Social Exclusion of Youth in Europe

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PART III

Labour market insecurity and the socio-economic consequences for youth
Can labour market policies protect unemployed youth from poverty? 
A cross-European comparison

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Magdalena Rokicka, Jędrzej Stasiowski, Kadri Täht, 
and Marge Unt

Introduction

Economic deprivation and poverty are often related to what has increasingly been referred to as multiple disadvantage (Kieselbach et al., 2001; Berthoud, 2003; McDonald and Marston, 2005). This could be described as a bidirectional relationship in which deprivation during early socialisation leads, for example, to early school leaving and subsequently to unemployment, whereas unemployment (Cantó-Sanchéz and Mercader-Prats, 1999) or labour market insecurity (Pavis et al., 2000; Clasen and Goerne, 2011) increase the risk of economic deprivation and poverty among youth. The latter risk is higher when access to welfare is restricted or non-existent (Saltkjel and Malmberg-Heimonen, 2017) and when the family of origin is, for whatever reason, unable to support its offspring.

Previous studies on youth poverty (Aassve et al., 2006, 2013; Scarpetta et al, 2010) have pointed out various risk factors for material deprivation among youth, and a central one of these is unemployment. Most studies find that, on average, early youth unemployment has serious negative effects on incomes: young adults experiencing labour market exclusion face a significantly higher risk of poverty and material deprivation (Aassve et al, 2006; Rokicka and Kłobuszewska, 2016). Moreover, as well as the short-term effect, young adults experiencing unemployment in their early careers may become ‘scarred’ with respect to their future careers and face issues such as increased risk of unemployment or reduced earnings (see for example Arulampalam, 2001; Steijn et al, 2006; Schmillen and Umkehrer, 2013). Next to the material dimension, the negative effect of unemployment has also been observed on a psychological level resulting in negative expectations of
future employment prospects (Knabe and Rätzel, 2011), reduced life satisfaction (Wulfgramm, 2014), career dissatisfaction (Helbling and Sacchi, 2014), reduced subjective psychological well-being (Alvaro and Garrido, 2003), and reduced self-esteem (Sheeran et al, 1995).

When trying to explain youth deprivation and poverty, the main focus of previous research has been on individual or social origin characteristics (Aassve et al, 2006) such as family structure (Berthoud, 2003; Kangas and Palme, 2000), or on labour market factors such as unemployment or low pay (Pavis et al, 2000). However, a growing body of research is pointing out that in order to better understand the distribution and accumulation of (economic) disadvantage, structural factors should also be taken into consideration (Aassve et al, 2002, 2013; Saltkjel and Malmberg-Heimonen, 2017). Previous studies have demonstrated a relationship between macroeconomic characteristics of a country and that country’s distribution of income levels. For example, the lower the wealth of a country (measured in GDP) the higher the levels of poverty and deprivation. Likewise, the higher the unemployment rate – particularly long-term unemployment – in a country, the higher the levels of poverty or deprivation (Aassve et al, 2013; Duiella and Turrini, 2014). At the same time, studies show that both poverty rates and labour market factors such as unemployment, which are risk factors for youth poverty, tend to vary across countries (Cantó-Sanchéz and Mercader-Prats, 1999; Aassve et al, 2006). The same also applies to the association between financial resources and deprivation levels, as shown in a study by Nolan and Whelan (2010) who analysed the variability in poverty and social exclusion levels in Europe. A study by Kenworthy (2011) has also shown a modest negative relationship between the size of social policy expenditure and material deprivation, although that effect varies across countries.

One plausible explanation for this varying effect is the variability in the countries’ institutional contexts. Individual life courses are socially embedded in the macroinstitutional and structural context that defines the set of opportunities and constraints to which individuals respond (Mayer, 2009; Buchmann and Kriesi, 2011). Whereas the institutional and structural context is shaped fundamentally by policies that vary strongly across countries, national institutional settings and policies have a moderating effect on how risks of labour market exclusion among young people translate into risks of social exclusion (Mills and Blossfeld, 2003). In other words, the major detrimental consequence of unemployment is a lack of personal income that translates directly into a deterioration of the financial situation along with material deprivation, which can be alleviated not only by informal support
but also by specific policy measures. However, in the same way that policies vary across countries, youth in different countries also vary in the extent to which they experience both the risks as well as the outcomes of economic hardship. Saltkjel and Malmberg-Heimonen (2017) have demonstrated that the negative effect of unemployment on the risk of both material deprivation and income poverty is mediated significantly by the welfare generosity level of a country. The central policy measures intended to shape the labour market situation and, respectively, the effect of labour market insecurities on young people’s economic situation are passive and active labour market policies (PLMPs and ALMPs) (Gallie and Paugam, 2000). These are also the central focus of interest in the current chapter.

