

Literature

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Highlights 3. Extreme youth unemployment in Serbia and the EU: consequences and possible solutions

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In Serbia, the unemployment rate for young people (aged 15–24) reached 50% two years ago. Since the start of the recession, the deterioration of the circumstances on the labour market for this particular age group has also been noted in EU countries, where one out of five people under the age of 25 is unemployed, the situation being even graver in southern Europe. The graph below shows the European countries in which the situation is particularly worrying.

When economies face difficult periods, such as the current recession, young people are the first to lose their jobs, due to insufficient working experience and skills that are irreplaceable to their employers. So, for an example, in 2008, the youth unemployment rate in EU-27 was twice the unemployment rate for the whole population, as the recession affected the youth more than any other age group. Since early 2009, the gap between the youth unemployment rate and the rate for the whole population has been constantly increasing, reaching the 2,6 ratio by the end of 2012.

Substantial youth unemployment creates significant expenses on both the individual and social level. For the state, this means decreased revenues from income tax, higher budget expenditures for benefits, such as unemployment benefits, but above all, unused labour potential. So, for example, a study¹ in the UK assesses that productivity losses attributed to youth unemployment could be measured in ten million pounds on a daily level.

Studies carried out mostly in developed countries indicate that, on the individual plan, long periods of unemployment have a negative effect on the individual's future income (the so-called "wage scar"). A widely cited study in the UK² points out that young people enduring long periods of unemployment at the start of their careers, receive income decreased by 9 - 21% for as long as twenty years. For the USA, Mroz and Savage (2006)³ find that the effect of decreased income may linger for about ten years. On the other hand, the results of measuring the magnitude of the "scar" in poorer countries vary significantly from case to case. A large-scale study carried out for China, indicates that any effect of unemployment on future income for young people disappears after merely three years⁴. However, a research conducted for Argentina and Brazil⁵ shows that the effect the scar has on young people who have not only been unemployed for a long time, but have worked in the informal economy, lasts up to ten years, and is especially prominent with underqualified individuals.

Apart from being unemployed, a large number of young people is excluded from education and training programmes. It is estimated that there are nearly 8 million

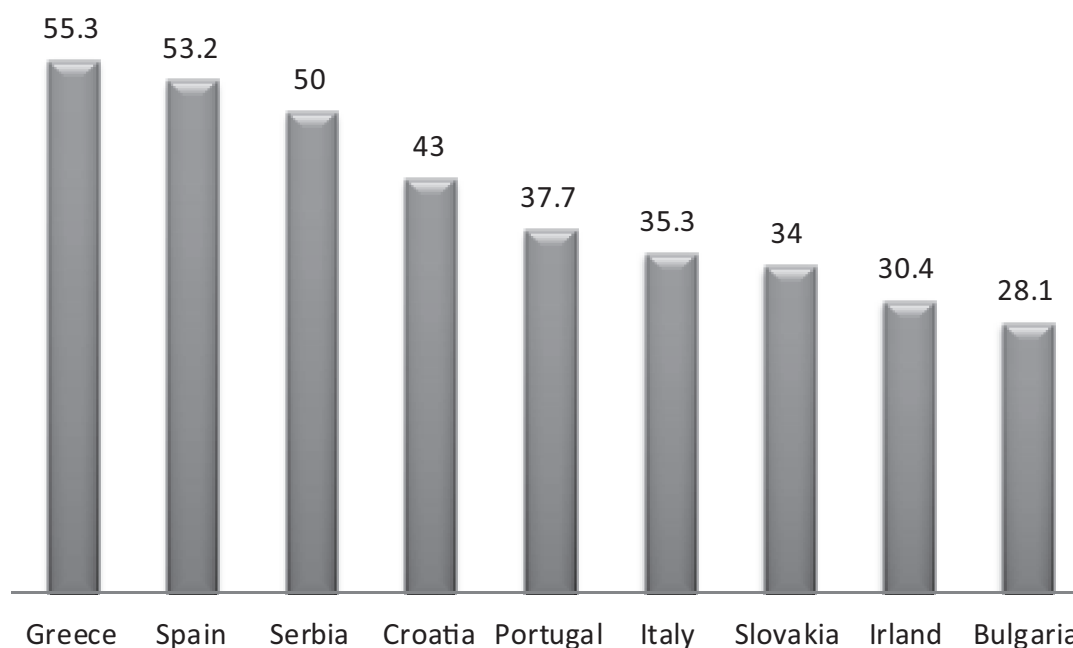
1 McNally, S. and Telha, S. *The Cost of Exclusion: Counting the cost of youth disadvantage in the UK* (2007). Centre for Economic Performance, London School of Economics, Prince's Trust, <http://www.princetrust.org.uk/PDF/Princes%20Trust%20Research%20Cost%20of%20Exclusion%20apr07.pdf>

2 Gregg, P. and Tominey, E. (2005) "The wage scar from male youth unemployment". *Labour Economics*, 12(4), pp. 487-509.

3 Mroz, T.A. and Savage, T.H. (2006). "The long-term effects of youth unemployment". *Journal of Human Resources*, 41(2), pp. 259-293.

