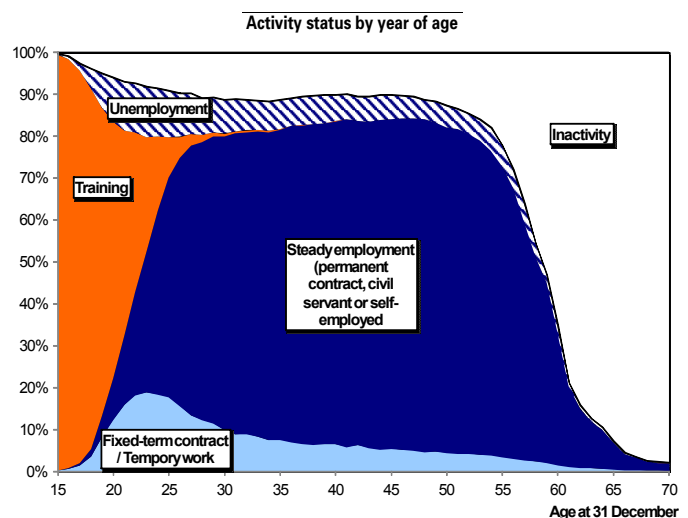


Diagnosing youth unemployment

- The recent crisis has again drawn attention to the difficulties young people face in finding work. Unemployment for the 15-24 age group was 22.8% in first quarter of 2011 (versus 8.4% for 25-49 year-olds).
- This non-prescriptive study seeks to identify the difficulties young people face when entering the labour market by analysing available indicators and school-to-work pathways.
- The unemployment rate by age group poorly reflects the specific difficulties young people face in finding work. Earlier entry into the labour market by the least-qualified young people, and above all the over-representation of workers recently arrived on the labour market, leads to higher youth unemployment, via a structure effect. Conversely, students in work, who are therefore considered to be economically active, mechanically lower the unemployment rate for their age group.
- A survey of transitions into work highlights the fact that young people experience no greater difficulty in finding work than people of median age also entering the labour market or who have become unemployed. The high rate of youth unemployment and the difficulties they encounter in finding work primarily reflect the two-tier nature of the labour market and its lack of fluidity: finding stable work is hard for people entering the labour market, whatever their age. In international comparisons, the youth unemployment rate relative to the rest of the working population in France is in line with most other European countries.
- However, young people encounter a number of specific factors in their search for work. While they find work relatively quickly by comparison with older people, they hold onto their jobs for shorter periods. Consequently, for many of them, spells of unemployment inevitably alternate with short-term contracts (see chart below). These episodes have lasting, albeit ambiguous, effects on their entry into the labour market: accepting a temporary first contract rather than staying unemployed raises a person's chances of finding steady work in the long term; conversely, a succession of short-term contracts may make it harder to find steady work.
- Some young people also encounter particular difficulties, as in the case of "drop outs" who left the school system early, or certain graduates lacking the right qualifications for work; this latter situation is more common in France than among its neighbours.
- Finally, the price for finding work is often a form of "demotion", i.e. taking jobs less qualified than those for which new labour market entrants are trained. In the short run, this crowds out the less qualified and leads to inefficient use of the labour factor. This is prejudicial to steady employment in the longer run.
- This study of school-to-work pathways could be complemented by an analysis of factors shaping demand for labour.

This study was prepared under the authority of the Directorate General of the Treasury (DG Trésor) and does not necessarily reflect the position of the Ministry for the Economy, Finance and Industry.

Sources: *Enquêtes Emploi en Continu (Continuous employment survey)*, 2003-2010 average, Insee; DG-Trésor calculations.
NB: Economically active individuals (in internships, etc.) who have not completed their initial studies are considered as in training.



1. The young are not alone in experiencing difficulty in finding work

1.1 The unemployment rate for 15-24 year-olds is not a good indicator of the difficulties they face when entering the labour market

The difficulties young people face in entering the labour market are often judged according to their unemployment rate (see box 4). Although this is structurally high, averaging 21% over the period 2003-2010 for those aged 15-24, it is a misleading indicator, since it conceals a variety of situations.

In order to analyse the real state of youth unemployment, economically active young people (i.e. in work or seeking work) need to be classified according to their initial studies and the length of time spent in the labour market. The conventional reference to an average unemployment rate conceals a range of phenomena (see chart 1), namely:

