

# THE CONVERSATION

## Young unemployed suffer as casual staff are first in line for extra work

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Nick Clegg helps unemployed youth by showing off his musical skills. Sean Dempsey/PA

Statistics released today by the Department for Education show that 15% of young people are not in education, employment or training (NEET). These figures have hardly altered in recent years, suggesting a long-term problem with integrating this section of young people into society.

But changes in the labour market since the start of the recession in 2008 mean it is now harder than ever for these NEETs to break into the workforce. Many people currently "employed" are in fact working very few hours, and it is these workers, not the NEETs, who will be the first beneficiaries of any economic upturn.

### Beyond the headlines

Headline youth unemployment rates in the UK are still much lower than in those European countries caught up in the Eurozone crisis.

At the start of 2013, 56% of young Spaniards were unemployed, while the youth unemployment rate in Greece was close to 63%. Such rates are not sustainable, and they are eating away at the social glue that binds these countries together.

In the UK however, young people have experienced a more subtle form of labour market dislocation. The unemployment rate is still **lower than expected**, given the severity of the recession since in 2008.

This is partly explained by the much greater flexibility of the British labour market compared with many Mediterranean countries; our government helps young people find employment, and they are not kept out of jobs by complicated labour regulations.

Yet many of these jobs offer lower hourly pay and fewer hours than young workers want. They might involve working in the retail sector or in call centres for relatively short, though frequently unsocial, hours. The lack of an adequate wage means that it is a struggle, particularly for young people living separately from their parents, to make ends meet.

Prices have risen at an annual rate of 2% to 3% since the beginning of the recession, but for many workers hourly pay has not increased at all. This means their “**real**” wage is falling and, in the absence of a better job opportunity, the only way they can increase the value of their weekly take-home pay is to work more hours. So it is no surprise that when asked if they would like to work longer hours, these young people strongly agree.

## Measuring underemployment

With my colleague David Blanchflower of Dartmouth College, I have constructed an index that measures the extent to which these young people are “**underemployed**”. It is based on responses to questions about how long individuals wish to work each week and how long they actually work. We aggregate these responses across the whole economy to see how far total desired hours deviate from the total hours actually worked.

Our conclusion is that the unemployment rate substantially underestimates the extent of spare capacity in the labour market. If one takes account of the extra hours that existing workers would like to work, the rate of excess labour capacity in the UK economy is close to 10%, though the unemployment rate is only 7.8%.

## Perilous situation

Since the beginning of the recession, people increasingly want to work more hours than they are offered, and the difference is particularly marked for the young.

While youth unemployment in the UK is around 20%, our underemployment index suggests more than 30% of young people would like to work more.

One implication is that when the economy does turn round and employers need to hire more labour, their immediate response is likely to be to increase the hours of existing workers rather than to hire new staff.

These workers - representing the difference between the unemployment and underemployment figures above - will be first in line for new jobs. Underemployment of existing workers weakens the prospects of the unemployed.

The UK might not be like Spain or Greece, but the headline unemployment rate does not tell the whole story. The hidden slack in the labour market leaves our NEETs in a particularly perilous situation.


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