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Youth labour market performances in the Russian and Italian regions



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ARTICLE INFO

Article history:

Received 16 May 2014

Accepted 25 June 2014

Available online 24 November 2014

JEL classification:

G01

R23

E24

Keywords:

Youth unemployment

Russian and Italian regions

Spatial correlation

ABSTRACT

The focus of this paper is on youth unemployment in Italy and Russia: in both countries, youth unemployment rates (YURs) are higher than adult (or total) ones. Despite these general trends, there are significant regional differences in YURs and above-average YUR regions tend to cluster close to each other. Moreover, a distinction between “North” and “South” regions seems appropriate for both countries. The purpose of this study is to identify key determinants of YURs in the Russian and Italian regions, for the period 2000–2009. We also search for the existence of distance spatial effects. In particular, we estimate a modified Arellano–Bond model for the regional YUR, including some explanatory and control variables (e.g. regional GDP in PPP, regional population density, regional total unemployment rate), together with year dummies and North/South dummies. The use of distance matrixes enables important analysis to be conducted on the role played by spatial effects, which turn out to be significant. Also the negative impact of the 2008–2009 crisis is statistically confirmed (at least in the case of Italy). The relevant policy implications are highlighted in the conclusions.

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1. Introduction

In most European countries, the youth unemployment rate (YUR) is twice or three times higher than the total unemployment rate (UR). In Italy, as in many other countries in the South of Europe, YURs are much higher than adult rates. Also in Russia, YURs are particularly high. In general, the recent economic crisis abruptly ended the gradual decline in global YUR recorded during the period 2002–2007 (ILO, 2012).

Unemployment and youth unemployment have been extensively investigated, also in international comparisons at the country level. However, studies on unemployment in general, and youth unemployment in particular, at a regional (sub-national) level are rare. In order to help fill this gap, the main purposes of this paper are to analyse the regional differentiation of the YUR in two major countries, Russia and Italy; to investigate the key determinants in both countries for the 2000–2009 period; and to detect the spatial effects of possible mutual influence across the regions within each of the two countries.

Russia and Italy are very different economies in several respects; however, they have some similarities in the regional differentiation of their labour markets. Despite their different sizes, the regional differences in unemployment and other labour market indicators are significant in both countries. In other European countries, also the big ones (like France, the United Kingdom, and even Germany itself), regional differentiation is less pronounced. To anticipate the outcome of the research reported in this paper, we found not only that there are significant regional differences among youth unemployment rates (YUR) in both countries, but also that above-average YUR regions tend to cluster close to each other.

The regional breakdown focuses on the North/South dichotomy for both countries. In the case of Italy this distinction is natural, since there is a huge body of literature concerning the gap between southern (Mezzogiorno) and northern regions both in general economic terms and with reference to the labour market situation. As far as Russia is concerned, other types of sub-national disaggregation have been considered: for example Demidova et al. (2013) focused on East–West differentiation, which turned out to be statistically significant. However, there have also been some studies on the possible existence of a North/South distinction in the case of Russia as well: for example, Demidova and Signorelli (2011) highlighted the worse performance of Southern Russian regions, especially in the 1998–1999 crisis period. Nevertheless, the present paper is one of the first to focus explicitly on the North–South dichotomy in Russian labour markets.

While the focus of our empirical investigation is on spatial (regional) differences, the inclusion of time dummies in our estimations allows us to detect the possible impact of the 2008–2009 financial crisis and the consequent Great Recession. The negative impact has been found to be statistically significant for Italy (in the year 2009). For Russia, it is probably necessary to consider a longer period including many years after the crisis. To be noted is that the labour market impact of recessions is always delayed (in normal recessions unemployment reaches top values 18 months after the start of the recession); but it is even longer in the case of financial crises (see IMF, 2010).

Section 2 conducts a literature review focusing on the youth unemployment problem and on the regional differences. Section 3 presents the data used in the empirical analysis, details about the variables used, and our initial hypotheses. Section 4 sets out the econometric specification and the results of estimations. Section 5 concludes.

2. Literature review

The first strand of literature which is worth exploring concerns the causes of high and persistent YUR. As stated in the Introduction, the YUR is, in most countries, at least twice as high as the total UR; but in some countries the ratio is more than 3 (note that most empirical studies refer to individuals aged 15–24 years old, but other ages are sometimes considered). Besides macroeconomic, demographic and structural determinants of unemployment, policies and institutions also play a major role.¹ The

¹ OECD (2006) found that almost two-thirds of non-cyclical unemployment changes over two decades can be explained by changes in policies and institutions.

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