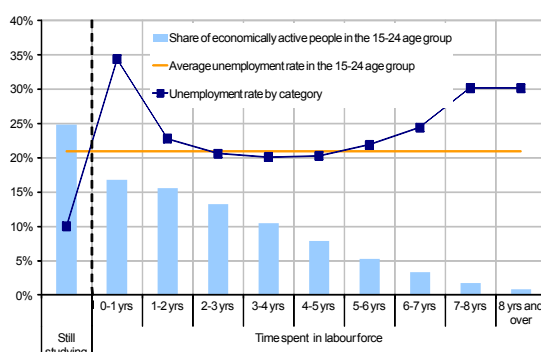
- **25% of economically active people aged 15-24 have not completed their studies, yet they are counted as economically active according to the ILO definition** (occupying or seeking an internship, student job, etc.). Yet the rate of unemployment for this category is lower (10%), dragging down the overall average figure and therefore liable to skew the analysis (the unemployment rate for 15-24 year-olds reporting that they have completed their initial studies is 24.6% for the same period). Consequently, the expansion of internships and apprenticeship schemes mechanically reduces the youth unemployment rate.
- **What is more, young people who have left the educational system prematurely, who have greater trouble finding work, are over-represented among 15-24 year-olds who have been in the labour market for longest** (these being the least-qualified, who have

"dropped out" of the school system). Indeed they exhibit a high level of unemployment. Conversely, the most qualified, who enter the labour market later on, are under-represented (see chart 2). As a result, the unemployment rate is higher for those who have been in the labour market for 6 years or more than it is for those who have been in it for between 1 and 5 years (see chart 1).

- **Finally, focusing solely on economically active people in the 15-24 age group leads to over-representation of recent arrivals on the labour market.** But these new arrivals inherently face high unemployment in the initial phases of entering the labour market (this is what is known as "frictional" unemployment, see 1.2). Consequently, the average is skewed upwards. To illustrate the point, if all young people completed their studies at 23 years of age at the end of June, began looking for work in September, then effectively entered steady work at the beginning of November, the unemployment rate for 15-24 year-olds would be 17% (4 months of unemployment versus 2 years of work), even though this scenario would appear to reflect very rapid entry into work.

In other words, the earlier entry of the least-qualified onto the labour market and the over-representation of economically active people with little seniority (recent arrivals) leads, via a structure effect, to a mechanically higher unemployment rate for young people than for the rest of the population. **By way of comparison, and no longer looking at the 15-24 age group alone, the average unemployment rate for young people in their first ten years in the labour market is 14.3%** (see chart 3).

Chart 1: Breakdown of unemployment by category of time spent in the labour force for the 15-24 age group



Sources: Continuous employment survey, 2003-2010 average, Insee; DG-Trésor calculations.

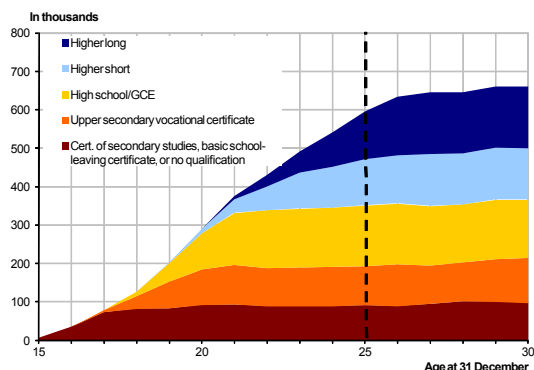
Scope: Metropolitan France, economically active 15-24 year-olds according to the ILO definition.

Time spent in work is therefore more important than age, as a distinguishing criterion.

The unemployment rate by time spent in work is measured by the length of time since the end of initial studies¹. It differs from the unemployment rate by age, which reflects the large number of new entries into the labour force among 15-24 year olds.

The unemployment rate falls significantly and rapidly with the length of time spent in the labour force (see chart 3). It is very high in the first year, then stabilises after 4-5

Chart 2: Economically active members of the population (in thousands) by level of qualification



Sources: Continuous employment survey, 2003-2010 average, Insee; DG-Trésor calculations.

years, even though after a number of years it is still slightly above the average unemployment rate for people in the 25-49 age group.

This indicator better reflects the true nature of the difficulties facing young people entering the labour force at the end of their initial studies.

These difficulties and, in consequence, the unemployment rate, vary inversely to the level of qualification (see chart 4). The latter can be viewed as an indicator of the level of

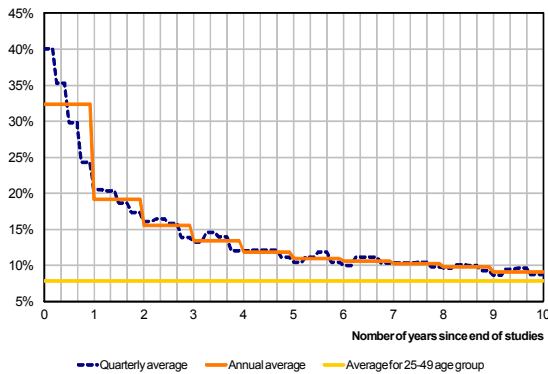
(1) Based on the Employment Survey definition, "on entend par études initiales les études effectuées en écoles supérieures, universités, lycées, collèges, centres de formation des apprentis, ou écoles primaires, sans interruption de plus d'un an" (Initial studies refers to studies conducted in higher schools, universities, lower or upper secondary schools, apprentice training centres, or primary schools, with no interruption of more than one year).

qualification of people in the labour force, even if it ignores the improvement in the level of qualification obtainable through continuing education and work experience. For example, an economically active person having completed initial training 1 to 4 years ago, and with no diploma (or with a general certificate

of secondary education), is twice as likely to be unemployed as a better-qualified working person.

