

## 4.2 UNEMPLOYMENT AMONG LABOUR MARKET ENTRANTS

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If a young person does not find a (suitable) job for a lengthy period of time at the beginning of their labour market career, it can significantly impact their further progress. This is due to the fact that a) their human capital is not developing – precisely at the time when their peers are learning the basics of the profession in practice, or that b) in the eyes of the employers their unemployment (or the fact that they began working in a job for which they were overqualified) is a negative sign. This issue has not been studied by many researchers in Hungary – mainly because individual-level longitudinal data was not available –, except in the case of young graduates (see, for example *Galasi-Varga*, 2001, *Varga*, 2013, and sub-chapter 7.3 in this *In Focus*). In this sub-chapter, we briefly present evidence on what is the labour market position five years after graduation of a young person spending a significant amount of time as a registered jobseeker (or public worker) in the two years after graduation, compared to their peers who had begun their careers “smoothly”.

During the course of our analysis, we build on the linked public administration panel database of the CERS Databank (for more details, see *Sebök*, 2019). We are examining a specific group: those young men<sup>1</sup> who finished secondary education (ISCED 3A or 3B) in 2011–2012 and did not go on to higher education.<sup>2</sup> The database not only has the advantage that we are able to observe the labour market trajectory of the youth relatively accurately, but we also have data measuring their cognitive skills,<sup>3</sup> therefore we hope that the bias stemming from unobservable characteristics is relatively small. The key information upon which we build our analysis is how many months the young persons were registered jobseekers (or public workers) in the two calendar years after finishing secondary school.

We present some background characteristics on *Table 4.2.1*: reading comprehension and mathematics test scores as well as the district unemployment rate. Based on the length of registered job-seeking or public work, we placed the young people into six groups, distinguishing those who were (also) in public works.

*Table 4.2.1* shows first and foremost that roughly 85 percent of the young people in the cohort examined were unemployed for a short period of time, while 5 percent of them were in public works in the two years after entering the labour market. Additionally, it is evident that those who were long-term unemployed had significantly lower cognitive skills.<sup>4</sup> It is also clear that the length of unemployment is strongly influenced by the local labour market: young people who experienced long-term unemployment lived in a district

1 The labour market situation of young women is not addressed in this short piece because it would require the modelling of childbearing.

2 More specifically, the sample includes those who were born between 1990 and 1994 and who had their tenth grade competency test results; and those who attended full-time education for less than one year in the two calendar years after completing secondary school.

3 Tenth grade reading and mathematics test scores were used.

4 This is particularly evident at the bottom of the skills distribution, among those young people who were long-term unemployed and in public works the rate of those with weak or very weak skills is nearly three times more than among those who were not unemployed. (Reading comprehension: 14.3 percent compared to 5.5 percent; Maths: 21 percent compared to 7.6 percent.)

where unemployment was more than one and a half times higher than among those who did not experience unemployment. Another important lesson from the table is that those who were in public works (on top of unemployment), came from a particularly disadvantaged background in every respect.<sup>5</sup>

**Table 4.2.1: Characteristics of young men by categories based on time spent as registered jobseekers or in public works in the two calendar years after graduation**

Length of time spent in registered unemployment or public works	Proportion (percent)	Reading comprehension	Mathematics	Unemployment rate
		average score		(percent)
None	59.4	1608	1664	6.69
1-6 months	25.2	1582	1639	8.24
7-12 months, no PW	5.9	1578	1632	9.03
7-12 months and PW	3.2	1561	1605	10.34
13-24 months, no PW	3.7	1556	1603	10.35
13-24 months and PW	2.6	1529	1568	11.95

Sample: those young men who finished secondary school (ISCED 3A or 3B) in 2011–2012 and did not go on to higher education.

Note: Data from the two calendar years after completing upper-secondary education, the length of registered unemployment or public works participation is summed up (and PW participation is noted separately).

Source: Own calculation based on linked public administration panel database of the CERS Databank.

5 We note that those who continue their studies two years after finishing secondary school (although they did not complete higher education until 2019) have higher cognitive skills. In this short paper we do not deal with the fact that the current state of the labour market may also affect the continuation of studies.

6 In the analysis we use the entire calendar year, therefore we consider the average daily wages as well as the proportion of time spent as overqualified within employment. It is important to emphasise that when we talk about employment, we are looking at employment (and the earnings or occupational status) on the primary labour market.