The aim of the study presented here is to understand the moderating effect of ALMPs and PLMPs on the (negative) effect of unemployment on the economic situation of young people. It does this by drawing on cross-sectional microdata from the EU-Statistics on Income and Living Conditions (EU-SILC) survey from 2013. The first part of the chapter gives an overview on the association between individuals’ economic situation and the country institutional context based on previous research. Then, hypotheses are formulated on the moderating effect of ALMPs and PLMPs. The second part of the chapter discusses the data and data-related issues and presents the findings of the study. The chapter closes with a summary of the findings and a short discussion.

The moderating effect of labour market policies on the economic situation of unemployed youth

One of the central ‘equalising effects’ on the dispersion of income highlighted in previous studies is the generosity of a country’s welfare system and existing (social) policies (Korpi and Palme, 1998; Kenworthy, 1999; Bäckman, 2009; Brady et al, 2009). Access to welfare resources can modify the extent to which individual disadvantages in one area relate to disadvantages in another (Fritzell and Lundberg, 2007). Welfare systems provide benefits and services to meet individuals’ needs (Kenworthy, 2011) and influence individuals’ and households’ income and consumption (Nelson, 2012). In other words, existing policy measures (via the provision of services, benefits, and so on) can buffer the impact of income loss or low income associated with unemployment (Saltkjel and Malmberg-Heimonen, 2017), thereby reducing the known negative effect of labour market exclusion on individuals’ economic situations. Saltkjel and Malmberg-Heimonen (2017) have demonstrated that welfare generosity moderates the risk
of both material deprivation and income poverty. For example, they found that among individuals who experienced long-standing illness and either low levels of education or non-employment, the absolute inequalities in material deprivation decreased with increasing welfare generosity. The results of their study indicated lower absolute levels of both material deprivation and income poverty among disadvantaged individuals in generous welfare states. A study by Bárcena-Martín et al. (2013) has demonstrated that welfare generosity is associated with material deprivation among individuals living in households in which the household reference person faces socio-economic disadvantages such as low level of education and lack of full-time paid work. Furthermore, Brady et al. (2009) have shown a significant association between welfare generosity in interaction with low education level and individual-level income poverty.

Gallie and Paugam (2000) have pointed out that the main measures against employment-related exclusion are PLMPs (for example, unemployment benefits) and ALMPs (such as training). Contributory benefits such as unemployment benefits are generally designed to uphold accustomed standards of living and provide various degrees of income security. Respectively, the more those excluded from the labour market are eligible for any type of benefit (insurance or means-tested), the lower should be their risk of poverty. Moreover, the level of financial compensation should affect the situation of the unemployed directly, with higher levels of compensation creating conditions more similar to being at work and lowering significantly the stigmatisation associated with unemployment. Thus, it is expected that:

Hypothesis 1: In a country with a higher contribution to PLMPs the negative effect of labour market exclusion on young people’s financial situation will be reduced.

Since the 1990s, there has been a general shift in Europe from PLMPs to ALMPs (Barbier, 2005). The main assumptions behind this shift (for more details see Malmberg-Heimonen, 2005) are: (a) self-sufficiency in relation to welfare benefits is a precondition for individual welfare and for the welfare of the state (Goul Andersen and Jensen, 2002); (b) welfare dependency in the longer term promotes poverty, inequality, and long-term unemployment, and unemployment benefits can have a disincentive effect on job search and re-employment (Torfing, 1999); and (c) generous replacement rates increase the level of minimum wages, and this, in turn, decreases an individual’s financial incentive to seek re-employment (Torfing, 1999; OECD, 2014). The latter led to
Can labour market policies protect unemployed youth?

