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Article

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Youth Unemployment in Albania,
Causes and Consequences

Meleq Hoxhaj[1]

Abstract: The purpose of this paper is to look into the cause, effect and solution to youth unemployment problems in Albania. The youth unemployment rate reached the highest level of 40.34% in 1993, while the lowest level was 21.44% in 2006. Data for this paper was obtained from the World Bank and, processed by the SPSS.20 program. By linear regression, we have analysed the youth unemployment relationship with some of the main economic indicators. The link between economic growth and youth unemployment is weakly negative, while the link between foreign direct investment and youth unemployment is also negative. Youth participation from the workforce is positively linked with youth unemployment. The main problem for youth unemployment in Albania is "economic growth that brings poverty", which does not bring employment and bridge the gap between the labour market and skills.

Keywords: Youth unemployment; causes of unemployment; consequences of unemployment; Albania

JEL Classification: J13; J64; J68

Introduction

I have chosen to analyse this topic because youth unemployment is one of the main problems of afflicting economies in general and the Albanian economy in particular. An unemployed youth is defined as: A person between 15 and 24 years old, who does not have a job, but is actively seeking work.[2]

Just for the period between 1995 and 1999, youth unemployment increased by 8 million[3], and currently some 70 million young people are unemployed[4]. Moreover, the unemployment rate among young people is usually two to three times higher than the rate of adult unemployment. This is largely a consequence of the difficulties encountered in switching from school to work. Youth unemployment is a genuine international problem. Over the past 25 years, youth unemployment in Albania has been at quite high levels for some reasons. Economic growth has been "growth that brings poverty", because it does not lead to increased employment as expected. Another reason for the high level of unemployment is the gap between skills and jobs.

To better understand the phenomenon of youth unemployment in Albania, we analysed the relationship of such unemployment with several key macroeconomic indicators. In empirical analysis with data from the World Bank, the factors influencing the youth unemployment rate were determined. Economic growth has a small negative effect on youth unemployment and foreign direct investment has a major

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[2] https://en.wikipedia.org/wiki/Youth_unemployment.
[3] ILO, Youth and work: global trends.
[4] ILO, Meeting the Youth Employment Challenge: A Guide for Employers.

negative impact on youth unemployment, as they are the main sources of employment. The link between young people's participation in the labour market and youth unemployment is positive, which is another reason for rising youth unemployment.

Literature Review

Many studies have been done on youth unemployment, its causes and the link with other indicators of the economy. Only in recent years, it has been understood how many problems come from youth unemployment and how much important are studies in this area. The first who understood the importance and began to study unemployment was Okun. Okun (1962) proposed that there is a reverse relationship between the level of production and the level of unemployment. Finally, this idea was accepted as the Okun law, according to which, if economic growth is above 2.25%, any increase in the level of unemployment Gross domestic product by 1%, brings down to the unemployment rate by 0.5%[1].

L.C. Thurow (Generating Inequality 1975) argues that one of the main reasons why unemployment tends to be higher among young people than among adults is related to the existence of "working queue".

Another study that analyses youth unemployment shows strong ties to economic trends, a 1% increase in unemployment leads to a 2% increase in youth unemployment. These data show that many employers see young people as more worthless, therefore, although long-term sustainable economic growth is the best way to create employment, the improvement of economic growth itself is often not enough to reduce Youth unemployment.

Another study analysed the relationship between the relative youth page and employment rates for the OECD countries in the 1990s, where it turns out that the drop in relative wage did not increase employment for this category[2]. Eichhorst et al. (2013b) show that youth unemployment rates have risen twice as much as older workers' rates for 2008 and 2011, particularly in countries where unemployment has risen sharply, high-level countries in the construction sector and countries who have implemented employment protection reforms.

There have been many other studies on youth unemployment in Albania and other countries.

The Situation in Albania

Youth unemployment in Albania has been and continues to be at high levels.

The following chart shows the youth unemployment trend in total (female and male). In 1991, youth unemployment was at 32.41%. This situation is mainly related to the changes in economic structures in the country, the transition from the closed economy to the market economy, and the mismatch between what the market demanded and what the labour market offered. In the years to come, the trend is up until 2000, the economic growth of those years has led to the decline in unemployment, but as the World Bank said at the time "Be careful because your economic growth, is impoverishing."[3] Economic growth did not create jobs, and this appeared after 2000, despite economic growth, unemployment continued to fall to 20% -30% (the lowest level was 21.44% in 2006). As noted by the chart, after 2013, youth unemployment increased, this is explained by the change of government and the fiscal changes it has

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[1] P. Makeham,Youth unemployment, Department of Employment Research Paper (London, Her Majesty's Stationery Office, 1980); and N. O'Higgins, Youth Unemployment and Employment Policy: A Global Perspective (Geneva, ILO, 2001).

