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# Youth labor market entry and public health in the wake of the pandemic

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# Overview

## 1. The facts:

*Covid-19 and youth labor market entry in Sweden*

## 2. The research:

- i. The long term economic consequences of youth unemployment*
- ii. The health consequences of youth unemployment*

## 3. Policy remedies:

*How can we help the young?*



# The facts

- The Swedish youth labor market prior to the crisis
  - High youth unemployment rates
  - But *low* inactivity rates, *short* unemployment spells, many *students* among the unemployed.
  - Low and stable wage dispersion, but increasing earnings gap between employed and non-employed.
  - Large and increasing share of unemployed are low skilled or immigrants

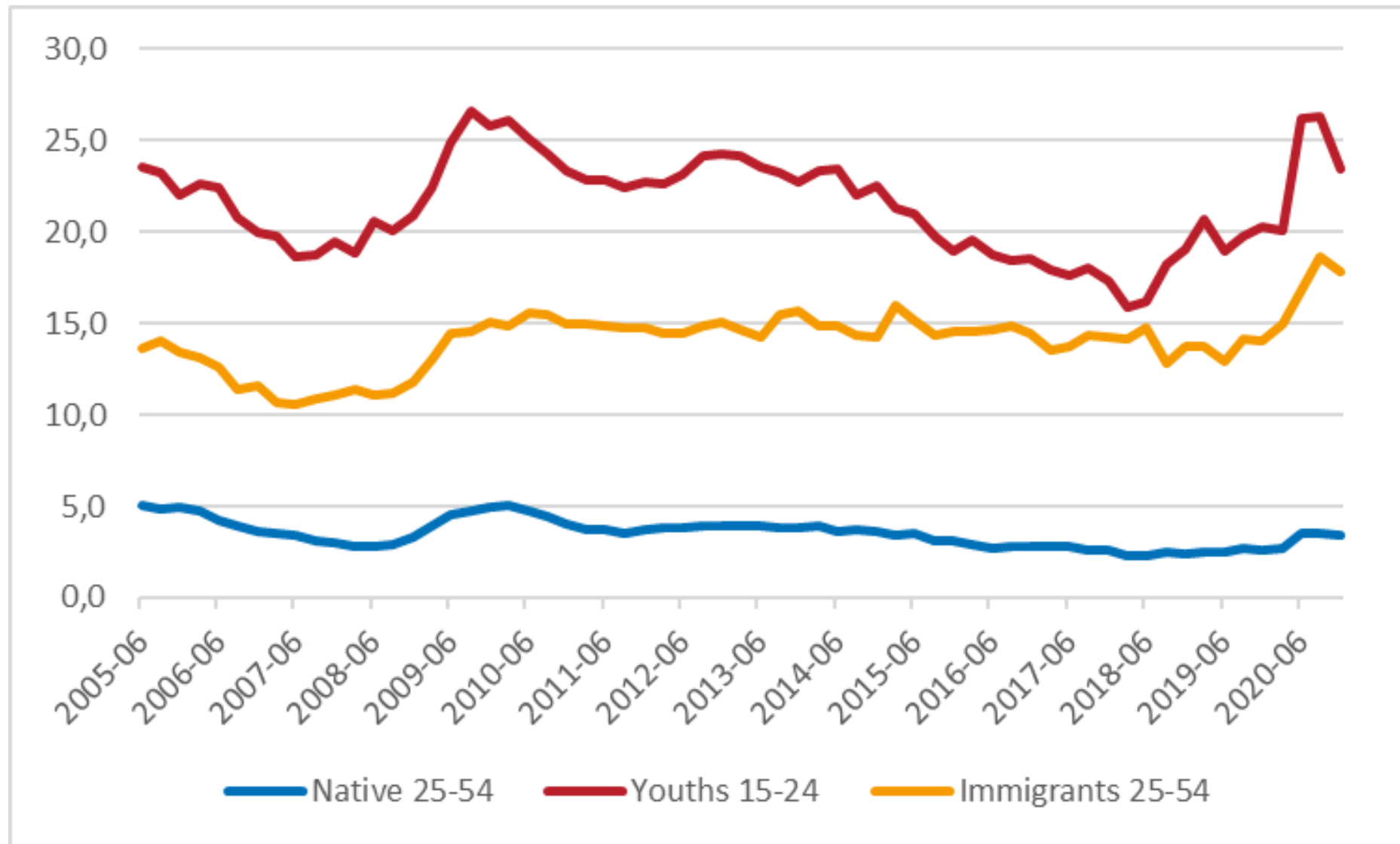


# The facts

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  - High youth unemployment rates
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  - Low and stable wage dispersion, but increasing earnings gap between employed and non-employed.
  - Large and increasing share of unemployed are low skilled or immigrants
- The (economic) covid-19 collapse is a youth labor market crisis...
  - ...as all recessions
  - ...and youth intensive service sectors hit hardest this time
  - ...and economic policies aimed at protecting **permanent jobs and firms**
  - Crisis is less male-dominated than “normal” recessions.

