

LOCAL STRATEGIES AND INITIATIVES TO ENCOURAGE THE ECONOMIC ACTIVITY AND CAREER DEVELOPMENT OF YOUNG PEOPLE

Desislava Botseva*

Introduction

Dynamic development of the contemporary economic reality requires an early integration of young people. The strength of labor market and social systems is related to the sustainable collaboration between education and employment. The implementation of this process is of particular importance to the European Union due to the negative demographic trends established on the Old Continent as well as the challenges arisen from the high public indebtedness and still not enough economic growth. This might be considered as the reason why the decrease in unemployment, incl. the rise in youth employment is seen as main components of the Europe 2020 goals. Early youth labor market integration is being cited as a real chance for reducing a number of social risks, such as the risk of poverty, material deprivation, social exclusion, as well as weakening the dependence on the social system. Finding a solution to overcome youth unemployment requires integration of an approach that combines the social system, the education system, the labor market and the tax system, coupled with reforming the institutional structure conducting the policies in this field.

In the present study, the author tries to identify youth unemployment as an aggregate, forming the macroeconomic dimension of the natural rate of unemployment. Labor market policies, aimed on the youth unemployment, can address the diversification of regional policy and local government approaches and initiatives.

The *object* of this study is the scale of unemployment among young people aged 15-24 using statistical demographic data from 2008 to 2016 mainly for Bulgaria and EU. The *subject* of the report is the possibility of influencing the factors forming youth unemployment, through local policies and initiatives, incl. orientation, encouragement and activation of young people.

The author uses interdisciplinary *methodology* to carry out the present study. Some relationships between key statistical macroeconomic and regional indicators are examined to identify the factors shaping youth unemployment. The

* Desislava Botseva, Assist. Prof., PhD, Department of Regional Development, UNWE, email: d_botseva@abv.bg

descriptive method, comparative analysis, statistical and sociological analysis, expert opinions are used to characterize the subject. The results are based on a set of research tools: a literature review, schematic and graphical features, systematized empirical data and prognostic assessments of international, European and national sources: World Bank, UN, Eurostat, NSI, Infostat, MRDPW, etc.

It has to be taken under account that measuring the participation of the young people on the labor market through commonly used indicators as employment rate, unemployment rate etc. is a subject to certain *limitations*. A large proportion of young people in the surveyed age range remain outside the workforce for a number of reasons, including their participation in the education system; their transition to higher education and related training; the mismatch between the expectations of young people and the actual supply of jobs; the deficit of policies and initiatives to involve the young population in the labor market; performing work in the "gray" sector of the economy.

Literature review

The problem of employment affects younger people stronger than any other age group (Dietrich, 2012, Van Gyes and Szeker, 2013). This is felt most strongly in terms of unemployment, prolonged job searches, discouragement and reduction of labor activity. For most young people, unemployment is dynamic, periodic condition but for others, it becomes a long-term state of live. In 2015, the European Commission releases major evidence that long-term unemployment further reduces the ability of the individual to start work. A large proportion of younger people who are longer without work are threatened to remain permanently unemployed and highly dependent on welfare.

The collapse in the opportunities for employment started since the crisis in 2007 in general and seriously affected young people (in a more general sense, their social and economic well-being) (Bell and Blanchflower, 2011). The problem of youth unemployment is becoming more widely discussed lately, especially in Europe where the percentage of unemployed in the age group of young people is significantly higher than the percentage of unemployed in the adult population (Perugini and Signorelli, 2010), although they are all affected by the same factors, latest financial crisis and the current fiscal pressures (Choudhry et al., 2012).

According to Ellwood, the difficulties of starting work earlier in life pre-determines the long-term career and professional development of individuals, their future earnings and career prospects, as well as the scarring effect. According to researchers, the duration of unemployment is directly proportional to the increase in the mentioned risks. This is known as the so-called "Scarring effect" or a negative long-term effect that unemployment has on future labor market opportunities (Holm, 2011).

There are numerous studies that make assumptions why young people experience more serious employment difficulties and are more vulnerable to unemployment than older people. According to Coenjaerts et al. (2009) young people face barriers to enter the labor market due to their lack of experience. The short term credit history, limits their opportunities to start their own business, but the lack of access to business networks creates even greater difficulties for their realization as successful entrepreneurs.