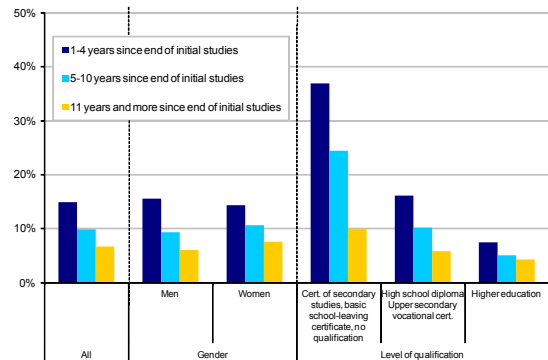
Yet the decline in unemployment with time spent in work is visible for all levels of qualification; indeed, the phenomenon is all the more clear-cut the lower the level of the diploma.

Graphique 3 : Unemployment rate by time spent in the labour market



Sources: Continuous employment survey, 2003-2010 average, Insee; DG-Trésor calculations.

Graphique 4 : Unemployment rate by category and time spent in work



Sources: Continuous employment survey, 2003-2010 average, Insee; DG-Trésor calculations.

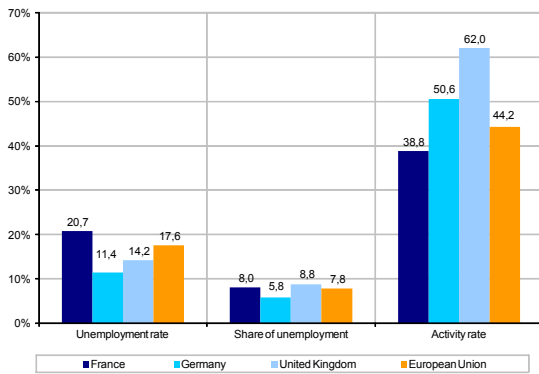
Box 1: In an international comparison, the youth unemployment rate needs to be seen in the context of the overall unemployment rate

Higher youth unemployment in France (see chart 5) needs to be qualified in the light of the fact that combining work and study is less frequent in France than in some neighbouring European countries. In 2008, 15.5% of 15-24 year olds combined work and study in France, versus 63.3% in the Netherlands, 36.8% in Germany, 31.5% in the United Kingdom, and 24.7% on average in the OECD countries^a. Yet combining work with study artificially increases the size of the working population (students), chiefly with people in work. As a result, the more frequently young people combine work with study, the lower the rate of youth unemployment will be.

When compared with the total number of economically active and inactive young people, the share of unemployed in France in this age group is in line with the European average.

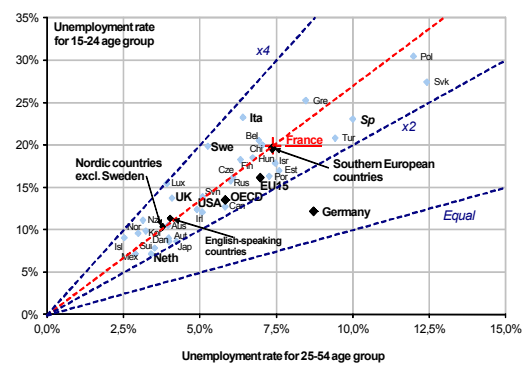
Moreover, higher unemployment among young people than among their elders is a feature common to most countries (see chart 6). Thus the ratio of respective unemployment rates is on the order of 2 ½ for France, which is just above the OECD average and in line with the northern and southern European countries. The distinguishing feature of France and the countries of southern European, where youth unemployment is concerned, ought therefore to be sought more in the direction of the workings of labour markets in general, and less in that of young people's entry into the labour force.

Graphique 5 : Labour market situation of 15-24 year olds



Source: LFS (Eurostat), 2003-2009 average.

Graphique 6 : Youth unemployment rate versus that for people at median age



Source: LFS (Eurostat), 2003-2009 average.

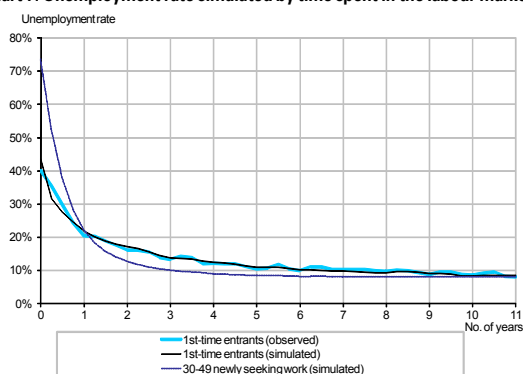
a. OECD (2010), "Off to a good start? Jobs for Youth"

1.2 As for their elders, the transition into working life for young people is a lengthy process

While the high rate of youth unemployment can notably be accounted for by young people's experience between the end of their studies and finding work, we need to distinguish between difficulties due to their age and those inherent in any search for work when examining the difficulties they encounter.

