

YOUTH UNEMPLOYMENT IN THE CZECH REPUBLIC AND THE IMPACT OF ECONOMIC CRISIS

Pavel Sirůček - Tomáš Pavelka

Abstract

The Czech economy was hit by a severe economic recession that had an impact on the labour market too. Young people were one of the most affected population groups. In the first part, this article describes the development of the Czech economy in 2007 - 2012. The next section explains the differences between the overall unemployment rate and the unemployment rate of young people aged 15-29 years. The article describes the declining population of young people in the Czech Republic and thus decreasing labor force of this age group. The final part of the article focuses on the development of long-term unemployment among young people. For all indicators, not only data for the entire population, but also separate data for women and men are used. It is evident that the youth unemployment rate is higher than the unemployment rate of the whole labour force. Young people also suffered a significantly higher level of long-term unemployment than the whole population. Unemployment among young people is at the center of attention not only in the Czech Republic, but it is serious problem of whole European union and this is the reason why governments of member states adopt various types of measures which are also discussed in this paper.

Key words: economic crisis, labour market, youth unemployment, long-term unemployment

JEL Code: J 21, J 64, J 68

Introduction

The Czech economy, like other European Union Member States, was hit by the economic recession in recent years. In addition to the mortgage crisis that began in the United States, the policy of some governments to reduce public debts contributed to the deepening and extension of the current economic recession. Some interesting consequences of the efforts to reduce government debt is contained in the article *Public debt in light of Barro_ricardo hypothesis: Empirical Analysis* (Cadil, Cadik 2011).

The economic downturn had an impact on the labour market. Young people were one of the most affected groups. This fact was realized also by the European Union. According to the

European Commission, in the European Union, 7.5 million young people aged 15-24 years were neither working, nor in school or in training (European Commission, 2012). The European Commission recommended that Member States adopt the so called Youth Guarantee which is a part of The Youth Employment Package and would mean that all people under 25 who lose their jobs or cannot find a job after graduation would receive a quality offer of employment, further education, apprenticeships or internships for four months. The Czech Ministry of Labour and Social Affairs responded to this recommendation with the Internship Program for Young People (Stáže pro mladé), which offers students in their last year of school work experience during their studies (MPSV, 2012).

Significant costs for all of society are linked with youth unemployment. Young people lose their work habits, or often they don't even get a chance to obtain them, and their frustration from this situation may lead to social unrest. Recently, in some countries, such as Spain, young people are described as a "lost generation". Problems of unemployment are deepening particularly with regard to duration. Special attention should be given to solving long-term unemployment, i.e. unemployment lasting more than one year. The causes of long-term unemployment in Europe are analyzed in detail in an article by Blanchard and Summers: *Hysteresis and Unemployment Problem* (1986), in which the authors work with the high risk of hysteresis on the European labour market. Long-term unemployment, including long-term unemployment among young people, is given detailed attention in some other articles (for example Löster, Langhamrová, 2011 or Pavelka, Löster, Makovský, Langhamrová, 2011). A comparison of long-term unemployment in the Czech Republic with other European Union member states can be found in an article by Pavelka *Long-term Unemployment in the Czech Republic in Comparison with the Other Countries of the European Union* (Pavelka 2011). The youth unemployment is also analysed by a various statistics methods. Rezanková a Loster used young unemployment as a one criterion in their cluster analysis of households (Rezankova, Loster 2013).

1 The development of gross domestic product

In 2005-2007 the Czech economy showed one of the highest growth rates of real gross domestic product in the European Union. In 2008, the global economic recession, which had its roots in the mortgage crisis in the United States, started. In today's globalized economy, it was only a matter of time before the economic recession hit the European Union too, including the Czech Republic. The Czech Republic is a small open economy that is heavily

dependent on the economic situation of the European Union, especially Germany. The first signs of economic recession were reflected in the Czech economy in the second half of 2008. Gross domestic product decreased its real growth rate by 2.6 percentage point to 3.1% in 2008. One reason for this slowdown was lower growth of Czech exports. The economic recession fully hit the Czech economy in 2009. Real gross domestic product decreased by 4.5%, which was the highest decline since 1991. In 2009, investment fell strongly and net exports also had a negative impact on gross domestic product. Household consumption stagnated, and the only component of gross domestic product that acted counter-cyclically was government consumption. In 2010, there was a recovery of the Czech economy, and real gross domestic product grew by 2.5% mainly due to modest growth of fixed capital formation and household consumption. Government consumption stagnated and exports and imports increased significantly. In the following year, the government reduced its spending to stabilize public finances. The decline in government spending led to a slight slowdown in the recovery from the previous year. Real gross domestic product grew by 1.8%. Government expenditure cuts negatively affected household consumption and investment expenditures of firms last year. Although net exports developed positively, it was not enough to overcome the negative development of other components of home aggregate demand. Real gross domestic product fell by 1.2% last year.