The unemployment among young people tends to be more sensitive at the economic cycles than the unemployment among adults. During a crisis, the lack of economic growth affects everyone in the economy, but some groups, such as young people, are particularly hard hit (O'Higgins, 2001). In fact, young people are strongly affected because youth unemployment is often highly cyclical and fluctuates more than the unemployment rate among adults. According to Gorlich, Stepanok and Al-Hussamis (2013), there are several factors contributing to this cycle, such as low job protection for young workers, the lack of specific, specialized expertise, lack of investment for young workers in training, etc. The most studies conclude that the aggregated economic performance represents a decisive factor of the unemployment rate among young people (Blanchflower and Freeman, 2000).

Passarides (1986) finds that it is more profitable for companies to hire and relieve younger workers than older ones. He recommends to employers to maintain balanced levels between different age groups of employees, especially during periods of financial recession.

Ryan (2001) founds that Public policies, including deregulation of the labor market, employment programs, targeting secondary and higher education, and partnerships at different levels are important factors for increasing the opportunities for young people to get involved in labor market. Mascherini (2012), stands against, the "inappropriate" education whereby young people are educated the same without appreciation of their individual potential and opportunities for future development and realization.

Unemployment among young people is a function of the country's macro-economic conditions (Contini, 2010). Countries with higher rates of economic development are in a position to create the foundation for new jobs and to offer an opportunity for their more recent employment by the workforce. The countries with a low rhythm of economic development where the business environment doesn't encourage the start-ups present increased rates of unemployment among young people (ILO, 2011).

Another popular survey is (Dimitrov's, 2012) study of the youth unemployment problem. The author examines a number of factors among the young people that he considers to have an impact on unemployment: dropping out of school, poor quality of the education system, economic cycles. With his research, Dimitrov proves that social status and family history have an important impact on the

future development of individuals and their ability of employment. In families where one or both parents belong to the category of unemployed, inactive or low-educated people without qualifications, low income, minority ethnic groups predispose their offspring to face the same problem

As a result of maintaining negative trends in youth labor market developments, Union Members are actively involved in the preparation and implementation of policies and measures aimed at increasing the adaptability of young people to the labor market and overcoming the difficulties they face in the process of inclusion and performance on the labor market.

Youth unemployment rate

One of the most commonly cited indicators measuring the inclusion of people in the labor market is the unemployment rate. For the purpose of this study, we will focus on the youth unemployment rate. According to Eurostat data, the highest youth unemployment rate in Bulgaria is set in 2013 (28.4%), decreasing progressively and by 2016 it is 17.2%. For comparison, the corresponding EU-28 values were 23.6% and 18.7% respectively.

The highest value of the youth unemployment rate for 2016 is in Greece - 47.3% and lowest - Germany (7.1%).

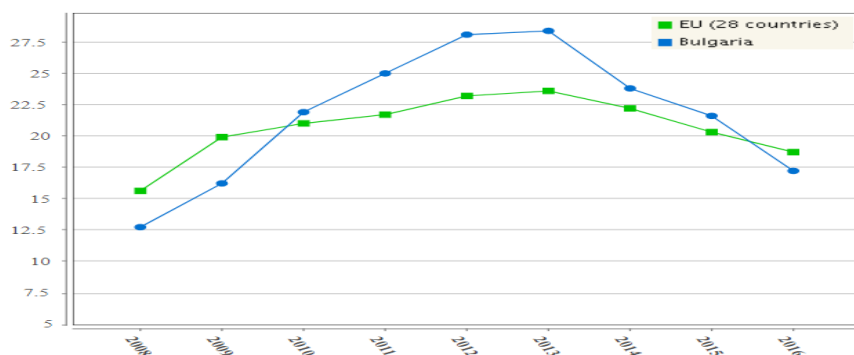


Fig. 1. Youth unemployment rate for 2008-2016, Eurostat

The Bulgarian economy is small and highly dependent on the international and European economic conjuncture. The lower levels of the studied rate before the crisis period and, consequently, the sharp increase, should demonstrate the existence of serious labor market imbalances in the country. As the chart shows, post-2013 major improvements are made to the benchmark, and in 2016 it was below the EU average. Integrating youth unemployment strategies and initiatives, makes Bulgaria one of the countries with accelerated reform (according to the EC, 2016). A downward trend in youth unemployment is reported in the 2015

annual youth report endorsed by the government resigning at its last meeting. Despite the good results, follow-up initiatives are needed for a sustainable reduction of youth unemployment. The upcoming actions must meet the challenges of working with inactive youths - those who are neither studying, working nor registered with the labor offices.