various activation measures such as setting incentives for participation in active policy measures or individual activation plans based on an assessment of needs and agreements on the labour market integration of excluded youth. The fundamental objective of most ALMPs has been to prevent unemployment becoming long term and thereby leading to social exclusion. The International Monetary Fund (2009) argues that well-designed training programmes in more than 90 countries have had a significant impact on the livelihoods of workers excluded from the labour market. Thus, it could be expected that the poverty gap between the employed and the unemployed will be smaller in countries with a higher productive potential and a higher employability of the whole workforce due to more substantial investments in active labour market policies, including those for the young unemployed. This translates into the following hypothesis:

**Hypothesis 2**: In a country with a higher contribution to ALMPs, the negative effect of labour market exclusion on young people’s financial situation will be reduced.

**Methodological strategy**

**Method and data**

The present analysis is based on cross-sectional microdata from EU-SILC gathered in 2013. Because it focuses on youth, the present sample is restricted to young people aged 16 to 29 years who are not in education or training. Young people who are doing military service are also excluded from this analysis. Due to problems of missing data for specific countries or variables, the number of countries included in the analysis varies from 23 to 26.

To address the issue of the impact of the labour market status on the economic situation of youth while taking into account cross-country variation and the moderating effect of country policies and labour market settings, the study applies multilevel modelling with country random intercepts and cross-level interactions (Snijders and Bosker, 1999). The first level of the analysis is based on individual and household information; the second level is defined by country characteristics.

The results of estimating linear probability models are presented for a subsample of youth who live apart from their parents and for the whole youth population. This distinction is motivated by previous empirical studies indicating that leaving the parental household is associated with a higher risk of poverty (Aassve et al, 2006) but lower unemployment
Social Exclusion of Youth in Europe

(Cordón, 1997). Three different definitions of the dependent variables are used in order to capture the hypothesised effects at both the individual and the household level. Moreover, on the household level, both subjective and objective indicators of households’ economic situation are used. This makes it possible to check the robustness of the results and see if they hold regardless of the particular measure of economic situation used in the analysis.

The analysis starts with the objective measure of the respondents’ household financial situation. The risk of poverty is defined as a binary variable that is equal to 1 when the respondent’s household equivalised disposable income (after taxes and transfers) is below 60 per cent of a country’s median disposable income. This measure refers to the income reference period. For most EU countries, this is a fixed 12-month period (the preceding calendar or tax year). For the UK, the income reference period is the current year, and for Ireland, it is collected for the previous 12 months. The measure of risk of poverty, although easy to define, is very sensitive to country differences and year-to-year changes. Thus, this indicator provides questionable results in times of economic boom or sharp recession when the median income itself can change considerably (Jenkins et al., 2012).

Whereas the first measure describes the economic situation of the whole household, the second indicator focuses on personal economic situations. It is based on a set of questions referring to the respondent’s ability to cover the costs of the following activities: getting together with friends/family (relatives) for a drink/meal at least once a month, regularly participating in a leisure activity, and spending a small amount of money each week on yourself. If a respondent was unable to do at least one of these three actions for financial reasons, she or he is treated as being excluded from social life, and the variable takes the value 1. In other cases, the variable is equal to zero. Thus, this indicator measures the level of a respondent’s exclusion from social life due to financial reasons.

The third dependent variable is a subjective measure of a household’s overall economic condition. It is based on the following question from the EU-SILC questionnaire: ‘Thinking now of your household’s total income, from all sources and from all household members, would you say that your household is able to make ends meet?’ The respondent can choose on a scale ranging from with great difficulty to very easily. The present analysis constructed a binary variable that is equal to 1 if the household can make ends meet with difficulty or great difficulty. In other cases, the variable takes the value 0.

The focus of this analysis is on the labour market status of the young person. It analyses the situation of unemployed versus employed
Can labour market policies protect unemployed youth?

Information about unemployment is based on questions about the number of months spent in unemployment during the income reference period. If a person was unemployed for at least seven months, she or he is assigned an unemployed person status. If a person was working (in different kinds of employment, also self-employment) for at least 7 months during the income reference period, she or he is treated as being employed.\(^1\) This definition is parallel to the one applied to monthly information gathered in the EU-SILC: if somebody spends more than two weeks of the month in a certain labour market status, this status is reported as her or his main economic activity. The constructed binary variable is then equal to 0 for an unemployed respondent, and 1 for an employed respondent.