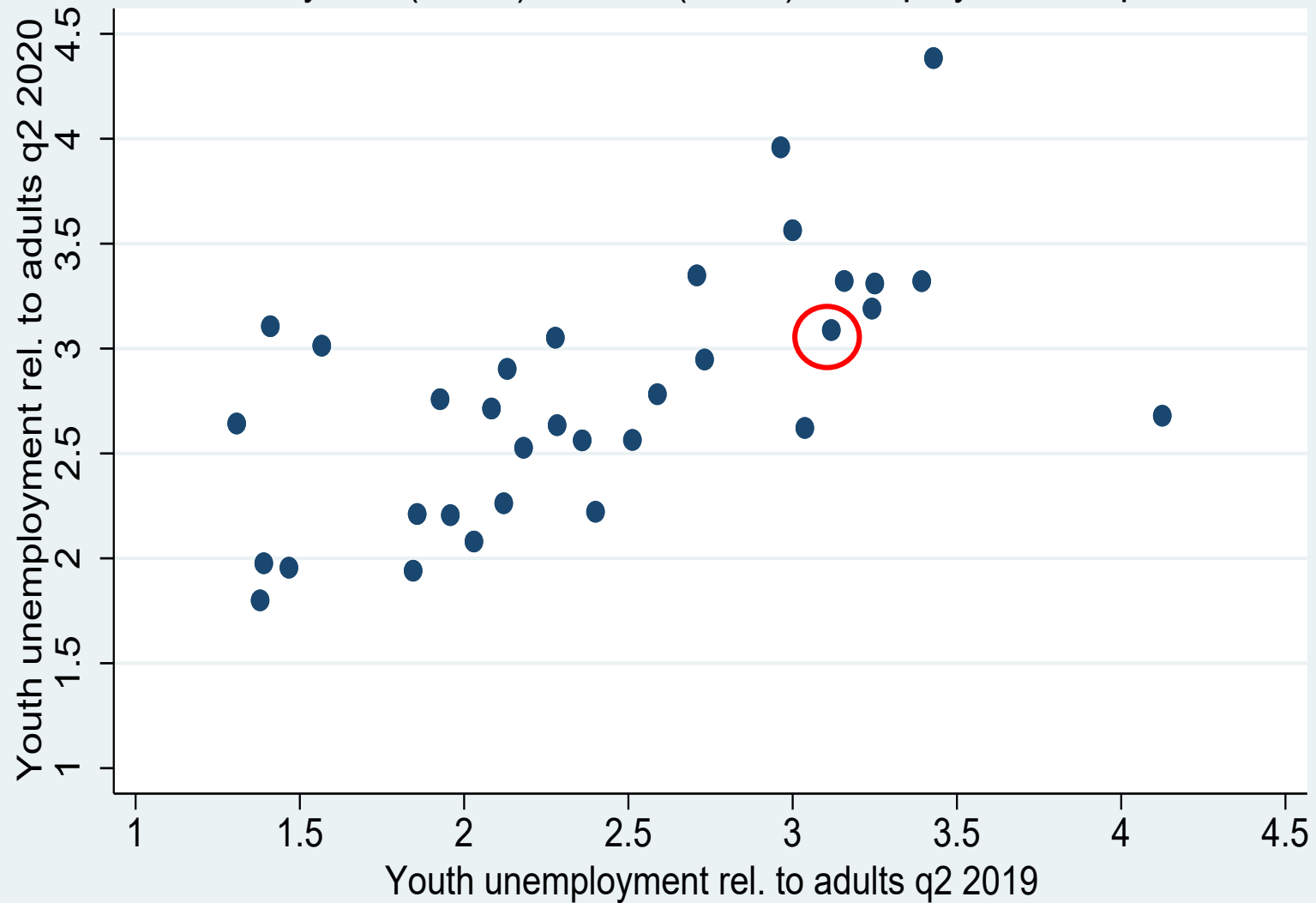


# Swedish unemployment (LFS)



# Youth unemployment across Europe, 2019 and 2020

Ratio of youth (20-24) to adult (25-54) unemployment in quarter 2



Source: Eurostat

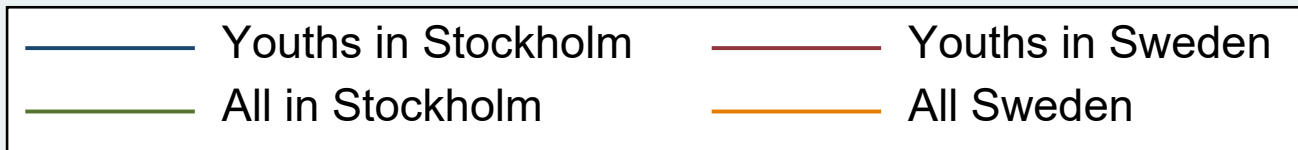
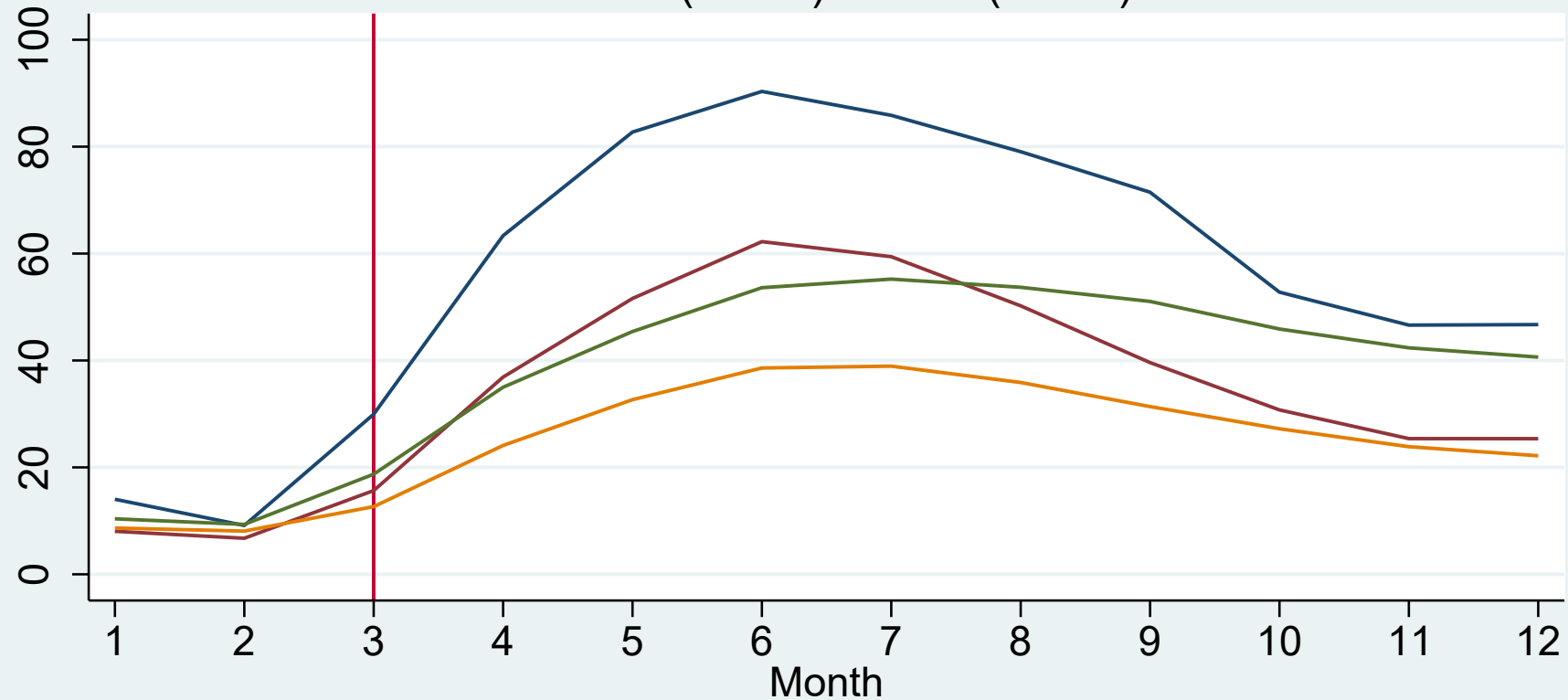