Long-term youth unemployment

Long-term unemployed are those who have been actively looking for work for more than 12 months. For the studied period, the highest value of the long-term youth unemployment indicator was recorded in 2012 and represents 13.8% of the 15-24 age group falling within the workforce. In the same year, the EU-28 average was 7.5%. This almost doubled value testifies to serious differentiation in our country and the Union. Bulgaria follows the general trend of the EU to reduce the share of long-term unemployed youths, by 2016 this indicator is 8.0% for our country and 5.4% for the EU-28.

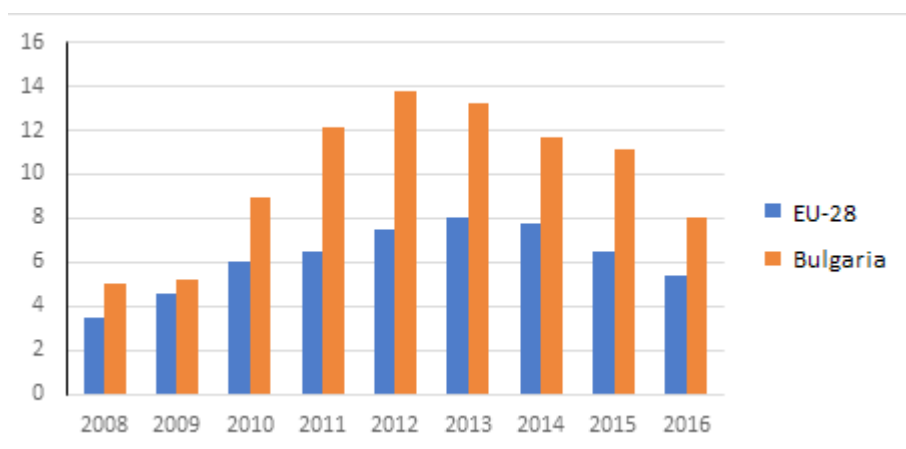


Fig. 2. Long-term youth unemployment in the EU and Bulgaria 2008-2016 (%), Eurostat

When analyzing the indicators, it is clear that while at European level, the ratio between youth unemployment and the share of long-term unemployed youngsters is 3.5: 1 (for every 3 unemployed, less than 1 long-term job seeker) for 2016, in Bulgaria this ratio is approximately 2:1 or, almost half of the unemployed youth are unable to start work for more than one year. Trends remain for the entire 2013-2016 period. This structural imbalance is also expressed in the "Review of Bulgaria's progress on Europe 2020: employment, education and poverty". Despite the overall improved state of youth employment in Bulgaria,

the policies still failed to become sufficiently effective to address the challenges of employment. Well oriented and aimed policies combined with implementation of local initiatives would provide better control and monitoring of the implemented actions and achieved results.

Ratio of youth unemployment

The youth unemployment rate, also known as ratio, is an indicator of all young people (ie people aged 15-24) who are unemployed. The ratio of youth unemployment is the percentage of unemployed youths of the total population of this age group (not only active but also inactive). The ratio of youth unemployment to the total number of the population in the age category in Bulgaria is only 4.1% (2016), while the average for the Union is 7.8%.

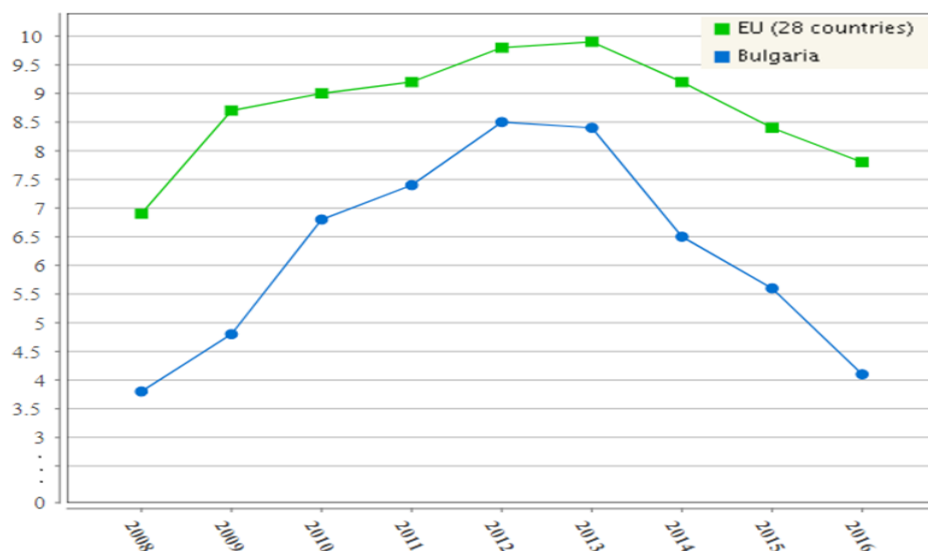


Fig. 3. Youth unemployment ratio for EU-28 and Bulgaria (2008-2016), data: Eurostat