Fig. 1: The development of real GDP in the Czech Republic

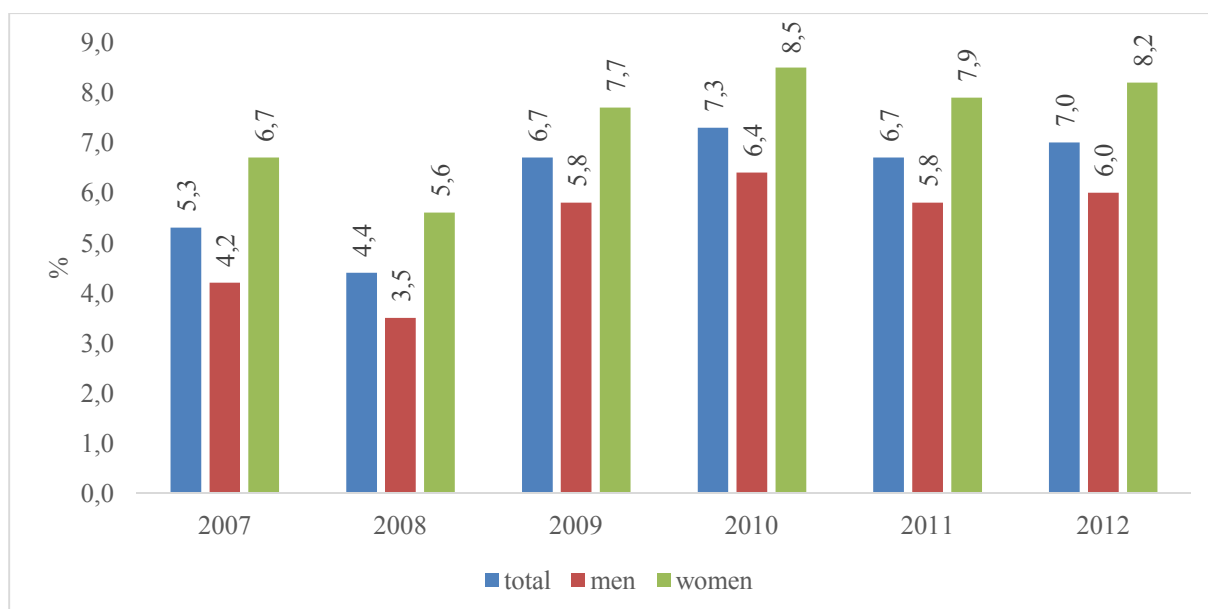


Source: The Czech statistical office (30.7.2013)

2 Total unemployment and youth unemployment

The development of real gross domestic product can also be seen in the labour market. The overall unemployment rate is shown in Figure 2 and unemployment of young people aged 15-29 years is shown in Figure 3. Both graphs show the period 2007 - 2012 and in addition to the overall unemployment rate, the unemployment rates by gender are also given. Tables 1-3 contain detailed information about young people, their total number in the general population, their total number in the labour force, the total number of unemployed, and the total number of long-term unemployed. A breakdown is given for the total population of young people, and separately for men and women.