[2] D.G. Blanchflower and R.B. Freeman, Growing into work, Employment Outlook (Paris, OECD, 1996).

[3] http://www.mapo.al/2014/04/nje-liber-per-dhe-kunder-papunesise-barjaba-shumica-e-forces-se-punes-jashte-tregut-te-saj/1.

undergone. The experience of these years shows that, young people are the most unprotected layer and whenever political power changes, policies are implemented that increase youth unemployment.

Source: http://data.worldbank.org/indicator/SL.UEM.1524.ZS?locations=AL
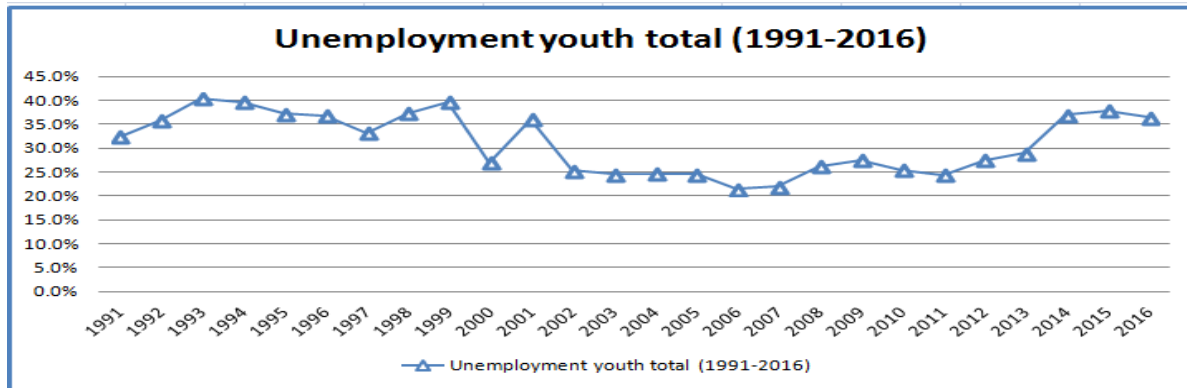
Unemployment in men is significantly higher than youth unemployment in total. Participation in male education has been low and this seems to be the main reason for this level of unemployment.

Source: http://data.worldbank.org/indicator/SL.UEM.1524.ZS?locations=AL
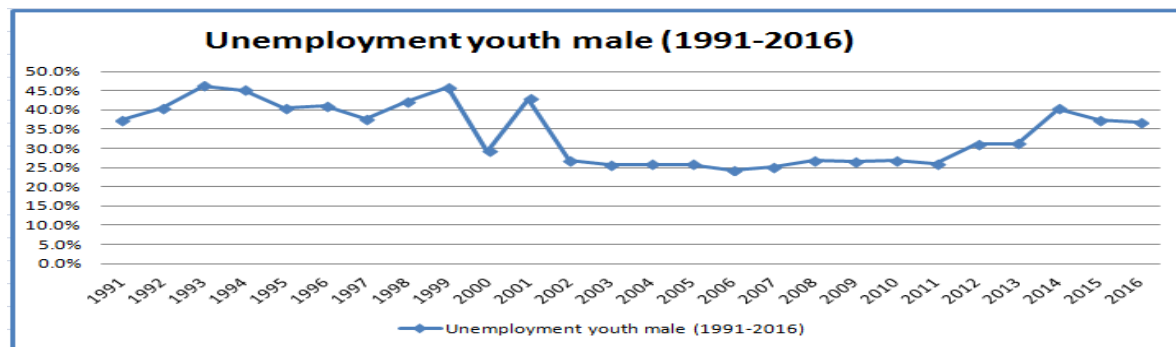
Unemployment rates for young women are smaller, women seem to be less affected by different economic and political changes.

Source: http://data.worldbank.org/indicator/SL.UEM.1524.ZS?locations=AL
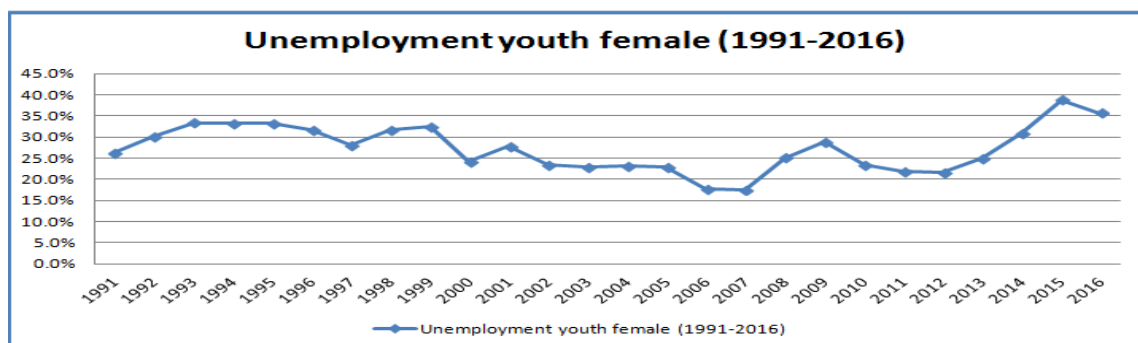
Another reason why unemployment, especially among women, is at a low level in 2010-2013, is related to the high number of private universities, many young people are enrolled in the university (they are