The selection of control variables is based on the results of the descriptive analysis presented by Rokicka and Kłobuszewska (2016). Because two of the three dependent variables are related to the household level, it is necessary to control for the composition of the household and the situation on the labour market of its members (which influences the economic situation of the whole household). This makes the results for young people in this data set as precise as possible. Hence, the following control variables are included in the analysis: age groups (16–24 years and 25–29 years), sex, educational attainment, immigration status, living arrangements (living with parents, children, partner/spouse in the same household), and household work intensity status.\(^2\)

A set of macrolevel indicators is used to address the issue of the moderating impact of policies, institutions, and a country’s economic situation.

Regarding the hypotheses, two macroindicators are used that show the level of a country’s public expenditures on ALMPs and PLMPs. Eurostat calculates both measures as an expenditure on a given type of labour market policy in thousands of euros (purchasing power standards or PPS) divided by the number of unemployed and inactive people. Nonetheless, ALMPs and PLMPs are very broad categories which look very different across the EU, and it is important to acknowledge the substantial differences between them.

PLMPs are defined as out-of-work income maintenance and support. This includes different types of unemployment benefits such as unemployment insurance and redundancy compensation. ALMPs are more diversified and include many types of policy measure. In the present study, the scope of the indicator was narrowed to the ALMP measures that might impact on the economic situation of the unemployed. This included the following categories of active
labour market policies: training (institutional training, workplace training, alternative training, and special support for apprenticeships), employment incentives (recruitment incentives, employment maintenance incentives, job rotation, and job sharing), sheltered and supported employment and rehabilitation, direct job creation, and start-up incentives. Additionally, the second-level controls for GDP per capita are derived from the Eurostat database. This is computed as the PPS in euros by dividing GDP by the mid-year population. The poverty level and the subjective feeling of economic difficulties in a society depend on a country’s economic performance. Thus, GDP might be considered as a measure of a country’s economic performance and could be a proxy for the wealth of a society. Divided by the country’s population, it approximates the average standard of living. Controlling for GDP per capita makes it possible to use nominal values of policy indicators (expenditures on labour market policies).

Sample and descriptive findings

As depicted in Table 12.1, an average of 18 per cent of youth in the present sample live in households that are at risk of poverty. Around 28 per cent claim that they are excluded from social life for financial reasons, whereas more than 37 per cent live in households that are struggling to make ends meet.

The distribution of outcome variables among youth living independently from their parents is similar to that of the general youth population. Young people living outside the parental household are slightly more likely to live under the poverty line than youth in general, and they have a similar level of social exclusion to youth in general. However, they seem to be more optimistic in their subjective assessment of the financial situation of their households.

However, as depicted in Table 12.2, youth from those two types of household differ substantially in regard to their labour market status, personal characteristics, and family characteristics. Only 14 per cent of youth living independently are unemployed compared to 23 per cent among those still living with their parents. Young people living independently are also older (only 28 per cent of them are under the age of 25 years in comparison to 50 per cent in the overall sample), and they are more likely to have tertiary education, an immigrant background, a partner, and dependent children. Results show that these two groups differ markedly: the situation of younger adults depends more often on the financial situation of their parents, so even if there
Can labour market policies protect unemployed youth?

Table 12.1: Summary statistics of dependent variables

<table>
<thead>
<tr>
<th></th>
<th>All types of households</th>
<th>Household without parents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Risk of poverty</td>
<td>Ends met with difficulty</td>
</tr>
<tr>
<td>Mean</td>
<td>0.180</td>
<td>0.375</td>
</tr>
<tr>
<td>Standard deviation</td>
<td>0.384</td>
<td>0.484</td>
</tr>
</tbody>
</table>

Source: Authors’ own calculations based on EU-SILC.