The chart shows that the country maintains significantly lower levels compared to the average of the Union, the trend being maintained for the entire reviewed period. The indicator under consideration is particularly important in the process of characterizing the youth unemployment because it makes it possible to compare the number of unemployed with their share of the population in different age groups which is highly useful for providing accurate statistical analysis in the context of the problems with the current demographic situation.

The indicator could be criticized on the one hand because of its weak link with the scope of the labor force and the economically active people and on the other

hand because of its strong sensitivity to the educational structure and established practices and habits of the early start of working life. Last but not least, there is the possibility that the low values for our country are due to the traditionally low economic activity of the young people in Bulgaria.

Youth unemployment generators

A number of surveys (The Organization for Economic Development and Cooperation, the World Bank, the International Labor Organization and others), national, European and global, confirmed that youth unemployment is highest compared to other age groups regardless the state in which the economy is located, even in times of economic growth. We could highlight some objective factors that shape this situation:

Lack of practical experience and previous professional realization. The young population is characterized by a tendency to frequent change of the working position due to the desire of finding the optimal and most suitable option and due to the typical for the age category, a frequent change of interests. The lack of work experience and habits is also reflected in the very process of job search. In times of economic downturn and declining turnover of businesses, young people are often at risk of losing their jobs first because managers have the ability to retain experienced staff (O'Higgins, 2001). Young people concentrate the labor potential of the future, therefore, investing in them might be considered as a guarantee for the future, but often the individual enterprise, in an attempt to survive, neglect this process. The lack of practical experience and professional contacts also limits young people's desire and ability to develop their own business. Young entrepreneurship is hampered by a number of factors such as lack of sufficiently long credit history, lack of a business network of contacts and knowledge to start and realize a business and many others (Fortuny, Rei, Pilgrim, 2009).

Discrepancy between quality of educational products and needs of business. This factor, combined with a lack of experience, is one of the reasons why young people achieve lower levels of labor productivity. This generates additional costs for the employer, related training, qualification and re-qualification, costs of time and effort. The employer should decide whether there are prerequisites to justify the necessary costs. The Beveraged Curve is one of the main indicators for the assessment of unemployment. It expresses the growing disparity between the needs of the business and the availability of the right workforce.

There is a less pronounced *gender labor segmentation* in young people due to the fact that young people have lost interest in industrial development in recent decades. The dynamic growth in the services sector and the attractive working conditions in it (especially the IT area) lead to competition between men and women for the same places. As a further effect, there is a decline in the interest of young people in vocational secondary education. The result of this process is

an acute lack of well-trained middle-aged professionals in the smaller parts of the country. Graduates occupy positions requiring secondary or lower education.

Another generator of youth unemployment, with a specific character in terms of young people's ability to find work, is *undeclared work in the "gray" sector of the economy*. Factors, that shape the young people's desire to start unregulated labor relations, are the professional or social status and the possibility of obtaining higher net payment as well as the existence of legal regulations and policies. While attractive, the long-term participation of young people in undeclared work reduces their prospects for future professional realization, maintaining a high level of profitability and obtaining financial crediting.

The limited opportunities for young people to develop in small settlements and rural areas is another specific generator of youth unemployment in municipalities. According to the Annual Report on Youth, 2015 during the 2012-2016 period, around $\frac{3}{4}$ of the young people live in the cities and only $\frac{1}{4}$ in the smaller settlements. This generates a high risk of unemployment in rural areas and forces young people to seek their employment and social realization in larger cities or abroad.

Negative consequences of youth unemployment

Periods of temporary unemployment are acceptable for an individual and the economy as a whole. This is especially true for young people because, as we have already seen, there are a number of factors generating youth unemployment. The problems and consequences of an individual's future social and economic life are not a function of the unemployment itself but of its duration. When a young person falls into the long-term unemployed group, he is threatened with *loss of job motives, work habits, drop in his qualifications and skills, which further limits his ability to start work*. This statement is especially valid for young unemployed with lower education, as well as the broadly profiled, lacking narrow specialization. Employers are not favoring people long absents from the labor market. According to researchers, the duration of unemployment is directly proportional to the increase in the mentioned risks. This is known as the so-called "Scarring effect" or a negative long-term effect that unemployment has on future labor market opportunities (Holm, 2011).