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no longer called unemployed), but the closure of these universities in 2014, caused these young people to be unemployed (they were out of stock in the job market).[1]

Characteristics of Youth Unemployment in Albania

Young people often change status from jobless and vice versa, they start their career mainly in low-skilled jobs that often do not have to deal with their diplomas. The labour market for young people in Albania can be defined as "flexible" and "sequential":

A) Flexible because it provides a legal context that allows companies to have a low cost of dismissal, i.e. allows enterprises to hire and get rid of work more easily. This fact allows young people to be employed relatively quickly and develop skills while in work, even if the job position is not directly related to the level and specialization of diplomas and qualifications;

B) The sequential education system has a mission to provide general education, whereas work experience should be done mainly after school. The very low involvement of employers in the education of Albanian youth supports this hypothesis.

An example is the increase in the number of university graduates who accepting jobs requiring only secondary education. This phenomenon is best illustrated by the high number of young people educated in universities working in the call center (explained by the exponential growth of this sector). Data from our study and other studies shows that the most effective way to find work for young people is the use of non-formal networks, mainly the family and the society.

The transition from school to work in Albania is complex. The demand for young workers is conditioned by the industry and service sector and their modernization phase, the functioning of labour market mechanisms, and so on. The access of young people to the labour market in Albania as shown by the figures is difficult and at very low levels.

Causes of Youth Unemployment in Albania

A) The high economic growth did not contribute enough to reducing unemployment.

The phenomenon that is noticed in Albania is that even though the economic growth has been at satisfactory levels, the youth unemployment has been and continues to be high (economic growth in Albania needs over 5% to start job creation).

One of the reasons for this situation may be economic structure, as in many other countries, economic growth may have come mainly from the intensive capital sector that does not create enough jobs.[2] Another economist (Kota, 2009) argues that in Albania the economic growth link with unemployment is weak, meaning that economic growth does not lead to a reduction in unemployment. Another study argues that in Albania economic growth over the years has been inadequate to reduce unemployment.[3] The high unemployment generated by this type of economic development poses the urgent need to develop visionary employment policies to ensure an optimal balance between economic growth and output, employment growth and reduction of youth unemployment. This requires the orientation of economic development towards sectors that create more jobs, such as tourism, as well as a balanced distribution of investment and public works on the territory of the country. Another path would be the priority of vocational training as one of the most effective active measures of increasing employment.

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[1] http://archive.koha.net/?id=27&l=20708.
[2] Hasan Alp ÖZEL, PhD Funda H. SEZGİN, PhD Özgür TOPKAYA, PhD 2013.
[3] Western Balkans Labor Market Trends 2017 Report Number: 113922 April 2017.

B) The target of young people for a university degree and not for vocational education

Liberalization of the education market in Albania brought the opening of many private universities and the tendency of the government to lead young people towards the university to reduce youth unemployment in the short run (while continuing the university was not counted as unemployed) brought a trend with the increase of young people who started to attend higher education and vocational education. The limited employment market in the coming years, the increase of youth unemployment. With university degrees, unemployed and unable to work anywhere.[1]

C) Other causes

In Albania, as in many transition countries, employment has been affected by the transition of the economy and its exit from the agricultural and public sector sectors, two sectors that have been very important in terms of employment. When the economy declines, young people are the ones who lose most jobs, as they benefit less from employment if the economy starts to grow. The financial crisis of 2008, though several years later, gave effects to the Albanian economy. Choudhry et al. (2012) have found a constant impact of the financial crisis on youth unemployment.

The search for a job by young people in Albania is based on personal recognition, because the mechanisms for finding a job are small and dysfunctional.

Consequences of Youth Unemployment in Albania

The consequences of youth unemployment are numerous. There are consequences for the state, for the individual and for the society.