Table 12.2: Summary statistics of independent variables

<table>
<thead>
<tr>
<th></th>
<th>All types of households</th>
<th>Household without parents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>SD</td>
</tr>
<tr>
<td>Unemployed</td>
<td>0.230</td>
<td>0.421</td>
</tr>
<tr>
<td>Aged 18–24</td>
<td>0.504</td>
<td>0.500</td>
</tr>
<tr>
<td>Lower secondary</td>
<td>0.205</td>
<td>0.404</td>
</tr>
<tr>
<td>Tertiary</td>
<td>0.242</td>
<td>0.428</td>
</tr>
<tr>
<td>Female</td>
<td>0.465</td>
<td>0.499</td>
</tr>
<tr>
<td>Immigration status</td>
<td>0.071</td>
<td>0.256</td>
</tr>
<tr>
<td>Living with parents</td>
<td>0.654</td>
<td>0.476</td>
</tr>
<tr>
<td>Living with children</td>
<td>0.178</td>
<td>0.382</td>
</tr>
<tr>
<td>Living with partner</td>
<td>0.283</td>
<td>0.450</td>
</tr>
<tr>
<td>Household work intensity</td>
<td>2.942</td>
<td>0.832</td>
</tr>
<tr>
<td>ALMP expenditure (Thousands of euros)</td>
<td>1.52</td>
<td>1.47</td>
</tr>
<tr>
<td>PLMP expenditure (Thousands of euros)</td>
<td>3.17</td>
<td>2.65</td>
</tr>
</tbody>
</table>

Note: SD = standard deviation.

are more unemployed young people in the first group, their households are less exposed to poverty than households of young people living independently. Thus, the decision to analyse the mitigating role of policies separately by household type seems to be supported by the data.

Because of the finding that the rate of unemployment of young people differs by type of household, descriptive statistics were investigated further by calculating the mean value of the financial indicators among young with different labour market status and
household type (see Figure 12.1). Regardless of the household type, the financial situation of unemployed youth is always worse than that of their working counterparts. As expected, unemployed youth outside the family household are more likely to be at risk of poverty than unemployed youth in general (10 percentage point difference). They are also more likely to be excluded from social life (4 percentage point difference), yet surprisingly, they express lower financial distress than the households of unemployed youth in general.

In this sample of countries, average expenditure on PLMP (€ 3,349) is twice as high as average expenditure on ALMP (€ 1,712). Although the amount is adjusted for a country’s price differences using PPS, there are visible country variations in this respect. The highest expenditure on PLMP is in Belgium, Ireland, and the Netherlands (above € 7,300) and the lowest in Latvia, Poland, and Romania (less than € 450). Smaller variations are found for ALMP expenditure, with Denmark, Luxembourg, and Sweden spending more than € 4,800, and Hungary, Latvia, and Romania spending less than € 250 per person wanting to work.

**Moderating effect of labour market policies on situation of unemployed youth: empirical findings**

Table 12.3 reports results on the relationship between youth unemployment and young people’s household and personal financial situation based on the 2013 wave of EU-SILC. It presents three
Can labour market policies protect unemployed youth?