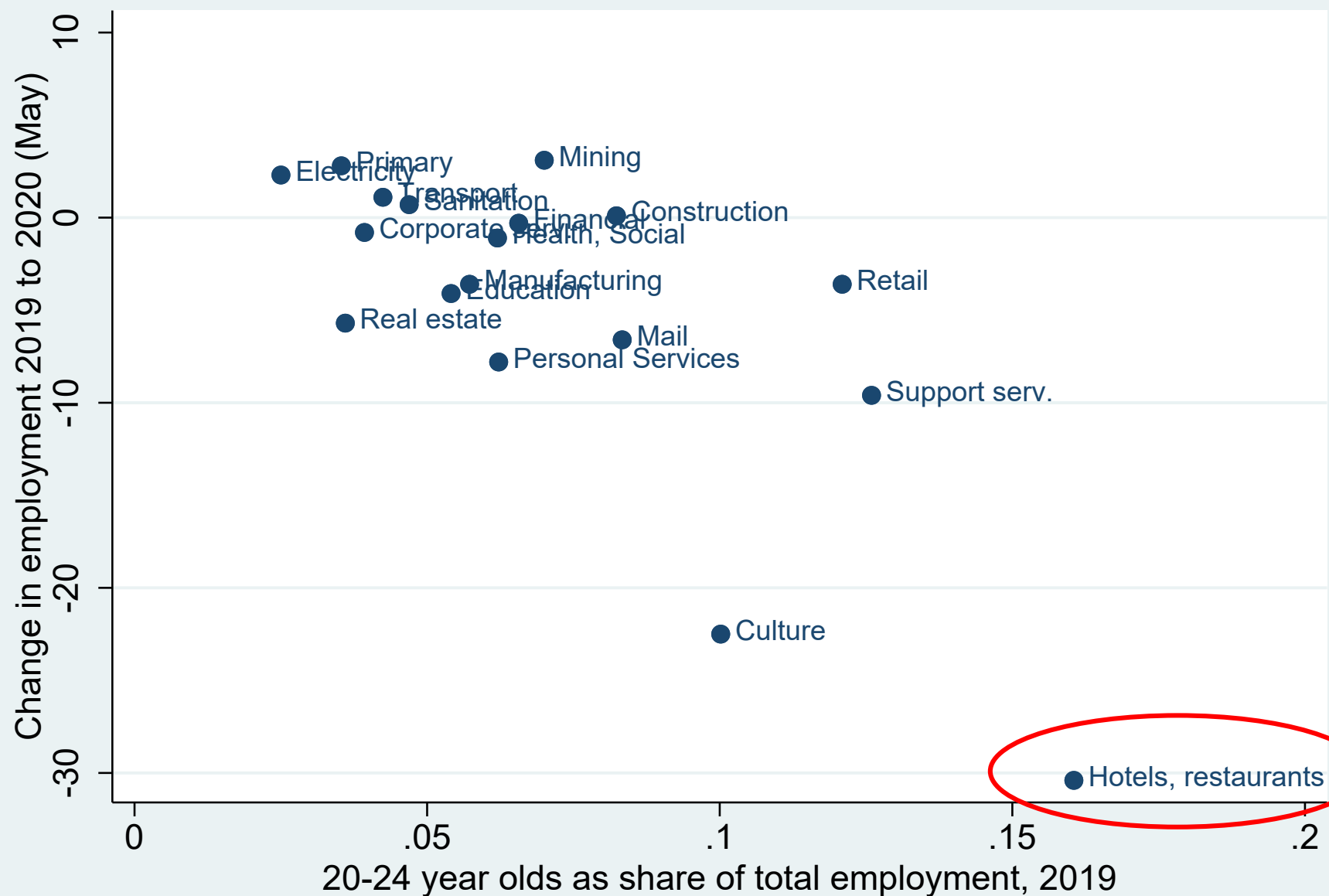
# Percent change in regeistered unemployed by month 2020 relative to same month in 2019

Youths (18-24) and all (18-64)



Source: Arbetsförmedlingen





Sources: Youth Share from SCB (RAMS), employment drop from Skatteverket (PM 8-137500)

Youth  
intensive  
sectors  
are hit the  
hardest



# A note on age and unemployment

- Young people are in general much more likely to become unemployed
  - But young people are much less likely to become long-term unemployed.
- Young people are – on average – much more mobile across sectors and regions.
  - Job loss is more “normal” than for older workers.
  - Smaller earnings losses from firm-closures
  - Call-back rates on job applications not affected by short unemployment spells for the young (Eriksson and Rooth, 2014)



# Covid-specific effects on youth outcomes

- Quality of studies
  - Absence, lower quality instructions,... (see IFAU report 2021:2)
- Lost job-opportunities during school
  - Contacts are crucial for job search in recessions (Muller, 2020)
- Pure health effects (post-covid, stress, isolation,...)
- Increased entry into higher education may mitigate some of these effects



# The Research



# Why may labor market outcomes be relevant for health?

(for references see e.g. Adda and Fawaz, 2020)

- Earnings can be related to consumption of health services
- Earnings and, in particular *unemployment*, makes people very *unhappy* (overview in Ohtake, 2012)
- Interactions with other life events, e.g. family formation, drug use...
- Specific health outcomes related to poor labor market outcomes
  - Suicide, alcohol and drugs, mental health, circulatory diseases....

➔ Persistence of health effects likely related to persistence of labor market consequences.



# Youth unemployment and future outcomes

Two research questions:

1. What is the long-term impact of becoming unemployed after graduation?
2. What is the long-term impact of graduating in a recession?



# Youth unemployment and future outcomes

Two research questions – and associated challenges:

1. What is the long-term impact of becoming unemployed after graduation?  
*Selection:* Unemployed youths may differ from others in dimensions that also affect their long-term outcomes.
2. What is the long-term impact of graduating in a recession?  
*Dimensionality:* Recessions happen very rarely and move slowly over time (not an individual level event).





# The effects of becoming unemployed ("scarring")

## 1. Skans (2011)

- Study **siblings** where one became unemployed during the 1990:s crisis and the other not, controlling for grades, fields of study, pre-graduation work,...

