFP is much larger in absolute terms than in female LFP (in relative terms they are similar, around -30%). Some of the new inactive young workers may have gone back into education, others have become non-unemployed *Neets*, and the rest have migrated.⁴ In theory, since women are now a majority in upper secondary and tertiary educational levels, one would expect a larger emigration rate in relative terms. According to the Population Figures at 1 January 2014 published by INE, women migrate slightly more than men among those aged 16-24 but do less from 25 onwards. The latter may be less mobile for family-related reasons.

⁴ Between 2009 and 2013, youth (16-24) labour force decreased by 640,000 while cumulated outmigration flows to other countries of young people reached 286,000 (about 57,000 a year) in that age group during that period. Unemployment went up by 94,000.

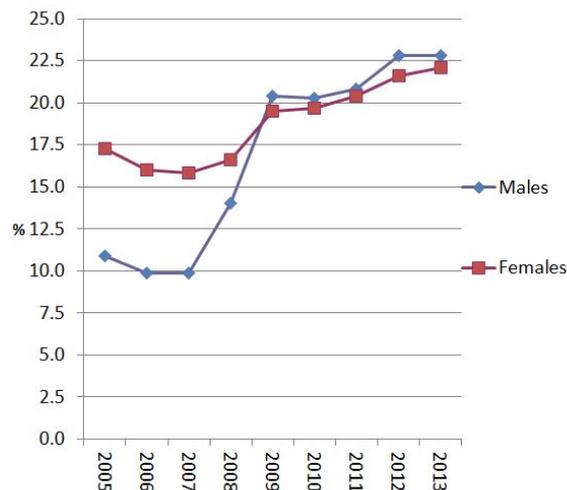
Figure 4: Youth relative LM participation rates
(LMPR 16-24/ LMPR 25-54, 1977.2-2014.3, yearly average)



Source: Spanish LFS (EPA, INE)

Fourth, Figure 4 shows the ratios between youth and adult the LFP rates again by gender. As can be observed, the female ratio shows a clearly declining pattern, from 1.8 in 1977 to 0.6 in 2013, while the corresponding male ratio levels off at around the later value. This is likely to be due to the secular increasing participation of women in the education system as a result of the divorce law, access to contraceptives and major improvements in household technology.

Figure 5: % NEETS, Spain, by gender
(15-29 years, 2005-2013)



Source: EULFS (EUROSTAT)

Fifth, similar comments to the ones on u-rates in Figure 1 pertain to the Neets rate by gender displayed in Figure 5, where the age group is now extended to 15-29 as it is often presented by OECD. Attracted by the hefty wages in construction sites, many male teenagers dropped out of compulsory secondary education during the early 2000s and then lost their jobs when the real-estate bubble burst. It is true that the Great Recession has also hit several service-based industries where women are over-represented, but to a lesser extent.

3. Policies

In this context, the implementation in Spain of the Youth Guarantee (YG) scheme approved by the UE to tackling youth unemployment appears good news in principle. Inspired by previous successful experiences in Finland and the UK, YG is a new approach which ensures that “all young people (*Neets*) under 25 – whether registered with employment services or not – get a good-quality concrete offer within 4 months of them leaving formal education or becoming unemployed.” This scheme requires strong cooperation between all the key stakeholders (public authorities, employment services, education & training institutions, business, employers, trade unions, etc.) in order to provide early intervention and to improve vocational education and training systems.

The total estimated cost of establishing YG schemes in the Eurozone is €21bn a year, or 0.22% of GDP. If efficient, it could save up to EU €153bn (1.21% of GDP) a year which is the estimated cost in terms of benefits and foregone earnings and taxes.⁵ The EU will top up national spending on these schemes through the European Social Fund and the €6bn Youth Employment Initiative.

Spain will receive a total amount of €1.9bn during 2014 and 2015 to be spent over a seven year period. Will this be enough to improve our youth employability? We are not optimistic, mainly for two reasons.

