



Demographic and education effects on unemployment in Europe[☆]

Federico Biagi^{a,b,*}, Claudio Lucifora^c

^a *Università degli Studi di Padova, Via del Santo 33, 35123 Padova, Italy*

^b *S.D.A. Bocconi, Via Bocconi 8, 20136, Milan, Italy*

^c *Università Cattolica di Milano, Via Necchi 5, 20123 Milan, Italy and IZA,ERMES, FEEM*

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Abstract

We analyse the effects of demographic and education changes on unemployment rates in Europe. Using a panel of European countries for the 1975–2002 period - disaggregated by cohort and education - we empirically test the economic effects of the “baby bust” and the “education boom”. We find that structural shifts in the population age structure play an important role and that a significant share of variation in unemployment rates is also attributable to educational changes, the latter being usually neglected in aggregate studies. Results show that demographic and education shocks are qualitatively different for young (adult) workers as well as for more (less) educated people. Changes in the population age structure are positively related to the unemployment rate of young workers, while have no effect on adults. Conversely, changes in the education structure show a negative effect on the unemployment of the more educated. Labour market institutions also influence unemployment rates in different ways. Employment protection for regular workers increases unemployment rates, while temporary employment provisions

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* Corresponding author. Dipartimento di Scienze Economiche “M. Fanno”, Università degli Studi di Padova, Via del Santo 33, 35123 Padova, Italy. Tel.: +39 049 8274203; fax: +39 049 8274211.

E-mail addresses: federico.biagi@unipd.it (F. Biagi), claudio.lucifora@unicatt.it (C. Lucifora).

reduce it. Unemployment benefits are found to have a displacement effect on unemployment, while corporatism of wage bargaining improves employment performance.

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1. Introduction

In recent decades most European economies have experienced significant changes in the population age structure which altered the relative position of young versus prime-age workers in the labour market. Over the period 1970–2000, the ratio of the youth population to the adult population increased in most countries during the 1970s and 1980s and then fell in the following decades. Average unemployment rates for young people also increased significantly, up to the late 1980s, and then slightly decreased in the following decades, while adults' unemployment varied only marginally. Over the same period European countries showed substantial changes in educational achievements: both the average number of years of education and the share of individuals with higher education increased significantly. Countries with traditionally low levels of education (at the start of the period) have been catching up, with the number of highly educated people growing in absolute and relative terms. Moreover, education appears to be an important determinant of individuals' performance in the labour market, for more educated workers are two to three times less likely to be unemployed as compared to their low-education counterparts (over the business cycle their relative rates tend to diverge, [Quintini and Martin, 2006](#)).

These patterns have stimulated extensive research and a fierce debate on the economic effects of changes in the youth share of the population and its relationship with the rise and the persistence of (youth) unemployment. The terms “baby boom” (and “baby bust”) have been used in the literature to indicate the substantial increase (decrease) in the size of younger cohorts and other similar changes in the population age structure, while “generational crowding” has been often used to define the worsened economic conditions for the younger cohorts ([OECD, 1986](#); [Korenman and Neumark, 2000](#)). Similarly, another strand of literature has tried to investigate the effects of the “education boom” and skill-biased technological progress on both unemployment and earnings ([E.U.-IRS, 2002](#); [Bertola et al., 2002](#); [Brunello et al., 2000](#); [Flinn, 1993](#)).

While, on the basis of standard textbook's ‘supply-demand’ analysis, there seems to be agreement on the sign of the effects of a change in the population youth share, yet consensus on the empirical relevance of these shocks is still lacking. The large number of empirical studies that have investigated the economic effects of cohort size, on youth earnings and unemployment, are often difficult to compare due to data and methodological differences, and even when a comprehensive review of the studies is considered and the issue of comparability is carefully addressed, still a great deal of heterogeneity by country and time seems to characterise the experience of European countries ([Zimmermann, 1991](#); [Korenman and Neumark, 2000](#); [Jimeno and Rodríguez-Palenzuela, 2002](#)).

In particular, empirical evidence suggests that a large cohort size will (negatively) affect the earnings levels of the individuals, mainly of that cohort, as well as their unemployment status (or labour force participation). The relevance of the two effects is likely to depend on a number of factors such as the functioning of the labour market, the state of the business cycle, public policies

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