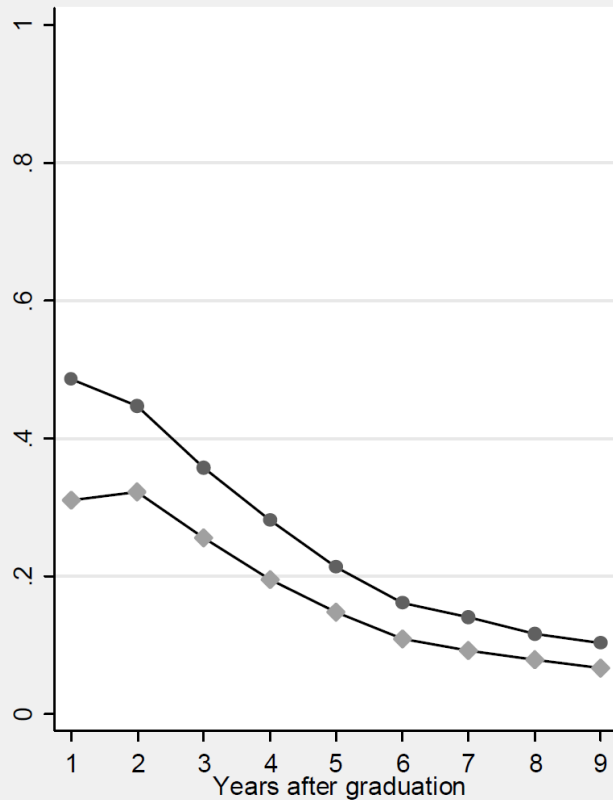
## 2. Müller (2020)

- Study graduates who worked during school but whose **firms shut down** just before graduation (compare to classmates who worked somewhere else).

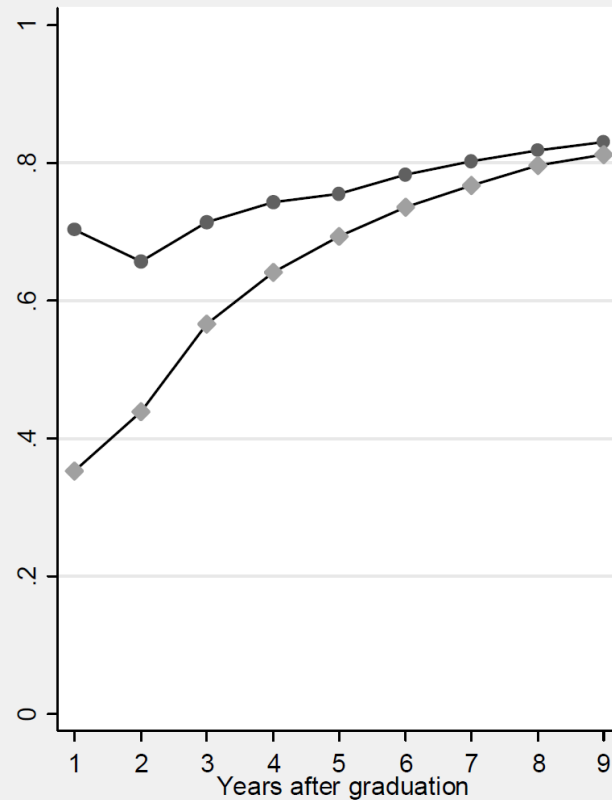
*Both studies use Swedish vocational high school students. Results suggest substantial and lasting effects -- but not permanent scars.*



