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Youth Unemployment Committee inquiry

The likely unequal scarring effects on young people's life chances of economic challenges post-COVID-19

The economic disruption caused by the COVID-19 pandemic poses a huge challenge for youth unemployment. While the government's furlough scheme has been vital to protect current (and in some cases) recent employees and avoid unemployment booming more than it has, it does little directly to protect new entrants to the labour market since they have no role from which they can be furloughed. This all has the potential to exacerbate trends we see for youth unemployment in all periods of economic difficulty. When a company is stretched the easiest response is to stop hiring, especially at junior levels, before it thinks about redundancy elsewhere in the firm. Indeed, according to the ONS, vacancy levels in the economy have been particularly slow to bounce back even as the headline economic growth figures have recovered.

A particular factor that has exacerbated the implications for young people, given their concentration in this sector, is hospitality being among the last to be able to emerge from restrictions. Furthermore, the continuing Coronavirus Job Retention Scheme (CJRS, better known as 'furlough') likely continues to mask latent unemployment which may come to the surface as it unwinds this summer – particularly hitting young people who are more likely to be in precarious employment contracts. The substantial extension of the CJRS has been important to make this adjustment less harsh than it would otherwise have been but, since it is clearly it is not a scheme that can continue indefinitely, there remain substantial risks for unemployment – especially youth unemployment – when it is ultimately closed.

Entering the labour market during an economic downturn

Completing education and moving into the labour market during a period of economic disruption (as experienced by those doing so last summer, and still this summer even if headline economic indicators are bouncing back from the extraordinary contractions driven by pandemic response) provides an extremely challenging environment for new labour market entrants. As a result, previous evidence highlights that those who leave education during a recession are: less likely to find a job, particularly a full time job; continue to be less likely to have a job for more than 10 years after leaving full time education; and may experience a permanent wage penalty throughout their careers. These findings demonstrate the importance of considering youth unemployment as a distinct issue.

Unequal impacts

Research in labour economics has demonstrated that there are substantially larger adverse effects of graduating during a recession among those with lower levels of education, on men, and on those from ethnic minority groups. These combine to mean that there are particularly pronounced effects for those from deprived families with low levels of education. Why does this happen? An important part of the story is found to be differential responses to recessions, which can be highly variable across different groups. These differential responses result in lower skilled individuals seeing adverse effects on later employment, but may in fact lead to ultimately positive effects for the higher skilled who are able to use the experience to upskill. In a similar dynamic, recessions make it more likely for workers to begin their careers at lower paying employers; they catch-up over subsequent years with peers who graduated during more prosperous times by moving to higher paying firms. However, advantaged college graduates are much better placed to makes these moves. All in all, these effects exacerbate existing inequalities.

Scarring

Why do we see longer-term effects of leaving education during a challenging labour market? There is a substantial literature in labour economics that explores the so-called 'scarring' effect of unemployment, and understanding this is key to this issue. Scarring effects of unemployment are understood to be caused by a depreciation of individuals' human capital during their period of unemployment, and potentially also because employers see that gap in employment (fairly or unfairly) as a signal that they might be a lower productivity employee. These are not just simple impacts on probabilities of unemployment. They spill over most directly to negative effects on wages among those who do hold a job, and on wider outcomes happiness, health and job satisfaction many years later. The impact of timing is particularly acute here, however, with almost all of those wellbeing scarring effects being concentrated among those experiencing unemployment spells before the age of 23. There is also some evidence of these scarring effects carrying across generations, too, with children of those who experience unemployment shocks having negative effects on children's educational outcomes, and ultimately on adult children's wages – potentially channelled through that education effect.

As Professor Paul Gregg has pointed out (https://blogs.ucl.ac.uk/cepeo/2021/02/02/scarring-effects-of-furlough/), we should also note that some of these scarring effects are likely even when a person is on furlough, not just when they are unemployed. This is because the depreciation of human capital effects are still likely to happen when someone is furloughed. These are also especially important among young people, where we would normally be expecting rapid human capital appreciation in the first few years of their working lives.

What can we do?
Active labour market policies tend to work best during period of strong labour demand and those targeting younger people have been less effective in the past. This highlighs the challenges faced in helping this group in the current circumstances. What can policymakers do to mitigate the negative effects of entering the labour market in a recession:

- Multifaceted programmes with supported job search and subsidised employment and job guarantee elements;
- Important to avoid lock-in however: these activities and supported jobs need to be well-aligned to local labour markets and help support transition rather than displace other job finding activity;
- Such programmes can seem expensive, however cost benefit analyses show they have a positive return given those causal scarring impacts of unemployment spells, and hence long-term effects on tax take and benefit costs.

One thing that tends to happen naturally during challenging economic periods is for people to take the opportunity to gain additional education before entering the labour market. However, if support is not there for the immediate financial costs of doing this, then this route is only open to those whose families can support them during this period. This highlights the importance of government schemes to ensure young people can use this opportunity to build their human capital through education – this should be across all

Summary
There are substantial negative implications of a recession on the life chances of young people, particularly resulting from the short- and long-term 'scarring' effects of periods of unemployment during entry to the labour market. However, there are steps that policymakers can take to mitigate this damage, such as through job guarantee schemes that are designed to keep young people engaged with the labour market, and ensuring that further education options are available as an alternative for those wishing to upskill during this period.

This evidence submission draws on CEPEO Briefing Note 6: The unequal scarring effects of a recession on young people's life chances (https://EconPapers.repec.org/RePEc:ucl:cepeob:6), which includes further detail and citations for the findings stated here.

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