**Table 12.3: Economic situation of unemployed youth: moderating role of PLMP and ALMP (all households)**

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk of poverty</td>
<td>0.165***</td>
<td>0.148***</td>
<td>0.088***</td>
<td>0.092***</td>
<td>0.228***</td>
<td>0.211***</td>
</tr>
<tr>
<td>Risk of poverty</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ends met with difficulty</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exclusion from social life</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployed</td>
<td>0.012**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exp. on PLMP</td>
<td>-0.012**</td>
<td>-0.021</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployed # exp. on PLMP</td>
<td>-0.018***</td>
<td>-0.009***</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exp. on ALMP</td>
<td></td>
<td>-0.011</td>
<td>-0.060**</td>
<td></td>
<td>-0.021</td>
<td></td>
</tr>
<tr>
<td>Unemployed # exp. on ALMP</td>
<td>-0.027***</td>
<td>-0.025***</td>
<td>-0.028***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age 16–23 (binary)</td>
<td>0.035***</td>
<td>0.035***</td>
<td>0.020***</td>
<td>0.020***</td>
<td>0.012*</td>
<td>0.012*</td>
</tr>
<tr>
<td>Education: lower secondary</td>
<td>0.115***</td>
<td>0.114***</td>
<td>0.131***</td>
<td>0.131***</td>
<td>0.125***</td>
<td>0.124***</td>
</tr>
<tr>
<td>Education: tertiary</td>
<td>-0.036***</td>
<td>-0.036***</td>
<td>-0.111***</td>
<td>-0.112***</td>
<td>-0.100***</td>
<td>-0.100***</td>
</tr>
<tr>
<td>Sex: female</td>
<td>0.007</td>
<td>0.007</td>
<td>0.014**</td>
<td>0.014**</td>
<td>0.029***</td>
<td>0.029***</td>
</tr>
<tr>
<td>Immigrant</td>
<td>0.080***</td>
<td>0.081***</td>
<td>0.051***</td>
<td>0.053***</td>
<td>0.071***</td>
<td>0.073***</td>
</tr>
<tr>
<td>Lives with parent</td>
<td>-0.128***</td>
<td>-0.128***</td>
<td>-0.010</td>
<td>-0.010</td>
<td>-0.066***</td>
<td>-0.066***</td>
</tr>
<tr>
<td>Lives with children</td>
<td>0.020***</td>
<td>0.020***</td>
<td>0.055***</td>
<td>0.056***</td>
<td>0.068***</td>
<td>0.068***</td>
</tr>
<tr>
<td>Lives with partner/spouse</td>
<td>-0.056***</td>
<td>-0.056***</td>
<td>-0.057***</td>
<td>-0.058***</td>
<td>-0.011</td>
<td>-0.011</td>
</tr>
<tr>
<td>Household work intensity status</td>
<td>-0.154***</td>
<td>-0.154***</td>
<td>-0.116***</td>
<td>-0.116***</td>
<td>-0.083***</td>
<td>-0.083***</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>0.0004</td>
<td>-0.0005</td>
<td>-0.007*</td>
<td>-0.003</td>
<td>-0.005</td>
<td>-0.005</td>
</tr>
<tr>
<td>Constant</td>
<td>0.676***</td>
<td>0.677***</td>
<td>0.932***</td>
<td>0.876***</td>
<td>0.646***</td>
<td>0.637***</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-6984.8</td>
<td>-7003.6</td>
<td>-15975.0</td>
<td>-15964.9</td>
<td>-11289.7</td>
<td>-11300.5</td>
</tr>
<tr>
<td>Country variance</td>
<td>(0.001)</td>
<td>(0.001)</td>
<td>(0.004)</td>
<td>(0.003)</td>
<td>(0.004)</td>
<td>(0.004)</td>
</tr>
<tr>
<td>Observations</td>
<td>29,550</td>
<td>29,550</td>
<td>29,550</td>
<td>29,550</td>
<td>24,381</td>
<td>24,381</td>
</tr>
<tr>
<td>N of countries</td>
<td>26</td>
<td>26</td>
<td>26</td>
<td>26</td>
<td>23</td>
<td>23</td>
</tr>
</tbody>
</table>

Notes: * p < 0.05, ** p < 0.01, *** p < 0.001. + UK and EL excluded from Models 1–6 (lack of data on LMP expenditures); ++ CZ, DK, and SI excluded from Models 5–6 (lack of dependent variable). Base category: for unemployed – employed; for age 16–23 – age 24–29; for education level – secondary education; for immigrant – born in the country; for lives with parent – lives without parent; for lives with children – lives without children; for lives with partner/spouse – lives without partner/spouse.
indicators of financial hardship: being at risk of poverty, having difficulty in making ends meet (both on the household level), and being excluded from social life for financial reasons (on the individual level).

The direct negative effect of youth unemployment on personal or household financial situation is strong and robust across all specifications. Households with unemployed young people have a substantially higher probability of being in poverty (0.11 higher than for those with employed young people for the average levels of PLMP and ALMP expenditures, see Models 1–2) and of having difficulty in making ends meet (0.05–0.06 higher than those with young employed for the average levels of PLMP and ALMP expenditures, see Models 3–4). Young unemployed people also have a higher probability of exclusion from social life compared to young workers (0.16–0.17 higher for the average levels of PLMP and ALMP expenditures, see Models 5–6).

