1. Title

Entering the labour market during a pandemic: scarring effects and youth unemployment

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3. Abstract

This research aims to investigate the consequences of the Covid-19 pandemic for labour market entrants, in particular the scarring effects on university graduates and the impact on youth unemployment. Macroeconomists have described the pandemic-driven economic shocks as Keynesian supply shocks: the supply-driven changes in aggregate demand are larger than the supply shocks themselves resulting in shutdowns, massive layoffs and firm exits (Guerrieri et al 2020). Previous empirical studies found that graduating from university in a bad economy or entering the labour market during a recession harms an individual’s labour market outcomes, both in terms of future employment and wage prospects (Kahn 2009; Gregg and Tominey 2004). The negative impact often extends also to skill-loss and affects the decision to increase human capital investments.

In this paper, we will explore the interplay between the heterogeneity in labour market scarring and the tax and transfer system. We are also particularly interested in studying whether and how parental income, which constitutes fundamental insurance factors (Cribb et al 2017), and the informal sector tend to reduce the magnitude of the scarring effects on employment and earnings. To address this point, we will collect individual survey data as well as firm-level data for a broad set of countries in Europe, North America, and Latin America.

Participation in active labour market policy programmes (ALMPs), both training and subsidised employment, often contribute to improvements in occupational attainment and job stability (Strandh and Nordlund 2008). However, given the unique characteristics of Covid-19 and its cohort effects a revision of the traditional set of policy tools is required. Understanding the labour market consequences of this unprecedented pandemic-led recession, especially for the younger cohorts, therefore becomes crucial to identify and design targeted policy interventions.

Research questions

- What are the effects of entering the labour market during this Covid-19 recession on employment and earnings for university graduates and the impact on youth employment?
- Are there observable gender and cohort effects?
- What are the coping/sorting mechanisms of labour market entrants?
- What is the role played by informality and non-standard employment? How can the safety net be extended to these areas?
- Can parental income and the tax and transfer system constitute an insurance?
- What is the impact on human capital investment and skills-formation?

4. Data description

We will employ a number of quantitative research methods composed initially of a set of authors’ elaborated online graduate surveys (initially for the following countries: UK, Italy, France, Germany, Spain, Uruguay, Argentina, Peru, Colombia, Mexico, US, Canada), purchase of firm-level data on job vacancies, number of unemployment benefits claims from National Statics Offices and when the 2020 wave becomes available micro-data from the European Labour Force Survey (EU-LFS) including job vacancies. We will utilise standard micro-econometric methods (diff-in-diff and RDD) and non-linear decomposition techniques to measure the size of the shock exerted on the labour markets and the quantitative and price adjustments in response to this shock. We will also investigate the individual
characteristics associated to labour market informality and non-standard employment, and their changes over time.

Datasets to be used in the research project:
- Online Graduate Surveys for various countries
- Unemployment benefits claims from the National Statistics Offices
- Firm Level Survey from the various countries
- European Labour Force Survey (EU-LFS), Eurostat and corresponding datasets in other countries
- European Union Statistics on Income and Living Standards (EU-SILC), Eurostat
- Survey of Adult Skills (PIAAC), OECD
- Structure of Earnings Survey, OECD
- LABREF, European Commission – Economic and Financial Affairs

Work packages:
- Track changes to the occupation structure, task distribution and forms of work by focusing on:
  - Changes to the aggregate labour demand and its composition
  - Changes to skill requirements and use, work practices and job quality
- Investigate the evolution in labour market institutions and policies:
  - Activation policies to help the unemployed
  - Social protection
  - Collective bargaining schemes
  - Examine the emergence of new forms of precarious work
- Anticipate skill needs, identifying shortages and mismatch
- Analyse the integration in the larger policy context (productivity growth, spending and social policies)

5. JEL codes for the project
E24, H53, I23, I24, J63

6. Keywords
Pandemic, Youth Unemployment, Scarring, Returns to Education, Informality, Online Survey

References
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