For that purpose, we can simulate a cohort arriving on the labour market and then moving between three states, namely inactive, unemployed, and in work, depending on the resulting probabilities of transition. The resulting simulated youth unemployment profile faithfully matches the observed profile (see chart 7).

Chart 7: Unemployment rate simulated by time spent in the labour market



Source: Continuous employment survey, 2003-2010 average, Insee; DG-Trésor calculations.

Interpretation: The average rate of unemployment observed in the first quarter following the end of studies is 40%. With the same probabilities of transition as median-age individuals, it would be 74%.

We then simulate the profile of the unemployment that would face these young people if they experienced the same probabilities of transition as those observed for people in the median age group (30-49). This in fact comes down to simulating a group of median-age individuals all of whom are unemployed, initially, having lost their job or returning to the labour market after a period of inactivity. This second profile essentially displays the same characteristics as the first: a cohort of young new arrivals,

like their elders newly seeking work, takes several years to stabilise in work and hence revert to a rate of unemployment close to the average for the whole population. For young people and their elders alike, the first obstacle encountered in their pathway into work consists in making the transition from a situation of non-work to one of work. This takes time in both cases, with a higher rate of unemployment in the early years, on average (14.2% for the first 10 years for people who just finished their studies, and 13.6% for their elders) than the final equilibrium level (close to 8% in both cases).

Thus the barriers to entry into the labour force appear very similar, overall: according to this simulation, on average a young first-time entrant to the labour market will have spent 9.8 months unemployed in the first 5 years on the labour market, versus 9.4 months for a person aged 30-49.

Altogether, these elements of comparison of the pathways of young people and older people for entry into work lead us in the first place to emphasise **the high level of exposure to unemployment for people entering the labour force, regardless of their age or time spent in the labour market.** Accelerating this process of entry into the labour force calls for comprehensive measures relating to the workings of the labour market in order to reduce its rigidities and its two-tier nature (see box 2).

Yet one distinctive feature remains: young people find work faster, but their stability in work is weaker.

Box 2: Young people are the first to suffer from a two-tier labour market

"Matching models"^a serve to evaluate the impact of labour market rigidities on its workings. They describe a labour market in which unemployment and unfilled vacancies co-exist, notably because information about job vacancies circulates imperfectly. In formal terms, these models transcribe the job search process using a function linking the probability of being hired to an indicator of labour market tension (i.e. the ratio between the number of people unemployed and the number of vacancies). Effective hiring then results from a wage negotiation between jobseeker and employer: the former considers his prospects inside the company (pay and probability of staying there) and outside of it (unemployment benefits); the second takes account of the employee's (assumed) productivity, compared to the wage received, and of the cost in case of dismissal and of leaving the job vacant.

These models are classically used in labour economics. For example, Blanchard and Landier^b looked at the question of short-term contracts, developing a model of this type to describe the damage caused by introduction of a degree of flexibility into the labour market, and in particular its impact on young people's entry into the labour market.

In their model, jobseekers are initially hired on short-term contracts, where the cost of termination is smaller, until a productivity shock occurs (as if they revealed their "true" productivity during a trial period). At that point, the employer decides whether or not to terminate the contract to hire someone else on a short-term contract or to convert the first employee's contract into an open-ended one, for which the cost of termination will be higher. This choice depends on the employee's productivity and on the difference between the different costs of termination. Thus the lower the cost of breaking a fixed-term contract, the higher the level of productivity required in order to offer the worker an open-ended contract, and hence the rate of termination also. Moreover, even if the average duration of unemployment falls, the increased turnover has an ambiguous impact on the unemployment rate. Even so, while the unemployment rate may fall in certain cases, precariousness (here defined as the share of unemployment and fixed-term contracts) will increase.

Thus, according to the authors, the introduction of short-term contracts, which cost less to break than open-ended ones, leads to high labour turnover rates for this type of contract and to more frequent transitions into and out of work. This is because employers may find it more worthwhile to break a fixed-term contract and hire someone else on the same terms than to stabilise their workers via open-ended contracts. This makes it harder for jobseekers to find a steady job, especially for first-time arrivals on the labour market. In addition, asymmetrical information between employer and applicant, which is not adequately resolved by showing a diploma, often leads the former to favour a short-term contract so as to benefit from a longer, less costly trial period.

- The seminal paper on this subject is by two Nobel laureates, D. Mortensen and C. Pissarides (1994), "Job Creation and Job Destruction in the Theory of Unemployment", *Review of Economic Studies*, 61, pp. 397-415.
- O. Blanchard, A. Landier (2002) "The Perverse Effects of Partial Labour Market Reform: Fixed-term Contracts in France", *The Economic Journal*, 112, pp. 214-244.