First, because committed funds are rather small both in absolute and per capita terms. The €1.9bn will only allow to recover one-fourth of the cut in Active Labour Market Policies (ALMP) expenditure implemented since 2011. Further, given that the number of *Neets* is around 800 thousand in

⁵ Source: Eurofound Report on Youth Unemployment

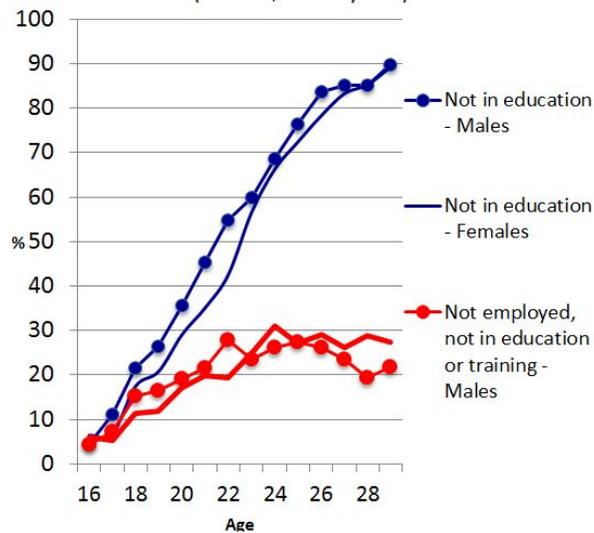
2014, the allocated top-up means extra resources of a meagre €30 a month for each of these individuals.

Secondly, because designing an efficient YG scheme is not such a simple task. Available evidence even shows that a bad design could even be detrimental for youth employability. So far, until the scheme unfolds, we are fairly skeptical about the so-called “emergency measures” which involve half of the allocated budget. First, most of these policy measures are conventional employment subsidies which entail heavy deadweight and substitution effects. Another repetitive action is the emphasis placed on training and apprenticeship contracts which only represent 2% and 6% of the contracts held by low and high-educated young people, respectively. Lastly, more than half of the one hundred actions contained in the Spanish YG scheme repeat the mantra of fostering youth entrepreneurship, despite the fact that similar actions in the past have only reached a maximum of 4% of entrepreneurs in youth population during the previous long expansion, a proportion which has gone down to 2% during the Great Recession. Further, there is the risk of replacing employees by a new wave of self-employed young people by necessity (rather than by choice), worsening even more the low quality of the jobs that are being created during the current mild recovery.

Going back to the gender divide, it is important to stress that the implementation of YG in Spain is geared towards helping more male youth than female youth with labour market problems. As can be observed in Figure 6 (red lines), the female *Neet* rates in 2014 are lower than the male *Neets* rate for youth aged 16-22 while it is higher for those aged 23-29. As shown by the blue lines, the first fact is possibly explained by the lower school dropout rates of younger women whereas the second fact could be due to the larger enrollment rate in higher education of women who graduate and do not find jobs.

Figure 6: NEET rates by gender and age

(2014.2, 16-29 years)



Source: Spanish LFS (EPA, INE)

Overall, evaluation of many youth employment schemes in the UE clearly show that those which combine job seeking advice, training and some employment experience are the most effective ones. To achieve these goals, it is paramount to provide more financial resources for the Public Employment Services (SEPE) and for dual vocational training programs-- which still remain one the weakest parts of our educational system. Likewise, it is essential to enhance the participation of private employment agencies in these schemes, especially in those dealing with training. Leaving the simplest cases to PSE and the most difficult ones to private agencies-- with the right incentives in terms of reasonable and increasing fees in case of job placements say for at least six months--, seems a compulsory action which is still at its infancy. Indeed, it is only very recently that the Government has approved the implementation of a Royal Decree passed in 2010 allowing six private agencies to intermediate in the job matching process for those unemployed under *Plan Prepara*. The maximum rate for these agencies in case of success is € 300 which clearly seems insufficient.

So far our skepticism seems justified by the poor registration rates of youth in the YG: only 4% of the 740,000 eligible *Neets* for YG have registered so far. And this despite the fact that the Government should be extremely interested in achieving high registration rates since that would reduce the labour force and therefore unemployment (for a given employment level). Summing up, lacking more ambitious changes in YG implementation and a very slow reduction in the overall unemployment

rate, we are afraid that the three exits of the crisis for youth in Spain will increasingly become by land, sea and air.