# How will future outcomes differ for the unemployed? (Based on Skans, 2011)

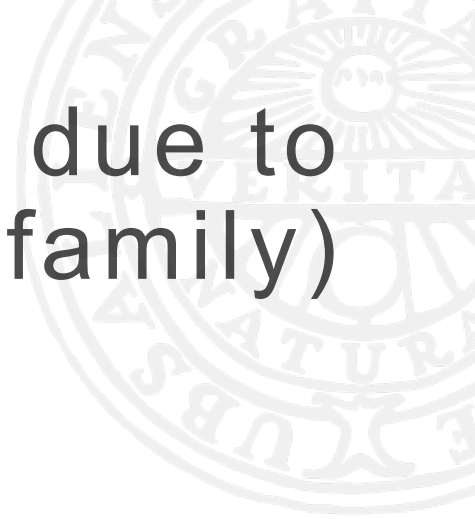


● Unemployed at t=0  
◆ Not unemployed at t=0

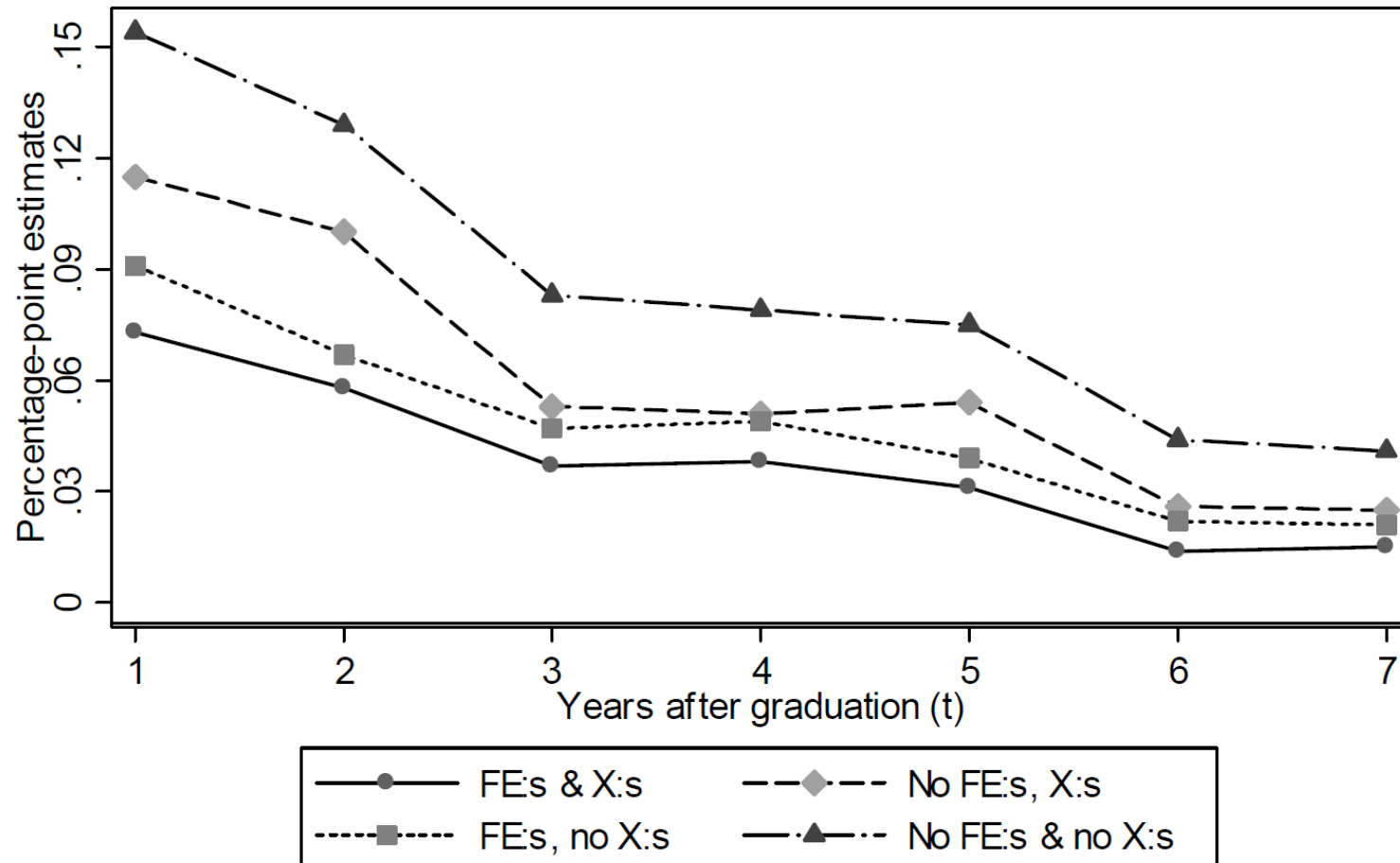


● Employed at t=0  
◆ Not employed at t=0

# About half of differences are due to observable aspects (incl. family)



Estimated effects of initial unemployment on subsequent unemployment



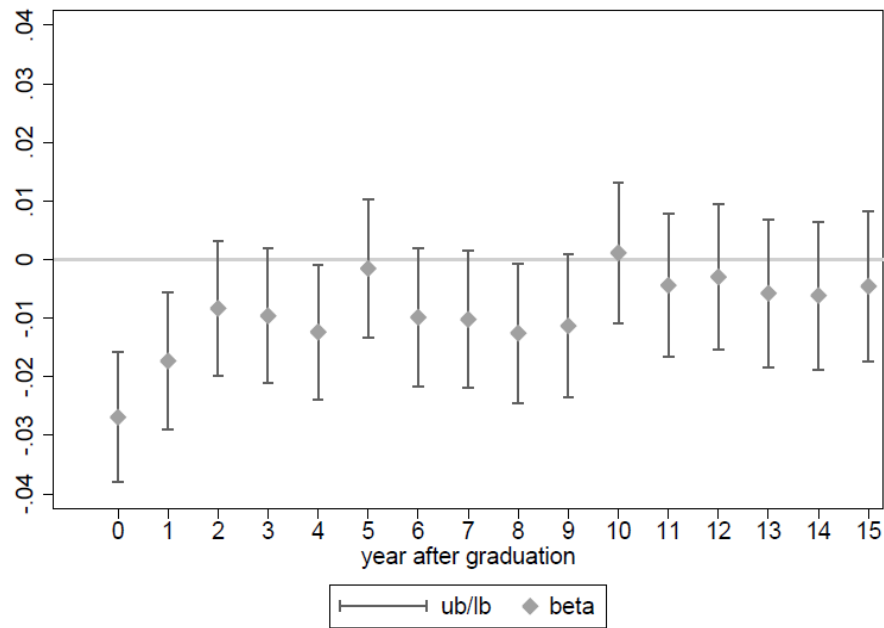
Note: All models include municipality unemployment and year dummies.  
Family characteristics not included in X. All estimates are significant except 'FE:s & X:s', t>5

# Lost opportunities and future outcomes

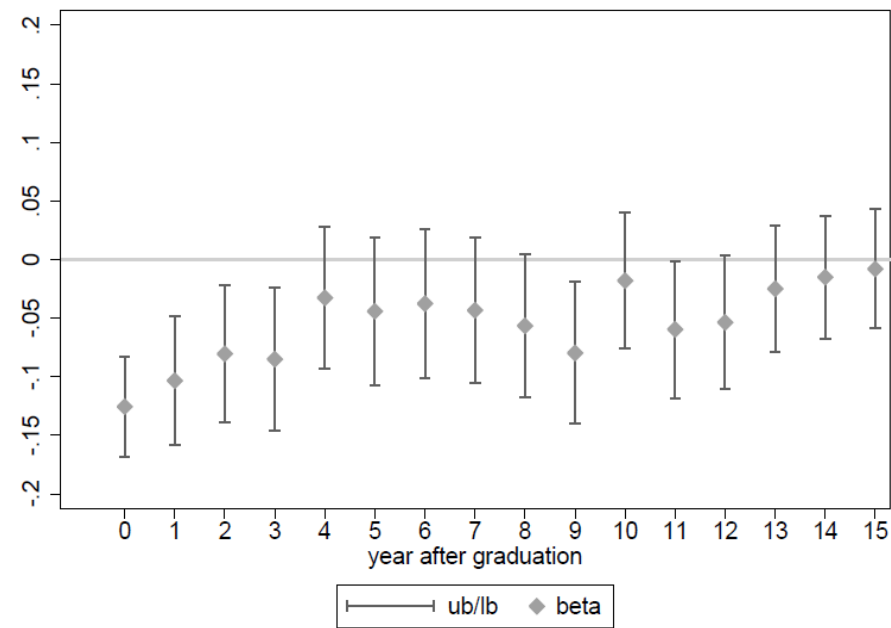
- A recent (2020) dissertation chapter by Dagmar Müller (Uppsala university)
- What happens if a summer job employer shuts down just before graduation?
  - 30 percent of first jobs are found at a summer-job employer
  - Share is much higher in bad times (Hensvik, Muller and Skans, 2017)
  - Compare outcomes to classmates that were not exposed to closures
- “Lost opportunities”, graduates can of course find alternative employment