2. Over and beyond the question of unemployment alone, young people experience specific difficulties in moving into work

2.1 Young people experience shorter periods in work than their elders

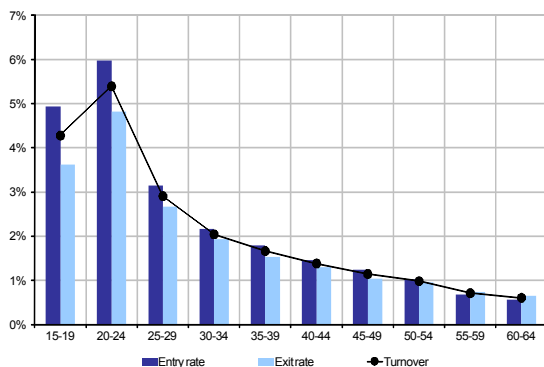
Despite encountering similar difficulties in moving from school to work to those experienced by their elders, young people find work faster, but they experience greater instability in work. Exposure to unemployment is higher for 30-49 year olds

seeking work than for young people during the first year of their entry to the labour market (see chart 7). It is lower thereafter. The simulated employment rate for 30-49 year olds remains persistently worse, this age group more frequently experiencing transitions from unemployment to inactivity than young people who have completed their initial studies.

These differences in speed of access to work and in stability in work are directly observable in rates of entry into and exit from work: they are higher for young people, and they spend less time unemployed (see chart 8). This could be explained notably by:

- over-representation of precarious contracts: in 2009, 48.8% of 15-24 year olds in work were on temporary contracts (fixed-term, temporary work, subsidised jobs or combined job/training schemes), compared with 9% among the 25-49 age group;
- less good-quality, and hence more fragile, matching than for older employees; this may be accounted for by the fact that the later target their job searches better;
- greater mobility (housing, family) among the young.

Chart 8: Quarterly rate of entry into and exit from work for people remaining active



Source: Continuous employment survey, 2003-2010 average, Insee; DG-Trésor calculations.

NB: The entry (exit) rate is equal to the ratio of the number of hirings (terminations) to the number of people in work at the start of the period. Turnover corresponds to the average for the two.

Beyond this aggregated and statistical analysis, we need to look at the dynamics of pathways into the labour market in order to understand the obstacles to finding work in greater detail.

2.2 A mapping of individual pathways underlines the wide range of obstacles to access to stable employment for young people

The Centre d'études et de recherches sur les qualifications (Céreq-Centre for studies and research on qualifications) has identified a typology of school-to-work pathways, focusing notably on speed of access to steady work (see box 3). Céreq's research represents this by tracking the structure (fixed-term employment², open-ended employment³, unemployment, inactivity, etc.) of cohorts following the different pathways over seven years.

These model pathways reveal the diversity of young people's situations regarding their access to work: while a third of them find steady work in under a year, one-sixth of them take four years or more to find steady work, and a third are still without steady work five years after entering the labour market. It is therefore necessary to look at the specific difficulties young people face in entering the labour force.

2.3 Some young people-those who are "left behind" and the "poorly integrated"-experience specific difficulties in entering the labour market

According to the OECD, the two categories of young people displaying specific difficulties are those who are "left behind" (young people who have left school with no qualification and who are neither in work nor in training), and the "poorly integrated" (often with qualifications, but with the "wrong" diplomas)⁴. These groups are relatively large in France (see chart 9).

Box 3: The Céreq Génération survey distinguishes five categories of pathway into work

The Céreq carries out longitudinal surveys to analyse the pathway on the labour market of generations of young people leaving all levels of the educational system. The "Génération 1998" survey covers a representative sample of 742,000 young people who completed their studies in 1998 and who were successively interviewed after 3, 5 and 7 years of active life. At each interview, a "career timeline" charts their situation, month-by-month.

Two thirds of the 1998 generation follow pathways (T1 to T5) leading to stabilisation in open-ended employment³ sooner or later:

- T1 (31% of the generation): rapid stabilisation (less than one year) in open-ended employment;
- T2 (22%): deferred stabilisation (2-3 years). These young people spent a year and a half in fixed-term employment² and 5 years in open-ended employment, on average.
- T3 (15%): delayed access (3 or 4 years) to open-ended employment. On average they spent 6 months unemployed, 3 years in fixed-term employment and 3 years in open-ended employment.

