



## Labor market scarring for youth in Macedonia

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### Key messages

- Work preparedness training, career guidance and employment counselling should be provided to young people as soon as they register as unemployed, as the longer young people remain unemployed, the lower their chances are of finding a job.
- Youth employment policies should particularly target low-income families and families where the parents have low education.
- Programs to prevent young people “falling” into unemployment when they finish formal education should be implemented.

### High unemployment for Macedonian youth

The Macedonian labor market faces a number of serious challenges:

- large numbers employed in the informal sector (25% of the total economy),
- high rates of inactivity among the working-age population,
- high unemployment rates (26%), and
- higher youth unemployment rates (53%).

On average, it takes young people in Macedonia six years to find a stable job after finishing school. High youth unemployment rates mean that a large proportion of the working-age population is not contributing towards the country's economic growth and development.

The labor market problems in Macedonia are notably more severe for female and youth workers.

Studies show that youth unemployment can lead to social misbehavior such as drug addiction, crime, and extremist ideologies (Raphael & Winter-Ebmer, 2001; Fougère et al., 2009).

Furthermore, **unemployment spells can reduce the future employability of the individual, known as “scarring” effects.**

The transition from mandatory education to stable employment, the “school-to-work transition”, is cited as a key factor in youth unemployment problems.



However, little is known about this transition process in developing countries, and even less in developing countries with extremely high levels of unemployment.

A team of local researchers in Macedonia set out to investigate the causes of youth unemployment spells and to analyze how unemployment spells affect future employability and wages. The team also compared scarring effects between genders to establish whether female workers, as a disadvantaged group in the labor market, face distinct scarring effects.

## Data and methodology

This study uses data on 1,044 people aged 15 to 29 from the 2012 School to Work Transition Survey, conducted by the International Labour Organization. The data includes information such as age, education, parents' education, gender, and employment experience.

Using new statistical techniques, the researchers examined the data to establish which factors play a major role in explaining the duration of unemployment spells amongst Macedonian youth. They then analyzed how the unemployment spell duration affected employment opportunities (the employment scarring effects) and wages (the wage scarring effects).

## Key findings

The results indicate that the unemployment experience of a young person and their probability of finding a job is determined by a combination of individual and socio-economic factors, and personal preferences and attitudes to work. However, it is the latter that has the most effect on the duration of unemployment spells as this relates to undertaking internships, career orientation, and the reservation wage.

Socio-economic factors were found to be of secondary importance, with the father's education level and family welfare being the most significant. This is likely to be because these factors can reflect how likely the family is able to assist the young person in finding a job.

In terms of the effect that unemployment periods have on youth, the results strongly indicate that **there are significant employment scarring effects**. The longer a young person stays unemployed, the lower their chances are of finding a job.

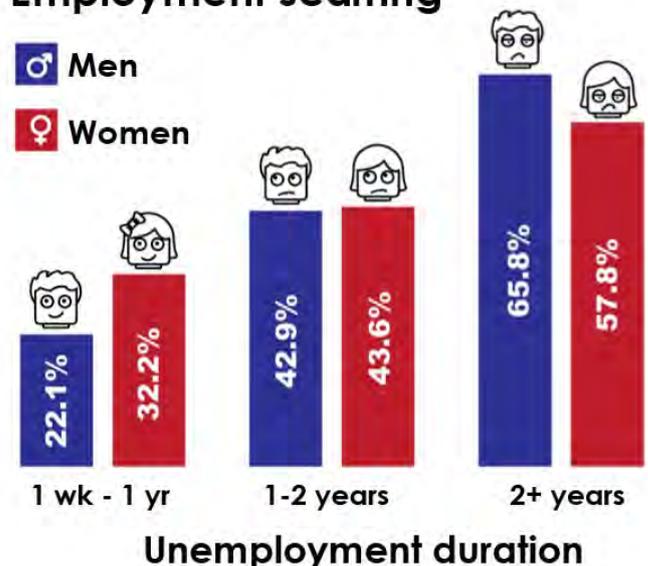
- The probability of an individual with a short-term unemployment spell (between a week and a year) finding employment is 28.4% lower than a person who was unemployed for less than a week.
- The probability of young person who is unemployed for between one and two years finding a job is 42.6% lower.
- The probability of young person who is unemployed for more than two years finding a job is 61.2% lower.

Employment scarring effects were found to be more significant for women with short to medium-term unemployment (when compared to men), whereas the scarring effects for long-term unemployment were more significant for men.

However, the results **do not suggest the existence of wage scarring effects**. This implies that, despite the difficulty in finding a job, once a young person is employed, their wages do not differ significantly due to the duration of their unemployment spell.

This may be because employers recognize the high level of unemployment in Macedonia and do not consider unemployment spells detrimental to wages. This finding concurs with previous studies that did not find evidence of wage scarring effects in regions or countries with high levels of unemployment.

### Employment scarring



## Implications for policy

The findings of this study indicate several key areas where policies can work to address the employment scarring effects of unemployment. In Macedonia, where unemployment levels – particularly among youth – are so high, alleviating the problem is important for the social and economic wellbeing of the country.

With the average time to find a stable job after finishing formal education being six years, it is vital that the government implement measures to prevent young people “falling” into unemployment after school or university. Measures could include internship programs and flexible employment programs as well as improving career services in education institutions and offering work programs for young people while they study.

To reduce long-term unemployment, all young people who are newly-registered as unemployed should receive work preparedness training, career guidance, and employment counselling to improve their ability to navigate the labor market. A “quick start” program, including services such as job search training, should be introduced and aimed at helping young people who are unemployed for over a month find their way back into the labor market.

The findings also highlight factors that affect the duration of youth unemployment spells that cannot be directly influenced by government policy, such as the family income and the father’s education level. However, these factors should be used to better target the youth employment policies to reach those most at risk of prolonged unemployment spells.



In 2012, with support of the UK Department for international Development (DfID) and the International Development Research Centre (IDRC) of Canada, PEP launched a new program to support and build capacities in “Policy Analyses on Growth and Employment” ([PAGE](#)) in developing countries.

This brief summarizes the outcomes of [PMMA-12800](#) supported under the 3<sup>rd</sup> round of the PAGE initiative (2015-2016). To find out more about the research methods and findings, read the [PEP working paper](#)