Figure 7: Long term effects of closure in year  $t+i$  after graduation



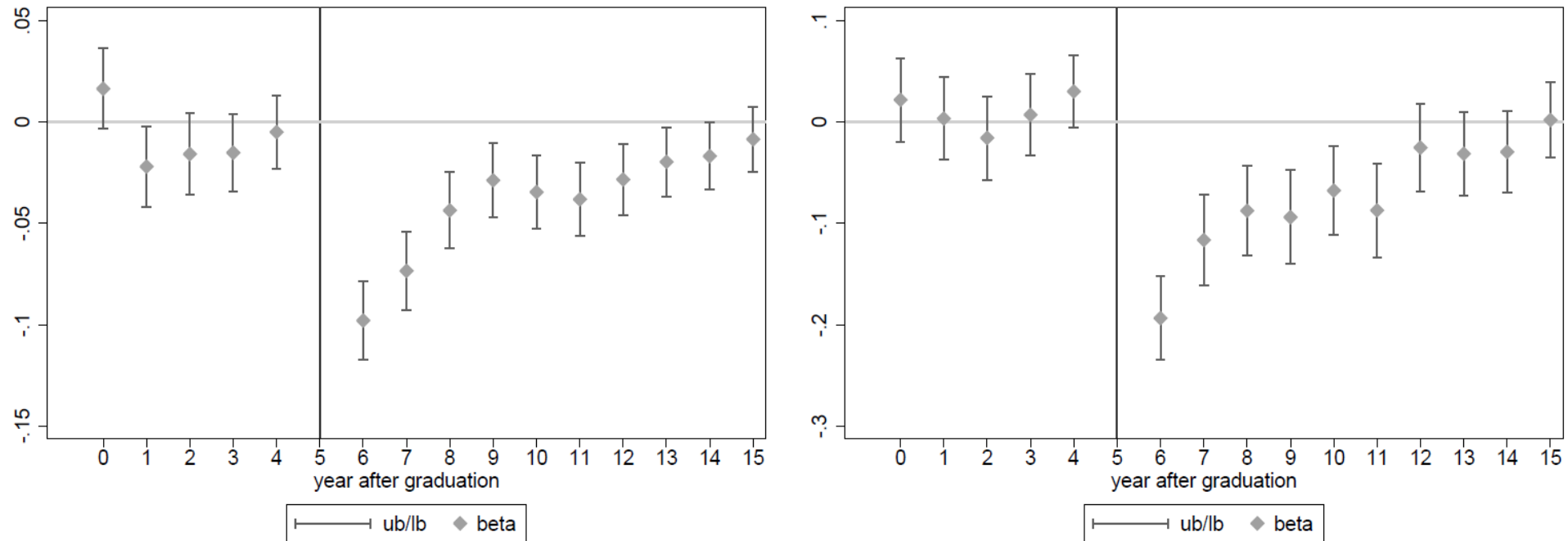
(a) Effect on having a stable job



(b) Effect on log earnings

# Early job loss (Müller, 2020)

Figure 9: Effects of job loss due to an establishment closure later in life



(a) Effect on having a stable job

(b) Effect on log earnings

# Graduating during a recession

Large literature, mostly exploiting variations in *local* unemployment rates at graduation.

- Effects on future earnings are always negative
- Most consistent for university graduates
- Some suggest permanent, or reoccurring, effects



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- Some suggest permanent, or reoccurring, effects

E.g. Kahn (2010) studies US College graduates entering around 1980:

- Entering in the “Volcker-recession years” in a state that was hit particularly hard leads to persistently worse outcomes
- Lower wages and occupational prestige in the late 30s
- Shorter tenure, suggest sensitive to later shocks (see also Eliason and Storrie (2006))





# Graduating during a recession

One study for Sweden (Engdahl, Godard and Skans, 2019)

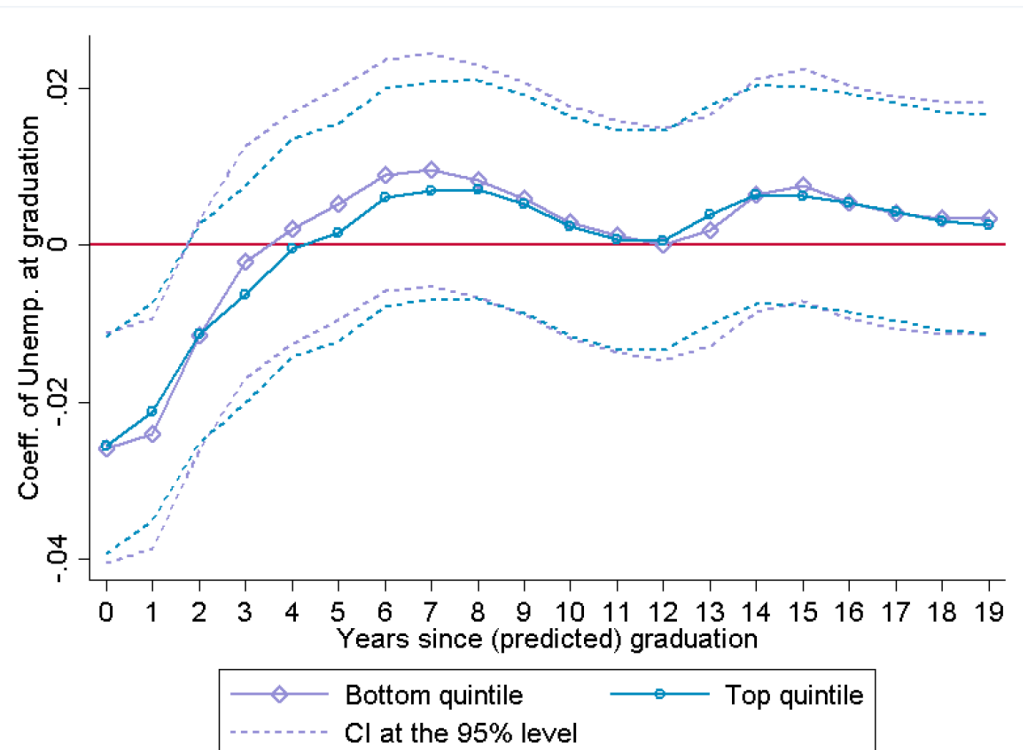
- Uses the fact that a policy-pilot delayed graduation years somewhat for some Swedish high school graduates at the onset of the 1990s recession.
- Entering the labor market just before vs. just in the crisis (as comparing 2019 vs. 2020)
- Strategy only works for females, as males did military service at a fixed age.