Models 1, 3, and 5 test the hypotheses on the moderating role of PLMPs whereas Models 2, 4, and 6 focus on the moderating role of ALMPs, for three indicators of socio-economic disadvantage: being at risk of poverty, having difficulty in making ends meet, and being excluded from social life for financial reasons. In line with Hypothesis 1, for countries that make a higher contribution to PLMPs, the negative effect of youth unemployment on their financial situation is reduced. A one standard deviation increase in the PLMP contribution is predicted to reduce the probability of poverty in unemployed youth by 0.03–0.05 depending on the measure of financial hardship. This is a significant decrease that halves the effects of unemployment in the case of household indicators. Across Models 2, 4, and 6, there is also a mitigating effect of a country’s ALMP expenditure on the effect of unemployment on all analysed measures of financial difficulty. This confirms Hypothesis 2. A one standard deviation increase in ALMP contribution is predicted to reduce the probability of poverty in the unemployed by 0.04, independent of the measure analysed.

Interestingly, the expenditure on PLMPs also reduce the probability of household poverty for employed youth with the effect being significant for the objective household indicator: risk of poverty. For the effects of ALMPs on households with employed youth, the pattern is similar, but statistically significant only for the subjective household indicator: difficulty in making ends meet. These results suggest that households with working youth also benefit from labour market policies, probably because other household members are eligible to take advantage of these policies.

To test the robustness of these findings, Table 12.4 reports the results of the analysis for individuals who do not live with parents. As most
Can labour market policies protect unemployed youth?

Table 12.4: Economic situation of unemployed youth: moderating role of PLMP and ALMP (households without parents)

<table>
<thead>
<tr>
<th>Model</th>
<th>Risk of poverty</th>
<th>Risk of poverty</th>
<th>Ends met with difficulty</th>
<th>Ends met with difficulty</th>
<th>Exclusion from social life</th>
<th>Exclusion from social life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1</td>
<td>0.211***</td>
<td>0.173***</td>
<td>0.159***</td>
<td>0.156***</td>
<td>0.134***</td>
<td>0.141***</td>
</tr>
<tr>
<td>Model 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Model 3</td>
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<td>Model 4</td>
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<td>Model 5</td>
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<tr>
<td>Model 6</td>
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<td></td>
</tr>
</tbody>
</table>

Unemployed: 0.211***<br>Exp. on PLMP: −0.011**<br>Exp. on ALMP: −0.011<br>Unemployed # exp. on PLMP: −0.018***<br>Unemployed # exp. on ALMP: −0.014<br>Age 16–23 (binary): 0.039***<br>Education: lower secondary: 0.090***<br>Education: tertiary: −0.033***<br>Sex: female: −0.007<br>Immigrant: 0.060***<br>Lives with children: 0.024***<br>Lives with partner/spouse: −0.074***<br>Household work intensity status: −0.147***<br>GDP per capita: 0.002<br>Constant: 0.629***<br>Log likelihood: −2653.2<br>Observations: 11,809

N of countries: 26

Notes: * p < 0.05, ** p < 0.01, *** p < 0.001. UK and EL excluded from model (lack of data for LMP expenditures). CZ, DK, and SI excluded from model (lack of dependent variable). Base category: for unemployed: employed; for age 16–23: age 24–29; for education level: secondary education; for immigrant: born in the country; for lives with parent: lives without parent; for lives with children: lives without children; for lives with partner/spouse: lives without partner/spouse.
of the data on poverty and material deprivation are collected on a household basis, they are sensitive to household composition. In the households with parents, the effects of youth unemployment may be buffered by parents’ higher income. Running the analyses on the subsample of youth living independently from parents can exclude this effect at least in part. Overall, results are qualitatively very similar to those reported for the total sample. As expected, the direct negative effect of being unemployed on the financial situation of the household is stronger for youth living without parents, but this group has a lower probability of exclusion from social life than youth overall. Moreover, higher PLMP and ALMP contributions buffer the negative effect of unemployment on young people’s economic situation.

The results of almost all individual-level control variables are robust for the three indicators analysed. Looking at the demographic characteristics, individuals with a higher level of education have a lower probability of living in a household at risk of poverty and of being excluded from social life for financial reasons. Younger individuals (aged 16 to 29 years in this sample) have a higher probability of economic hardship when controlling for household composition. Also being a woman and an immigrant increases the probability of financial difficulty. In line with findings from other studies (for example, Iacovou and Berthoud, 2001; Aassve et al, 2006), household composition is an important determinant of poverty and material deprivation. Living with parents or a partner/spouse protects young people from economic hardship, whereas living with children increases the risk.

