

Youth unemployment in Europe: The North-South divide interpreted using a bi-regional demoeconomic model

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According to the European Labor Force Survey (LFS), in 2013, the youth unemployment rate reached 23.3% for Europe. The analysis of this issue gains a special relevance due to the important differences existing between the Member States. Northern countries like Germany (7.9%) or the Netherlands (11.0%) have very low rates in comparison to Southern countries such as Greece and Spain that reach dramatic levels of 58.3% and 55.5%, respectively. The main aim of this paper is to assess for the principal macroeconomic consequences of the youth unemployment in both the North and the South of Europe. Using the information available in the WIOD for the year 2011, a bi-regional demographic I-O model is proposed. Working with a extended I-O model allows us to account for household and government induced effects, capturing the circular flow of income in an economy. Data provided by the Households Expenditure Survey was also exploited to disaggregate the different household considered. Therefore, simulating an increase in youth unemployment, i.e. excess in labor supply, several positive and negative effects can appear depending on the productive structure of each economy. Through a government channel, it would cause an increase in total unemployment benefits and, subsequently a decrease in the government expenditure. From the final demand channel, the sign of the effect would depend on the composition of the consumption of the youth employed and youth unemployed. Finally, all of these effects would have an additional impact on the labor market, which can cause a vicious cycle of unemployment creating unemployment.