# Early earnings are lower for those that enter straight into a recession

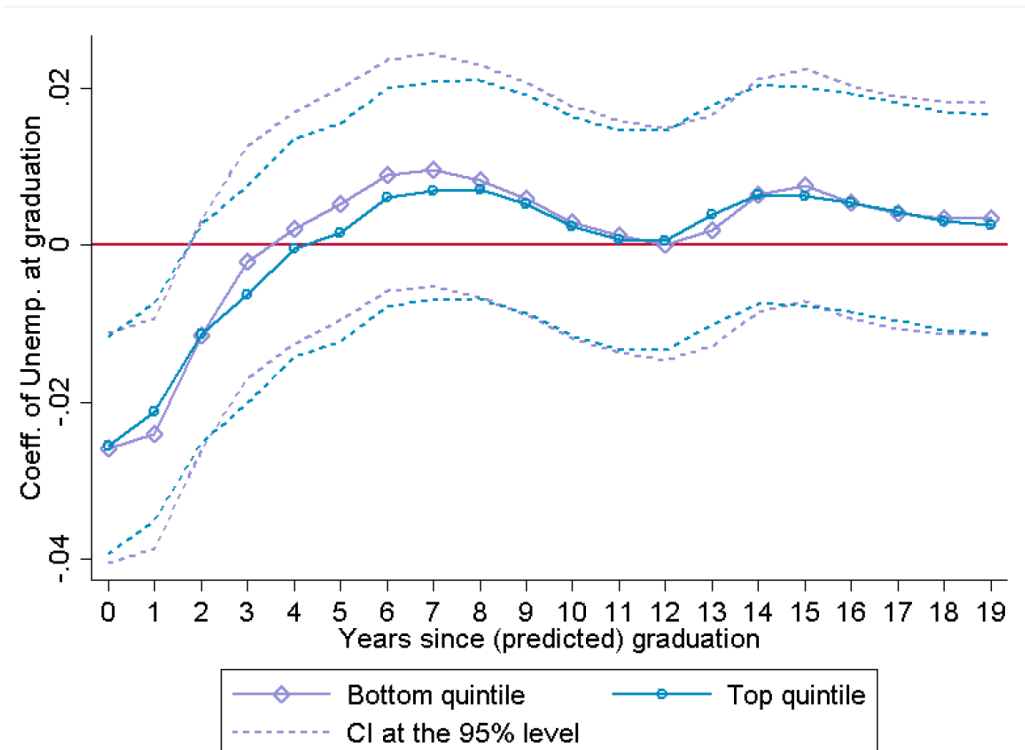
(based on Engdahl et al, 2019)

(b) Annual earnings

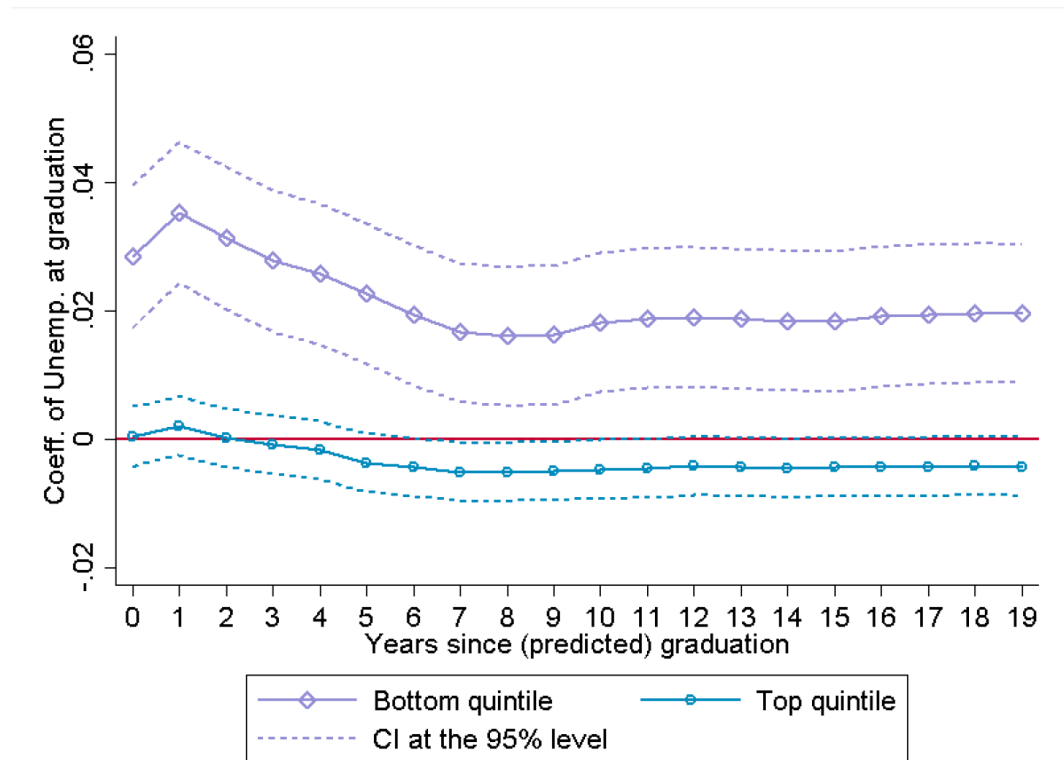


# ...earnings bounce back, but not welfare benefit use for the lowest skilled (based on Engdahl et al, 2019)

(b) Annual earnings



(c)  $\mathbb{P}$ (Belongs to a household that received welfare benefits during that year)