**Conclusions**

The aim of the present study was to analyse the moderating effect of ALMPs and PLMPs on the negative effect of unemployment on young people’s economic situation. For this a subsample of cross-sectional microdata from EU-SILC from 2013 was used.

The central findings of the study can be summarised as follows. First, they confirm that youth unemployment is associated with a worse household economic situation. In other words, young adults who are unemployed are, compared to those in employment, more likely to experience economic hardship measured in both objective and subjective ways. However, it is important to bear in mind that lack of financial resources might also be considered as one of the causes of problems with finding employment. Thus, the observed relationship might be bidirectional and suggest an ongoing circle of
social exclusion – unemployment causes poverty and poverty constrains opportunities to find a stable job.

Second, results confirmed that in countries with higher expenditures on PLMPs, the negative impact of unemployment on the economic situation of youth is reduced. The same moderating effect was also identified for ALMPs – higher expenditure on ALMPs decreases the size of the negative effect of youth unemployment on young people’s personal and household financial situation. However, because there is no detailed information on respondents’ participation in labour market programmes or measures, one cannot say how much of this is a direct effect of receiving unemployment benefits and participation in training or apprenticeships, and how much is an indirect effect. Higher expenditure on labour market policies might also be interpreted as an indicator of more generous welfare systems that protect both unemployed and employed youth against poverty. The latter suggestion also seems to be supported by the findings: the data show that countries with higher expenditure on labour market policies have lower levels of young people in poverty.

Third, results indicate that higher expenditure on PLMPs is especially important for young people who are not living in their parents’ households. In general, the moderating effect of PLMPs and ALMPs for unemployment on young people’s risk of economic hardship holds for both those still living with their parents and those living outside the parental home. However, this effect is much stronger for households in which young people live apart from their parents. This, again, suggests that in countries with higher expenditure on PLMPs, unemployed young people are more likely to benefit from such measures or to receive other forms of financial support in other policy areas (for example, housing or health).

Another relevant contribution of the current study lies in the use of different types of poverty measure – objective and subjective – to assess the economic situation of young people. Two of these measures – household risk of poverty and subjective assessment of household economic situation – allow an assessment of the economic situation of young people on the household level. In order to measure the economic situation at the individual level more directly, a measure of respondents’ exclusion from social life due to financial reasons was introduced. Findings suggest, however, that this indicator works rather as a proxy for individual economic autonomy. In general, findings show that unemployed young people are more likely to experience financial problems in covering the costs of various social activities
(getting together with friends, participating in a leisure activity, regularly spending a small amount of money on oneself). Surprisingly, however, this effect is considerably stronger among young people living with their parents who theoretically might be able to count on their parents’ financial support. This paradox could be explained by financial autonomy, which is greater among young people who do not live with their parents. Despite encountering economic problems, they are more likely to be in charge of their (modest) financial resources.

To summarise, the current study shows that welfare generosity (measured here as investment in PLMPs and ALMPs) is negatively associated with youth household income poverty and material deprivation. In a more generous welfare state context, young adults excluded from the labour market have lower risks of poverty and material deprivation.

Notes
1 It is necessary to take into consideration that such a definition focuses more on the long-term unemployed, whereas those with short periods of unemployment (less than 5 months) are considered to be employed. Particularly in countries with open labour markets, this might underestimate the actual incidence of unemployment.
2 The household work intensity status shows the overall labour market situation of household members. According to the Eurostat definition, this measure is based on the total number of months that all working-age household members have worked during the income reference period divided by the total number of months the same household members could have worked in the same period theoretically.
3 Although this study focuses on youth unemployment, due to the lack of comparative EU statistics it was not possible to use indicators of ALMP spending on youth. It is not just the structure of ALMPs that differs by country; they also have different eligibility criteria with different definitions of youth or the young population.
4 The means and standard deviations of PLMP and ALMP expenditures can be found in Table 12.2.

References