The long-term manifestation of this "Scarring" effect, combined with a beneficial social system, increases the risk of developing the so-called "Stagnant" unemployment. People deliberately and consciously choose to receive social support rather than engage in work. The individual's *competitiveness gets lower and further reduces his potential future income*. The fall in future income levels, the loss of skills or lack of opportunities to acquire them increases the risk of poverty due to periods of prolonged social exclusion.

Another challenge generated by youth unemployment is related to *demographic processes* in the country. Reduced opportunities for starting a career and professional realization have led to a decrease in the young population and a decrease in the youth workforce and the increase in the relative share of young emigrants aged 15-24 (22% of total emigration) [1]. In this sense, youth unemployment contributes to the development of negative demographic trends at the national level, changing the structure and size of the population, generating insecurity among young people for successful and desirable work realization. This forces them to leave the country's borders, limiting the number of labor resources, aggravating the age demographic structure, and reducing the number of women in fertile age. Youth unemployment contributes to an increase in the average age for starting an independent life, the setting up of a family, and the birth and rearing of children.

The end effect of long-term isolation from the labor market is *social exclusion and concomitant poverty*. The relationship between macroeconomic indicators and the relative share of the poor at district level shows the correlation between the employment rate and the poverty level. The activation of mechanisms to promote employment is a key for overcoming the risks of low income, poverty and social exclusion.

Development of youth local employment

Achieving the national target 75% employment of the population aged between 20 and 64 in 2020 requires attention to the issue of youth unemployment. Policies and actions implemented or about to be implemented at national level are not directly the subject of this research. In particular, we will focus on the local self-government commitment to encourage and activate youth employment.

Over the past two decades, the European Union has indicated the need for synergies between employment strategies and local contractors. The development of local employment in all demographic age structures is of particular importance for enhancing the economic activity of regional and local communities, which means that the involvement of regional and local governments is needed to meet EU objectives. Among the older member states of the Union, an approach has already been adopted for purposefully orienting employment strategies to local and regional communities, whose economic development is a priority in policy making.

In the context of the issues addressed in the employment of young people, methods and mechanisms for the development of youth employment at local level should be engaged. This requires activation of the active agents developing, managing and implementing employment policies. This includes job openings, support for transition from education to work, stimulating youth leadership. For

their implementation, certain group of local actors has to be united in partnership: local authorities, agencies, local employers, local businesses, NGOs. Activating and directing employment at local level could help to add value to the regional and national economy, regional development needs, local authorities' co-operation and improvement of their work, closer orientation of employment to the needs, potential and capabilities of individual local communities.

The development of youth employment at local level should be guided by the following main directions:

First, ensuring compliance of skills and qualifications of young people to the labor market needs and the specific regional and local economy. The needs of the labor market and the economy are constantly changing and require the provision of relevant education, skills and competencies. These changes are most optimally identified by relevant local and regional communities (where they happen). In the modern world, best practice for youth employment proves that partnerships between employers, entrepreneurs, educational institutions, local authorities of the Employment Agency and other agents help to match training and skills to local labor needs.

On the other hand, at local level, it is essential to improve the local physical and technical facilities for education and training as well as to initiate qualification and re-qualification courses tailored to the needs of the local economy, considering its specification and orientation towards knowledge and innovation.

Second, overcoming youth unemployment through local initiatives, especially developed and implemented in the knowledge and understanding of local conditions. Target groups are young people leaving school prematurely and without labor market skills, working with them locally can help convince them to engage in employment programs. We have already seen that, regardless of the economic and social stage of development, the group of young people is highly vulnerable to unemployment and poverty. The National employment action plan, 2016 targets this specific age-group. Experience in the EU shows that the efficacy of the policies depends on combining them with local action. Local initiatives, especially developed and implemented in the knowledge and understanding of local conditions, are highly effective when it comes to the "hard to reach" groups. Such target groups are young people leaving school prematurely and without labor market skills, working with them locally could convince them to engage in national employment activation programs.