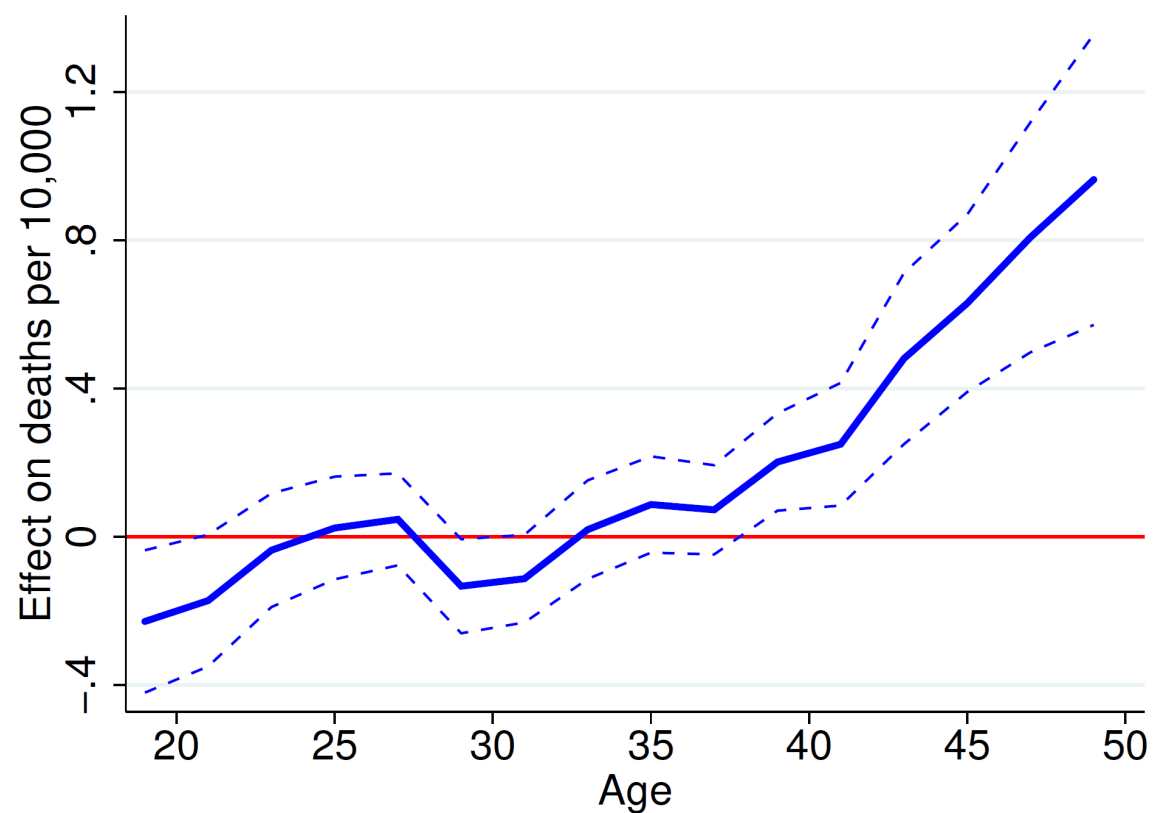
# The impact on health

- “Graduating-in-a-local-recession“-designs
  - Using adult health as an outcome
- Fairly consistent finding of negative effects on long term health, e.g.:
  - Garrouste and Godard (2015), 1973 oil crisis in the UK
  - Schwant and von Wachter (2020), 1980s recession in the US



# Mortality-effects show up later in life due to heart disease, lung cancer and drugs (from Schwant and von Wachter, 2019)

Figure 2: Effect of State Unemployment Rate at Labor Market Entry on Mortality Rate by Age



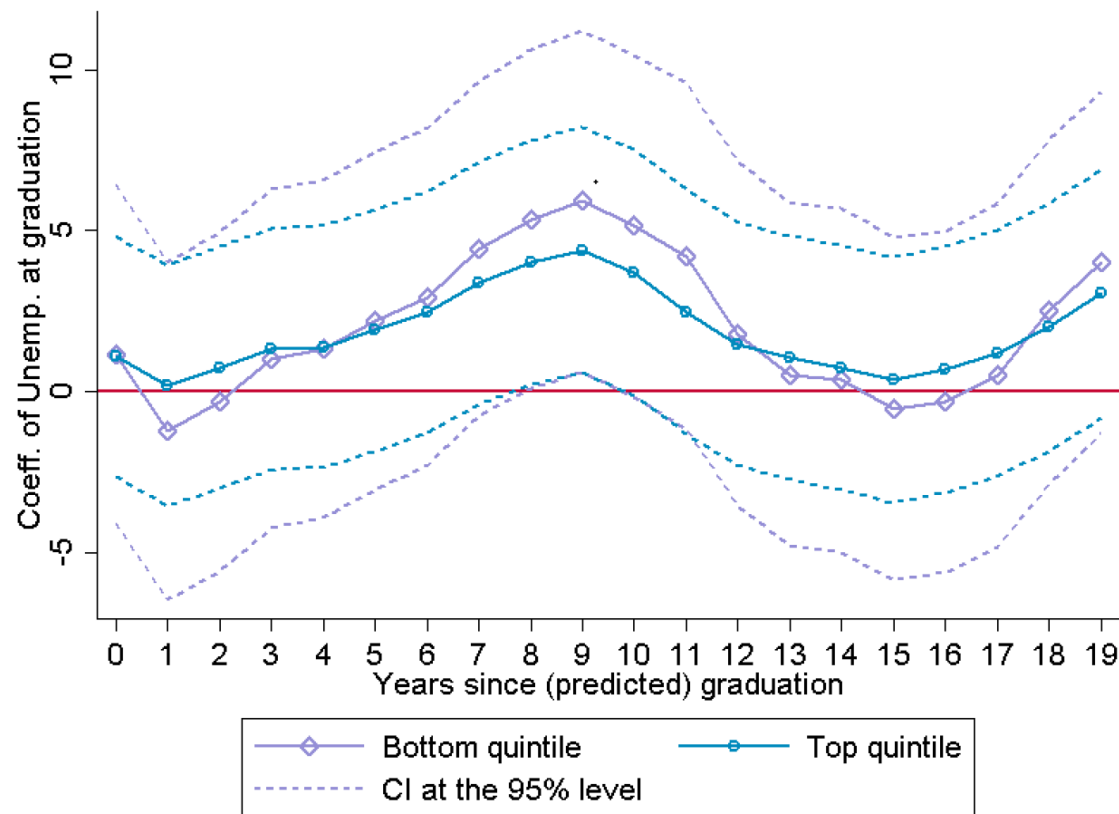
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  - Schwant and von Wachter (2020), 1980s recession in the US
- Again, Engdahl et al (2020) – some indications of adverse health. Earlier partnership formation, more divorces and permanent increase in risk of social assistance (as single mother) for females with low grades.



# Engdahl et al (2019) for Sweden, females who entered straight into the 1990s recession use more sickness benefits later in life

(a) Annual sickness benefits (in SEK)



# In summary...

1. We are in a recession
2. The recession is hitting the youth labor market very hard
3. Most youths will manage, but some will have worse labor market outcomes for a very long time
4. Struggling youths may experience adverse health effects for decade
  - Most consistent results related to drugs and mental health
5. Effects will be more adverse, the longer the crisis continue





How can we help the young?



# How can we help the young?

(see Skans, Eriksson and Hensvik (2017), Skans (2020)  
and Skans (2015))

- Better labor market outcomes → better health.... (?)
- Immediate help vs. structural reforms
  - Promote and facilitate meaningful activity (LM-oriented education)
  - Carrot-and-stick active labor market policies (benefits and activity requirements)
  - Fast economic rebound (preserving jobs and firms)
    - Dynamic service sectors may bounce back fast....
- Crucial transitions
  - Through school (grade thresholds)
  - Into disability insurance schemes (almost absorbing state)
  - From school-to-work (contacts, vocational content..)



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