A third of young people follow pathways characterised by instability in work or by non-work:

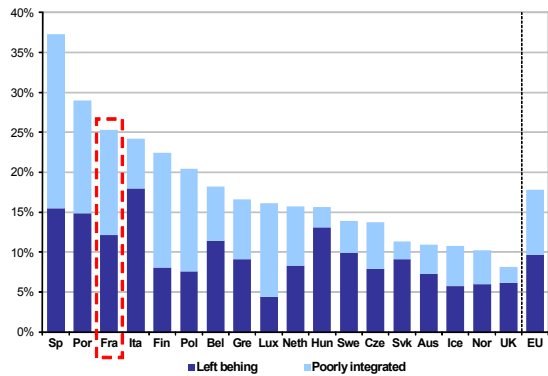
- T4 (19%): in work but unstable (open-ended employment then unemployment, or fixed-term employment)
 - early exit from open-ended employment (6%). Then, between years 5 and 6, a rise in open-ended employment and a decline in fixed-term employment and unemployment. These young people spent more than one year unemployed, on average.
 - remaining in fixed-term employment (13%). On average, they spent more than 5 years in fixed-term employment and more than 10 months unemployed.
- T5 (13%): extended non-work
 - recurring or persistent unemployment (8%). On average, they spent more than 4 years unemployed and have usually experienced three transitions between fixed-term employment and unemployment.
 - a long period of inactivity (5%). They have usually experienced more than 3 years of continuous inactivity. Progressive delayed rise in open-ended employment (at the expense of the proportions studying or inactive) after 3 years (around 30% after 7 years).

(2) Fixed-term employment (fixed-term contract or CDD, temporary work).

(3) Open-ended employment (open-ended work contract or CDI, civil servant, self-employed).

(4) This is the terminology used by the OECD. It is used here for the sake of convenience.

Chart 9: Share of "youth at risk" among young people aged 15-29 having left school

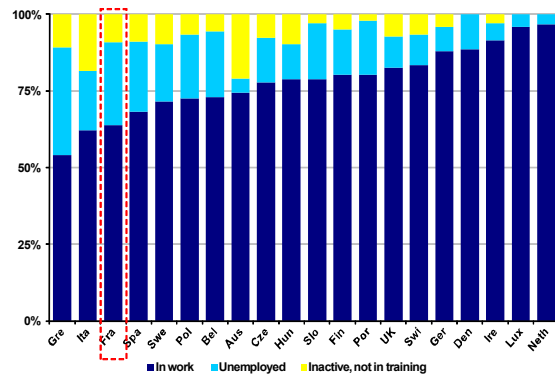


Source: OECD based on European Union survey on income and living conditions 2005-2007 (EU-SILC).

The Céreq Génération survey shows that each year in France one young person in six (roughly 125,000 youngsters) leaves school without an upper secondary diploma. **Those with no diploma experience special difficulties relative to other young people.** According to the Génération 2007 survey, the employment rate for those with no diploma 3 years after leaving initial studies was 48%, versus 70% for holders of a CAP or BEP (upper secondary vocational certificate) and 90% for those with higher diplomas (masters, grandes écoles graduates, doctorate).

According to the OECD, the share of those "left behind" in France is only slightly above the average for OECD members. On the other hand, **young graduates in France encounter greater difficulties than elsewhere, with a high proportion of "poorly integrated" young people.** According to figures published by the OECD in 2004 (see chart 10), France has the lowest rate of employment for young graduates, after Greece and on a par with Italy. This situation contrasts with Germany and the United Kingdom, where the employment rates exceed 80%.

Chart 10: Labour market status of higher education graduates 1 year after end of initial studies



Sources: OECD - 2004.

These figures are corroborated by the REFLEX survey⁵ carried out in 2005, which shows that young graduates in France experience a slightly longer period of unemployment than the Euro-

pean average and a higher than average rate of unemployment. The explanation probably lies mainly in shortcomings in the initial education and careers guidance system (not compensated for by sufficient work experience), in a mismatch with the needs of employers, and also in the general workings of a two-tier labour market.

Indeed, poorly integrated young people experience frequent transitions between fixed-term contracts, unemployment and inactivity. The OECD shows that this group is fairly commonplace in countries where "outsiders" face numerous labour market rigidities, as in Spain, France and Portugal, for example.

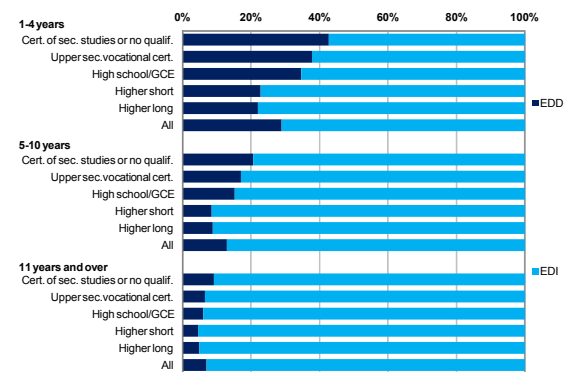
Given the special difficulties these two categories of young people face in entering the labour market, apprenticeship schemes can ease the transition between the end of initial studies and the first job. All other things being equal, apprenticeships would increase the probability of being in work 3 years on by 7 percentage points, compared with training in school⁶. Yet the benefits of apprenticeship seem to be less clear in terms of young people's pathway and job mobility, notably because they acquire fewer "transferable" skills, as compared with a more general education⁷.