7 Here we use the same approach as Júlia Varga in subchapter 7.3. Those who worked in occupations belonging to HSCO major group 8 or 9 were classified as overqualified.

8 Regressions included tenth grade test scores (and their squares), year of birth, region of residence, and how many months the young person studied as a full-time student in the two years after graduation.

In *Table 4.2.2*, we summarised the results of multiple regression analyses in which we measured the labour market situation of the young person in the fifth calendar year after finishing secondary school, depending on the number of months spent as a registered jobseeker (or in public works).<sup>6</sup> First, we were curious about how many more months those who experienced difficulty entering the labour market spent as registered unemployed or in public works (or less time employed in the primary labour market). Second, we examined whether, if a young person was employed in the primary labour market, they received lower (daily) wages, and whether it was more likely that they were overqualified<sup>7</sup> for their job if they had been previously unemployed/in public works. The key variables were divided into the six categories in *Table 4.2.1*.<sup>8</sup>

Estimation results show that shorter unemployment (not exceeding six months) does not significantly worsen the labour market outcomes of youth. Those who had been unemployed for a longer period of time and were (also) in public works were particularly unfortunate, while the labour market outcome of those who spent the 7–12 months as registered jobseekers (but not in public works) deteriorated only slightly.

First, an individual's participation in public works clearly predicts getting "stuck" in subsequent unemployment (or further public works): the long-term unemployed who were also in public works, spent nearly three months more

in a similar status even in the fifth year after graduation. Similarly, members of this group spent about 1.3 months less on the primary labour market than those who had not been unemployed. All this suggests that in terms of employment status, those who are long-term unemployed *and* who were in public works are the worst off. If a young person was long-term unemployed but was *not* in public works or was a registered jobseeker and in public works but was able to get out of this situation *within a year* also had negative, but not so unfavourable, consequences.

**Table 4.2.2: The relationship between unemployment in the first two years of the career and the labour market outcomes in the fifth year after finishing secondary school, finished secondary school in 2011–2012**

Length of time spent in registered unemployment or public works	Registered job-seeker or public works (months)	Employed on the primary labour market (month)	Daily earnings (logarithm)	Occupation over-educated (percent)
1-6 months	0.3534*** (0.05196)	0.4214*** (0.1125)	0.003006 (0.01434)	7.0275*** (1.1160)
7-12 months, no PW	0.5386*** (0.1081)	0.2794 (0.2016)	-0.02838 (0.02500)	12.992*** (2.0245)
7-12 months and PW	2.0151*** (0.2311)	-0.5261* (0.2802)	-0.09400** (0.03794)	8.1912*** (2.6704)
13-24 months, no PW	1.3562*** (0.2010)	-0.6197** (0.2686)	-0.1067*** (0.03308)	9.2666*** (2.7348)
13-24 months and PW	2.9125*** (0.2893)	-1.3137*** (0.3183)	-0.1134*** (0.03754)	16.300*** (3.2424)
R <sup>2</sup>	0.145	0.051	0.064	0.063
N	11,147	11,147	8,904	8,904
Average of the outcome variable	0.818	7.962	8.526	30.391

Key independent variable: number of months spent as registered jobseeker or public works participant in the two calendar years following secondary school graduation. Regressions included tenth grade test scores (and their squares), year of birth, region of residence, and how many months the young person studied as a full-time student in the two years after graduation.

Source: Own calculation based on linked public administration panel database of the CERS Databank.

Second, in terms of wages and the quality of work five years after labour market entry, the ranking based on the status immediately following entering the labour market is not so clear. Members of those three groups whose employment was negatively affected by the experiences of the first two years also received around 10 percent lower daily wages. In terms of jobs, all young people who had been unemployed for a significant period of time were about 10 percentage points more likely to be forced to accept a job for which they were overqualified. Those who were both long-term unemployed and in public works were particularly disadvantaged as they were about one and a half times more likely to be overqualified than young people who were not unemployed.

Based on our research, it cannot be ruled out that long-term unemployment after entering the labour market permanently worsens the labour market opportunities of young people, especially if it is associated with public works. Further research is required in two directions. On the one hand, it is appropriate to examine which of the differences identified here may be related to weakness in terms of unobservable skills. On the other hand, it should be examined as to what factors cause the lasting negative consequences: employer preferences, erosion of knowledge, or being stuck in a particularly disadvantaged place of residence.

### References

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