Fig. 2: Unemployment rate - total



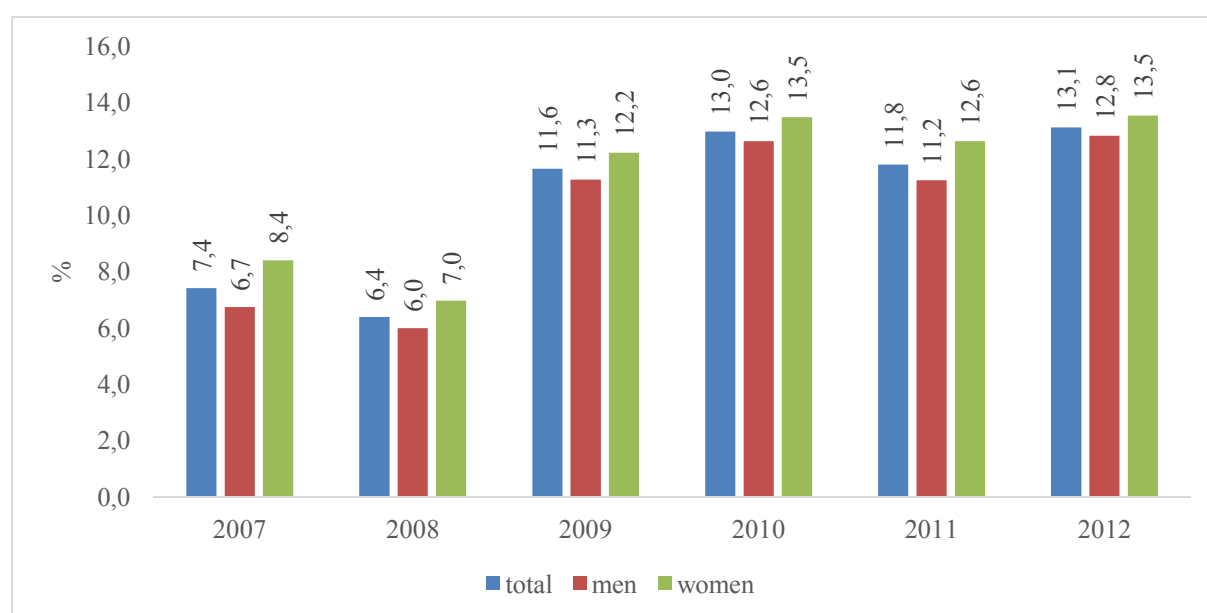
Source: The Czech statistical office (30.7.2013)

As can be seen from Figure 2, women generally had higher unemployment rates than men in the specified period. Over the entire period, the overall average unemployment rate was 6.2%. For men, the average unemployment rate was lower by less than one percentage point, while for women it was higher by 1.2 percentage points. From the graph itself it is obvious that unemployment reacts to changes in product with a certain delay. The lowest unemployment rate was achieved in 2008, when the growth rate of domestic product began to fall. The economic recession led to a rapid increase of the unemployment rate, which peaked in 2010. Between 2008-2010, the overall unemployment rate increased by 2.9 percentage points. The same increase can be seen for both genders. After a slight decline in 2011, which

was caused by a weak economic recovery in 2010 and 2011, the overall unemployment rate and unemployment rates for men and women rose again last year.

The unemployment rate of young people aged 15-29 years had a similar cyclical development as the overall unemployment rate recorded in the period 2007 – 2012. The difference between the total unemployment rate and unemployment rate of young people is in their rates of change.

Fig. 3: Youth unemployment rate – people aged 15 - 29



Source: own calculation, The Czech statistical office (30.7.2013)

Also, in the case of unemployment among young people, women have a higher rate of unemployment than men in all of the specified years. Over the entire period, the overall average unemployment rate of young people was 10.5%. For men, the average was slightly lower (by 0.4 pp) and for women was slightly higher (by 0.7 pp). The youth unemployment rate reached its lowest level in 2008, as did the overall unemployment rate. The unemployment rate for young people was higher than the overall unemployment rate by 2 percentage points; for men it was higher by 2.5 percentage points, and for women by 1.4 percentage points. Due to the crisis, companies laid off their employees, among whom young people were well represented. Also, graduates, disadvantaged by their lack of practice and experience, had difficulty finding their first job. Between 2008 – 2010, the overall unemployment rate among young people increased by 6.6 percentage points, more than twice than was the case in the general workforce. During the same period, the youth unemployment rate of men also increased by 6.6 percentage points, while for women by 6.5 percentage

points. After a slight decline in 2011, the unemployment rate rose again last year. The overall unemployment rate of young persons and the unemployment rate of young men were even higher last year than in 2010; in the case of women both rates were the same.

Tables 1-3 contain basic information about the population of young people aged 15-29 years which are important to evaluate their position in the labour market.