2.4 As a first springboard leading to a steady job, a short-term contract could be an obstacle to stabilisation if it becomes a frequent occurrence

The high proportion of fixed-term contract jobs taken by young people raises the question as to how these jobs affect their integration into the labour market: taking temporary employment may help a young person move onto steady employment by enabling him or her to gain work experience, or by avoiding the stigma of an over-long period of unemployment; conversely, a temporary job may also act as a disincentive to seek a stable job, but it may also have a stigmatising effect.

Here again, this analysis underscores the diversity of situations. The share of fixed-term employment in total employment declines with the length of time spent in the labour market and the level of a person's diploma, especially for those with no diploma (see chart 11).

Chart 11: Employment status depending on diploma and time spent in the labour market



Sources: Insee, Continuous employment survey, 2009.

- (5) "Research into Employment and Professional Flexibility", survey of 40,000 young graduates from 15 European countries.
- (6) Abriac D., Rathelot R. and Sanchez R. (2009), "L'apprentissage, entre formation et insertion professionnelles" (Apprenticeship, between training and integration into working life", *Formations et emploi*, Insee.
- (7) Sollogoub M., Ulrich V. (1999), "Young People in Apprenticeships and at Technical Schools", *Économie et Statistique*, no. 323, March 1999.

Available studies confirm that, all other things being equal, an initial experience in fixed-term employment favours access to longer-term employment. Gagliarducci⁸ for Italian data, and Calavrezo⁹ for French data, show that taking a temporary job as one's first job in preference to remaining unemployed, on ending one's studies, is a springboard towards stable employment.

However, both studies also show that this effect goes into reverse upon taking a second fixed-term job, because a second temporary job reduces the probability of ending up in stable employment, especially if the second temporary job is for a protracted period.

So it does seem that fixed-term jobs can turn into a trap. Blasco and Givord¹⁰ examine the impact of a spell in fixed-term employment and of the duration of that spell on a young person's future integration into work. After eliminating individual characteristics, they show that:

- employees in temporary work have a greater likelihood of finding themselves without work at the end of their contract than of being hired in a stable job;
- this risk of finding themselves without work is greatest between 3 and 6 months on the labour market, but then declines distinctly thereafter.

Overall, a young person's integration into the labour market will be facilitated by accepting a short-term contract initially rather than staying unemployed, but a recurrence of one or more short-term contracts is liable to trap them in temporary work.

According to Gagliarducci, the fact of becoming trapped in fixed-term employment stems not from the temporary contract itself but from periods without work, associated with a recurrence of these contracts. That is because these periods without work may carry a stigma and impair human capital. Hence the need for support by the public employment service in order to shorten these periods as much as possible, and to use those spells of unemployment to consolidate young jobseekers' vocational qualifications.

More generally, these findings again raise questions about the intensive recourse to short-term contracts and their potentially negative impact on youth employment. In international comparisons, according to the study by Quintini and Manfredi¹¹, **European countries where temporary employment is common among young people (France, Belgium, Italy, Portugal and Spain) have a lower share of pathways in which the majority of time is spent in work, and a higher share of pathways comprising several job changes separated by long periods of unemployment.** They also find that the pathways of young people in the United States show a much shorter overall period of time unemployed than in Europe, that young people in work there change jobs more frequently, and that young people not actively employed (either unemployed or inactive) spend less time in that situation.

Differences in the way labour markets work thus appear to be one factor explaining the greater or lesser difficulties young people encounter in finding work. While the spread of short-term contracts may have partially reduced these rigidities, they have also helped give rise to a two-tier labour market, reflecting the differing degrees of protection between fixed-term and open-ended contracts. This phenomenon notably raises the question of how to strike a balance between fluid transitions and the protection of individuals.

2.5 Nevertheless, access to stable employment is not always synonymous with success, since it frequently comes at the price of "demotion"

Beyond the problem of school-to-work, and to stable work in particular, a more qualitative approach is needed, since one way of gaining access to work is through demotion relative to one's initial level of studies (see definition in box 4). For example, **even among young people who rapidly find stable work, a significant share is demoted and remains so for several years afterwards.** Lopez¹² looks at those young people in the generation of 1998 who entered a continuous employment path (60% of the generation) less than a year after ending their studies. Among these, the demotion rate (in the normative sense) for their first job was very high (41.5% on average, and over 50% even when the first job was a fixed-term contract). Moreover, despite reclassifications (i.e. obtaining a job corresponding to one's initial studies) for this cohort in the course of the period studied (1998-2001), the demotion rate nevertheless remained fairly high (35% on average for the most recent job held).

Demotion of the best-qualified graduates "crowds out" the less well qualified: Fondeur and Minni¹³ observe that, for young graduates, demotion spells the possibility of "changing queues" so as to speed their entry into the labour market. Demotion thus leads to the crowding out of the less well qualified due to a process of substitution, given the difficulties in finding work and rising numbers of graduates.