Third, reducing the regional imbalances. The national economy is facing strong unbalanced development, which highlights the dominance of Sofia - the capital at most, and other major cities as well. The lack of economic opportunities is a major reason for the displacement of young people and their focus on more prosperous cities. Regional and local-based employment plans have the

opportunity to take into account the real needs of a given municipality, not just to mechanically design the identified national targets. Establish an institutional framework for local-actors that can offer a more integrated approach, allowing greater freedom of municipalities to overcome problems related to employment and unemployment could reduce the negative aspects of the imbalanced regional development.

Fourth, overcoming unregulated employment in the "gray sector" of the economy and reducing the dependency on social benefits. In many municipalities, the underground economy still represents a large share of the economic environment. This is also the way of survival of the most disadvantaged and the poor. Local authorities are called upon to ensure the legitimacy of national measures to deal with problems and constantly alert to the potential damage from vicious practices of the local economy.

Fifth, providing a favorable environment for investment activity and employment. The National Development Plan and the Operational Programs provide significant public and private investments in the development of a green, knowledge-based and innovation-based economy. The measures are managed at national level, but they need to be recognized and applied on regional and local level. That requires encouragement of local businesses, SMEs, research and education institutions, to establish a "favorable environment" for partnerships and employment development.

Sixth, improving the administrative capacity, for effective regional governance. Local authorities could offer a working platform to improve the efficiency of youth employment initiatives based on objective feedback, proposing alternative approaches and setting up new networks. This means that all levels of this system should work together, on the principle of subsidiarity - that the projects are carried out at the lowest possible level and according to the local characteristics.

Conclusion

Global and national changes are becoming a generator of structural problems of an economic and social nature expressed through the market imbalances between supply and demand on the labor market, with supply shortages having a dual character (on the one hand job deficits, on the other hand labor resources, quality and competencies). The solution to the problem cannot be found easily. There is a need for a comprehensive analytical approach on the labor market, inextricably linked employment and unemployment, social policy and with a particular emphasis - education and collaboration of macroeconomic policy with regional governance and local initiatives to promote employment.

The dynamics of youth unemployment in Bulgaria follows the general European trends. At the same time, several factors like structural problems on the labor market in the country, a poorly reformed education system, anachronistic labor legislation and some cultural specificities imply lower economic activity among young Bulgarians and a more difficult integration into the labor market.

From macroeconomic point of view, the issues related to the generation of youth unemployment should be highlighted and solved, analyzing the macroeconomic environment and income differentials for the different professional spheres, at local, regional, national and even above national level. Macroeconomic policy is called upon to create incentives for business and to organize reforms in the education system where needed. On the other hand, local and regional employment policies should address the target groups of unemployed, incl. young people.

We can conclude that the main suggestions made to local self-government are the same regardless of where they apply. They consist of a multi-stakeholder partnership as an engine for achieving good results. It should cover multiple levels, be properly organized, coordinated and networked. The local level has specific features that, although difficult to realize due to institutional constraints, can successfully add value to employment policies. By encouraging players at the national level to act collectively with those at the regional and local level, an innovative way will be generated to create new and better jobs, tackle the challenges of inequality and diversity.

Notes

[1] According to Bulgarian NSI data, 2016, 22% of the population aged 15-24 has emigrated, with the total share of displaced young people under the age of 24 form 1/3 of the total emigrated population (According to author's calculation from NSI data)

[2] The European Employment Strategy / Support for Increasing Employment in Europe, European Union, 2011., Available at: <https://ec.europa.eu/social/main.jsp?catId=101&langId=en> (accessed 14.7.2018)

[3] National Action Plan on Employment, (2016), Ministry of Labor and Social Policy of Bulgaria, Available at: https://www.mlsp.government.bg/ckfinder/userfiles/files/politiki/zaetost/nacionalni%20planove%20za%20deistvie%20po%20zaetostta/NEAP_2016.pdf, (accessed: 14.7.2018)

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LOCAL STRATEGIES AND INITIATIVES TO ENCOURAGE THE ECONOMIC ACTIVITY AND CAREER DEVELOPMENT OF YOUNG PEOPLE

Abstract

Youth unemployment is a serious problem with both economic and social nature. On the one hand, it represents unused in the national economy resource, on the other, the limited opportunity for a younger population to achieve social inclusion through participation in the economic life through production and consumption. The present study examines youth unemployment in Bulgaria as a function of the problems in a several public systems. The report proposes methods of collaboration between policies at national level and initiatives at regional and local level, aimed to effectively increase youth employment.

Key words: youth unemployment, local government, employment, education, regional strategies, regional development, self-government

JEL: E24, R23