Tab. 1: Key data about youth population – total

	Population (thousand)	Labour force (thousand)	Unemployed (thousand)	Long-term unemployed (thousand)
2007	2 156,5	1 076,1	79,7	29,5
2008	2 139,5	1 047,6	66,9	22,8
2009	2 105,1	1 042,1	121,3	26,4
2010	2 050,2	1 002,9	130,0	43,7
2011	1 995,7	970,7	114,4	35,8
2012	1 909,4	942,0	123,5	41,7

Source: The Czech statistical office (30.7.2013)

The total population of persons aged 15-29 in 2007-2012 decreased by 247,100 person, or by 11.5%. The labour force decreased slightly faster, by 12.5%, or 134,100 people. The participation rate of young people was lower by only 0.6 percentage points in 2012 compared to 2007 and amounted to 49.3%. The number of unemployed young people fell to 66,900 person in 2007, but due to the economic recession it increased by 63,100 person, or by 94.3% in 2010. After a slight decline in the absolute number of unemployed young people in 2011, their number increased again last year. The development of the absolute number of unemployed young people is reflected in the development of the youth unemployment rate, which was discussed above.

Tab. 2: Key data about youth population – men

	Population (thousand)	Labour force (thousand)	Unemployed (thousand)	Long-term unemployed (thousand)
2007	1 105,5	638,2	42,9	16,6
2008	1 101,0	620,7	37,1	13,9
2009	1 086,7	622,4	70,0	14,0
2010	1 057,0	600,0	75,8	27,6
2011	1 027,1	581,3	65,3	22,5
2012	979,5	558,3	71,5	26,3

Source: The Czech statistical office (30.7.2013)

The population of young men aged 15-29 years decreased by 126,000, or by 11.4% between 2007 to 2012. Labour force decreased too; by 79,900 persons or by 12.5%. The participation rate of young men exceeds significantly the rate of participation of young women. This can be explained by the fact that women are often on maternity holiday at this age and also by the fact that women, in comparison with men, continue more often in studies at universities. The participation rate of young men was 57.7% in 2007 and in 2012 it dropped slightly to 57%. The number of unemployed young people fell in 2007 to 37,100 person, but due to the economic recession, their number increased by about 38,700 person or by 104% in 2010. After a temporary decline in 2011, the unemployment rate of young men rose again last year.

Tab. 3: Key data about youth population – women

	Population (thousand)	Labour force (thousand)	Unemployed (thousand)	Long-term unemployed (thousand)
2007	1 051,0	437,9	36,8	13,0
2008	1 038,5	426,8	29,7	8,9
2009	1 018,4	419,7	51,3	12,3
2010	993,2	402,9	54,3	16,2
2011	968,6	389,4	49,1	13,3
2012	929,9	383,8	51,9	15,5

Source: The Czech statistical office (30.7.2013)

We can see a significant decline in the population of young women aged 15-29 years in the Czech Republic between 2007 and 2012 too. The total population of young women decreased by 121,100 person or by 11.5% during this period. The young women workforce declined by 54,100 persons or 12.4% between 2007 – 2012. As mentioned above, the participation rate of women is lower in comparison with men. In 2007, the participation rate of young women was 41.7% and 41.3% in 2012.