4 Adjusting to Really Big Changes: The Labor Market in China, 1989-2009 Wei Chi, Richard B. Freeman, and Hongbin Li NBER Working Paper No. 17721, January 2012

5 Scarring effects of youth unemployment and informality Evidence from Argentina and Brazil* Guillermo Cruces, Andrés Ham, Mariana Viollaz, 2012. <http://publish.illinois.edu/andresham/files/2012/12/CRUCES-HAM-VIOLLAZ-Scarring-effects-of-youth-unemployment-and-informality.pdf>

Graph G3-2. Youth unemployment rate (age group 15-24), 2012

Source: Eurostat

young people in Europe who belong to the so-called NEET (*not in employment, education or training*) category. At the same time, 30% of unemployed people under the age of 25 have been unemployed for more than 12 months.⁶ The European Commission has, therefore, recently proposed the introduction of the Youth Employment Package, a program focusing on:

1. Easier school-to-work transition through guarantees for persons under the age of 25, enabling them to obtain new jobs, continue their education or enter internship programs 4 months upon finishing their education or losing their jobs;
2. Improving the quality and range of internship programs and training courses;
3. Providing options for young people to work and develop their skills abroad (through an exchange program similar to Erasmus)

For the Package, the European Union intends to spend 8 billion euros over the next two years, assigning the largest part to the countries most severely affected by the recession, such as the southern economies. In addition to this, the European Investment Bank should help small businesses employ and train young people.

According to the Survey on labour force issued in April 2013, there are almost 200,000 young people in Serbia pertaining to the NEET category (i.e. 25% of the total

number of young people aged 15-24). Taking into account the findings regarding the impact of long-term unemployment on the future income of young people, one is very alarmed by the fact that as many as 60% of unemployed people under the age of 25 seek jobs for more than 12 months.

In Serbia, the National Employment Action Plan (NEAP)⁷, an instrument for the operationalization of the goals set in the National Employment Strategy 2010-2020, provides a so-called package of services for young people in the current year. The package stipulates that in the first three months following a young person's application to be registered as unemployed, the National Employment Agency shall: 1) assess the person's employability; 2) establish the individual employment plan and set the most suitable measures for activating and enhancing the employability of young people; 3) offer a job or some other active employment policy measure that may assist in employment (counseling, training courses, self-employment subventions, support for the development of youth entrepreneurship and so on).

Content-wise, the youth package of services, as well as the EU youth guarantees, resemble the programs initially introduced in Scandinavian countries (1984 in Sweden, 1993 in Norway and Denmark and, finally, Finland in 1996). Due to the intense debate in European circles over the success of these programs, results of the evaluations of former measures have emerged. So,

⁶ <http://ec.europa.eu/social/main.jsp?catId=1036>

⁷ <http://www.minrzs.gov.rs/doc/zaposljavanje/NAPZ%202013.pdf>

for example, in the Eurofond's research for Sweden and Finland⁸, these programs are evaluated as positive for trying to avoid the aforementioned effect of the scar. However, the research also emphasises the fact that the guarantees are beneficial for work eligible young people who have just entered the labour market, and less beneficial for long-term unemployed individuals. Furthermore, the success of these measures also depends on other public policies (e.g. NEA infrastructure and capacities, university availability, offer of internship programs and trainings). In conditions of high youth unemployment rate, one may be tempted to reach for quick solutions that may not necessarily bring about long-term benefits for this population. For example, by way of guarantees, a young person may be offered a job, a position in the education system, or training with low expenses in a relatively short amount of time, without solving the structural problem of this target group, which is the lack of skills and qualifications. Finally, it is considered that the moment of intervention is crucial, and that the three-month period (available to the National Employment Agencies in Finland and Sweden) is too long, and that the Agencies should be obliged to aid unemployed youths upon entering the unemployment register.

Taking into account the fact that in Serbia, the youth package has only been introduced this year, it is too early to predict its effect. However, when planning the 2014 NEAP (which has not been adopted, most likely due to the Government reconstruction) these and similar evaluations should be taken into account so that the available NEA capacities may be used in the best possible manner in order to reduce the number of unemployed youths.

Apart from specific programs aimed at young people which should be developed and enhanced, it is necessary

to work on changes in the education and training systems, in order to reduce the gap between skills offered and sought on the labour market.

Since 2003, the European Union has used various projects to help the reform and modernization of the secondary vocational education system, in order to respond to future needs of the economy, the companies' needs for trained labour force, simultaneously increasing the employability of individuals with the secondary level of education. However, the quality of vocational education in Serbia is still low, as the areas are too specialized and the system generally unpopular among students. This year's cancellation of numerous classes attests to this fact.

In the domain of university education, there has been a small number of graduates in Serbia. This, however, is not due to an insufficient number of enrolled students, but because of the fact that many students quit their studies or study for too long. Undoubtedly, one of the causes of this problem is the fact that the university programs are much more shaped by the supply, rather than the demand for particular knowledge.

As assessed in the latest study on the role of labour market skills in the future economic growth of the Western Balkans⁹, in order to solve the structural problems of young people in Serbia – mainly the lack of skills and qualifications – it is necessary to finally initialize the institutional cooperation between education and employment policies. To begin with, it would be sufficient to create a body that would assemble experts in these two fields, who would then initialize a strategic debate on the reform of the education system. Until then, measures such as youth guarantees can only ease the current situation for young people, but cannot offer a long-term solution to their problems on the labour market.

8 <http://www.eurofound.europa.eu/pubdocs/2012/42/en/1/EF1242EN.pdf>

9 *Labour Market and Skills in the Western Balkans*, ed. Mihail Arandarenko and Will Bartlett, FREN and LSE Research on South Eastern Europe, 2012.