Overall, demotion leads to lower quality matching. This in itself is socially and economically inefficient, but it does lead to greater mobility. Giret et al.¹⁴ note that among young people who have been demoted (in the statistical sense) relative to their socio-occupational category, 30.3% say they are looking for another job, versus 25.4% for those who have not been demoted (figures for April 2001). The gap is wider still if demotion is considered in the light of how young people perceive it: 44.6% of young people who feel they have been demoted say they are looking for another job, versus 19.6% for the others. This "subjective demotion" leads to additional mobility in the following two years (45.7% for young people considering themselves to be demoted, versus 35.7% for the others). Consequently, the sense of demotion has a particularly pronounced impact on mobility.

(8) Gagliarducci S. (2005), "The Dynamics of Repeated Temporary Jobs", *Labour Economics*, 12(4), pp. 429-448.

(9) Calavrezo O. (2008), "The Effects of Fixed-term Employment Spells on The Integration of School-leavers on the Labor Market: Evidence from France", *International Journal for Quality Research*, vol. 1, n° 4.

(10) Blasco S. and Givord P. (2010), "Occupational Paths at the Start of a Working Career: What Is the Impact of Temporary Contracts?", *Économie et Statistique* no. 431-432, October 2010.

(11) Quintini G. and Manfredi T. (2009), "Going Separate Ways? School-to-Work Transitions in the United States and Europe", OECD Social, *Employment and Migration Working Papers*, no. 90.

(12) Lopez A. (2004), "Les modes de stabilisation en emploi en début de vie active" (Patterns of stabilisation in work at the start of working life), *Économie et Statistique*, no. 378-379.

(13) Fondeur Y. and Minni C. (2004), "Youth employment at the heart of labour market dynamics", *Économie et Statistique*, no. 378-379, July 2005.

(14) Giret J-F., Nauze-Fichet E. and Tomasini M. (2006), "Le déclassement des jeunes sur le marché du travail" (Demotion of young people in the labour market), *Données Sociales*, INSEE, 2006.

Box 4: Some definitions

- **Economically active population:** The economically active population combines the population in work and the unemployed. The employed population as defined by the International Labour Organisation (ILO) comprises all people who have worked for pay (at least one hour) in the course of a reference week. People actively seeking work and who are available for work are classified as unemployed.
- **Unemployment rate:** The unemployment rate is the proportion of unemployed persons in the economically active population (economically active population in work+unemployed) as defined by the ILO. We can calculate an unemployment rate by age by comparing the number of unemployed in a given age group with the economically active population in that age group.

Unemployment rate = Number of unemployed persons / Economically active population

- **Share of the unemployed:** The share of the unemployed is the proportion of unemployed people in the total population. This is, by construction, smaller than the unemployment rate, which measures the proportion of unemployed people in the economically active population alone.

Share of the unemployed = Number of unemployed people / Total population

- **Employment rate:** The employment rate of a group of individuals is calculated as the ratio of the number of individuals in work to the total number of individuals in the group. This may be calculated for the total population of a country, but the calculation is usually confined to the working age population (generally defined as people aged between 15 and 64, in international comparisons), or to a sub-category of the working age population (e.g. women aged 25-29).

Employment rate = Number of economically active people in work / Total population

- **Activity rate:** The activity rate is the ratio between the number of active persons (occupied labour force and the unemployed) and the corresponding total population.

Activity rate = Economically active population/ Total population

- **Demotion:** Situation in which people are over-qualified for the job they occupy. There are three possible approaches to this phenomenon:
 - the normative approach consists in analysing the content of the training considered necessary in order to occupy a given job category;
 - the statistical approach consists in defining the norm ex post, based on a statistical analysis of the most frequent situations in terms of diploma / socio-occupational category;
 - the subjective approach is based on people's perceptions of their job.

Pierre-Édouard BATARD
Emmanuel SAILLARD

Publisher:

Ministère de l'Économie,
des Finances et de l'Industrie
Direction Générale du Trésor
139, rue de Bercy
75575 Paris CEDEX 12

Publication manager:

Benoit COEURÉ

Editor in chief:

Jean-Philippe VINCENT
+33 (0)1 44 87 18 51
tresor-eco@dgtrésor.gouv.fr

English translation:

Centre de traduction des
ministères économique
et financier

Layout:

Maryse DOS SANTOS
ISSN 1777-8050

Recent Issues in English

July 2011

No. 91. How will 2010 pensions reform contribute to the sustainability of public finances after the crisis?

Thomas LELLOUCH, Marie MAGNIEN and Stéphane SORBE

No. 90. Why has investment picked up in France despite low capacity utilization rates ?

Matthieu FORESTIER

June 2011

No. 89. A prospective study of second-generation biofuels: an analysis of their economic and environmental efficiency

Alba DEPARTE, Timothée OLLIVIER

No. 88. Implicit tax rate on corporate income in France

Harry PARTOUCHE, Matthieu OLIVIER

No. 87. Emerging countries' foreign exchange reserves and accumulation strategies

Stéphane COLLIAC, Cyril REBILLARD

http://www.tresor.bercy.gouv.fr/TRESOR_ECO/tresorecouk.htm