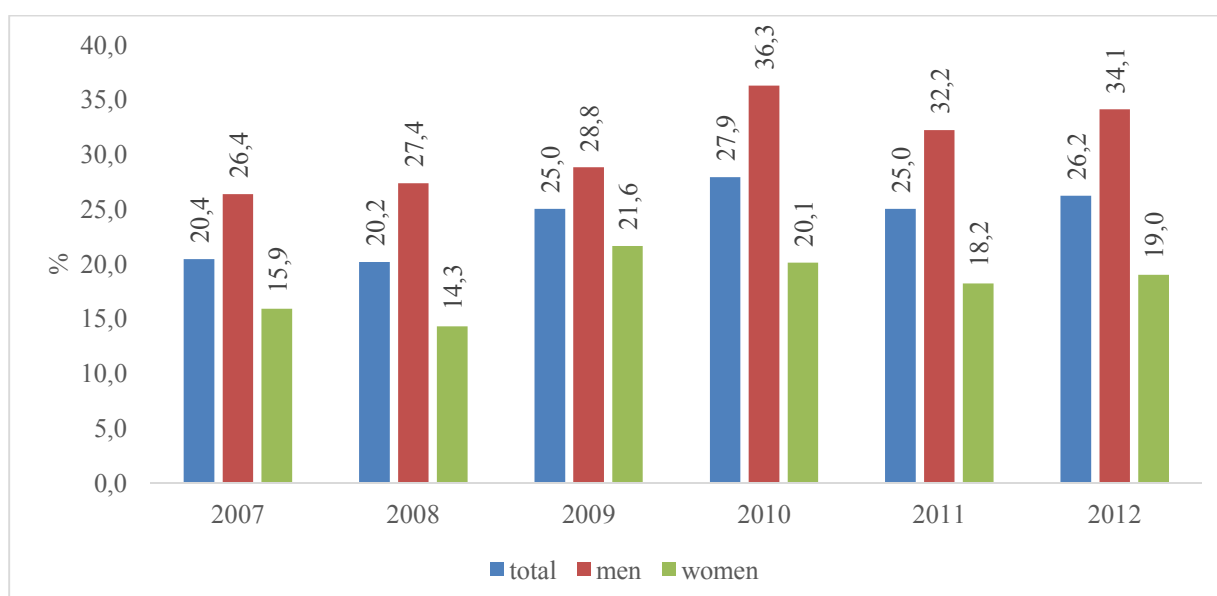
3 Youth long-term unemployment

The economic recession has not only affected the overall unemployment rate of young people, but also had a significant impact on long-term unemployment among young people. As mentioned above, long-term unemployment of young, i.e. unemployment lasting more than one year, represent high risk for whole society and is associated with significant costs.

As can be seen from Table 1, the number of long-term unemployed young people declined due to relatively strong economic growth in previous years to 22,800 people in 2008. The long-term unemployment among young people was only 2.2% in 2008. Due to the

economic downturn, however, the length of unemployment of young people began to extend. In 2010, there were 43,700 long-term unemployed young people aged 15-29 in the Czech Republic, which represented an increase by 20,900 persons or by 91.7% in comparison with 2007. The long-term unemployment rate among young people increased to 4.4% in 2010. Last year, the number of long-term unemployed young people again absolutely rose but the long-term unemployment rate remained 4.4%. The total long-term unemployment rate, however, was only 3.0% in 2012. As can be seen from Figure 4, young people contributed to the overall long-term unemployment in the Czech Republic from 20.2% in 2008 to 27.9% in 2010.

Fig. 4: The proportion of people aged 15 – 29 in the total number of long-term unemployed



Source: own calculation, The Czech statistical office (30.7.2013)

The number of long-term unemployed young men was 13,900 person in 2008 and it increased by 13,700 or by 98.6% in 2010. The long-term unemployment rate of young men increased from 2.2% in 2008 to 4.6% in 2010. Last year there were 26,300 long-term unemployed young men and their long-term unemployment rate was 4.7%, by 0.1 percentage points higher than in 2010. In 2010, the total number of long-term unemployed young men was higher than in 2012, but the workforce in this group of the population declined more rapidly and so the long-term unemployment rate of young men was higher in 2012 at the end. As can be seen from Figure 4, long-term unemployment among young men is a serious problem. From the total numbers of long-term unemployed men the young men represented from 26.4% in 2007 to 36.3% in 2010.

The number of long-term unemployed women aged 15-29 years was 8,900 person in 2008 and it increased by 7,300 person or by 82% till 2010. It was less than in the case of young men. The long-term unemployment rate of young women increased from 2.1% in 2008 to 4.1% in 2010. Last year there were 15,500 long-term unemployed young women and their long-term unemployment rate was 4.0%. The share of young women to the total number of long-term unemployed is lower in comparison with young men. The share of long-term unemployed young women in the total number of long-term unemployed women ranged from 14.3% in 2008 and 21.6% in 2009.

Conclusion

The recent economic recession has had an impact on the Czech labour market. The economic recession hit harder young people in comparison with the total population. The unemployment rate of young people is persistently higher than the unemployment rate of the whole Czech population. From gender view, young women have a higher unemployment rate. In the case of long-term unemployment, the situation is reversed, young men have a higher long-term unemployment rate than young women.

The unemployment among young people and especially their long-term unemployment represent a serious social problem with which large costs for the whole society are associated. It is important to state (government) actively helped to solve that situation. The government has got a lot of possibilities how to help, for example by supporting jobs for graduates, by supporting of internships for young or by tax benefits for employers, etc.

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Contact

Pavel Sirůček

University of Economics, Prague

W. Churchill Sq. 4

130 67 Prague 3

Czech Republic

sirucek@vse.cz

Tomáš Pavelka

University of Economics, Prague

W. Churchill Sq. 4

130 67 Prague 3

Czech Republic

pavelkat@vse.cz