A) Consequences for the state

i) From the economic point of view, a high unemployment results in a decline in GDP. The greater the unemployment, the greater the gap between the current GDP and the potential GDP.

ii) The other consequence is the reduction of the purchasing power and the reduction of the tax income from the personal income tax.

iii) Another is the brain drain, because many young people have been demoted from unemployment (in 2014, a major departure is largely towards Germany for asylum).[2]

B) Consequences for Individuals

The consequences of a long disengagement of young people in the labour market may cause:

i) Unemployment causes the depopulation of human capital. During a joblessness, the degree of education gained and job skills lose their value when not used for a long time.

ii) Increased risk of being affected by poverty;

iii) An increased risk of dangerous living for unemployed youth

iiii) Moral impairment for unemployed young people

In her study of the consequences of unemployment Fajana (2000) says unemployment can lead to: loss of prestige and economic power or power, causing psychological harm as a result of social disruption

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[1]   http://www.balkaninsight.com/en/article/fabrikat-e-diplomave-kosova-dhe-shqip%C3%ABria-prodhojn%C3%AB-t%C3%AB-diplomuar-pa-perspektiv%C3%AB-11-08-2015.
[2]http://www.lapsi.al/lajme/2017/03/10/shqiptar-t-duan-t-ikin-587-000-k-rkime-n-google-p-r-azilin-n-gjermani#.WSNoL_mGPIU.

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and isolation from the world of work, loss of responsibility. There is also a considerable number of studies that prove the link between unemployed youth and crime (Fougere et al., 2009) which is costly for the individual (and society). This is also noticed in Albania where a large majority of young people involved in criminal acts are unemployed young people.

C) Consequences for society

The social costs of unemployment can be presented in several forms:

i) Many criminal acts committed by unemployed youth are a consequence for society.

ii) Reduction of dignity and poor health of unemployed.

iii) The spread of the brain, in addition to the state is also for the society, e.g. the removal of many graduates in medicine to Germany has begun to give the first signs and citizens face unskilled staff in hospitals.[1]

Empirical Analysis

Indicators that affect the youth unemployment rate.

Data

Empirical analysis is done with data from the World Bank[2].

Dependent variable is the level of unemployment, youth total (% of total labour force aged 15-24) (ILO modeled estimation).

Independent variables are: i) Foreign direct investment, net inflows (% of GDP); ii) GDP growth (% annual); iii) Rate of labour force participation for ages 15-24, total (%) (Modeled ILO estimation).

Methodology

The study was conducted with the data of a 24-year period (1992-2015), we did not accidentally record data from 1992 and onwards but because this period coincides with the change of the political and economic system in the country. For data processing, we used linear regression with confidence level of 95% in the SPSS 20.0 statistical program.

Results

YOUTH UNEMP RATE = -16.39 - 0.37 GDP GROWTH + 0.829 LABOR FPRATE – 1.31 FDI% GDP

i) The linear model with three variables is important: F = 8.146> 3, for 5% significance level.

ii) Individual connections result 2 significant and 2 insignificant:

| t 1 | = | -1.438 | < 2 | t 2 | = | 1.637 | < 2 | t 3 | = | 4.455 | > 2 | t 4 | = | 2.742 | > 2

iii) Explanation is high $R^2 = 0.738$

iiii) There is a lack of autocorrelation (Statistics Durbin Watson d = 1.712 2).

iiiii) Waste has normal distribution

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[1] https://www.reporter.al/hemoragjia-e-mjekeve-ofertat-per-pune-ne-gjermani-zbrazin-spitalet/.
[2] http://data.worldbank.org/country/albania.

iiiiii) We are in the conditions, of the lack of Multicollinearity, VIF1 = 1.028 < 5, VIF2 = 3.827 <5, VIF3 = 3.871 < 5

A) The link between economic growth and youth unemployment is negative. Growth by 1 per cent (1%) in the growth rate brings a 0.37 per cent (0.37%) decrease to the unemployment rate.

B) The link between, the young people's participation in the labour market and the youth unemployment is positive. Growth by 1 per cent (1%) in the growth rate brings growth to 0.829 per cent (0.829%) in the unemployment rate.

C) The link between foreign direct investment and youth unemployment is negative.

The 1 per cent (1%) increase in foreign direct investment to gross domestic product yields a decrease of 1.31 per cent (1.31%) in the unemployment rate.

Conclusions

Unemployment in Albania has been and is in high figures, the main cause being inadequate education for the labor market and the economy focused on intensive and non-intensive capital sectors. High youth unemployment has brought consequences for the individual, the state and the society. An opportunity to get out of this situation is professional training and education, to narrow the skill-work gap.[1]

Further research can be done on youth unemployment in Albania, particularly in employment policies for these young people and opportunities for changing the economic structure that economic growth brings job opportunities for young people.

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[1] http://www.sociale.gov.al/al/newsroom/lajme/ne-korce-ka-6500-vende-te-lira-pune-por-duhen-profesioniste&page=15.

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APPENDIX

Regression

[DataSet1] C:\Users\ADMIN\Desktop\data.sav

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	FdiPercentageOfGdp, GdpGrowth, LaborForceParticRate[b]	.	Enter

a. Dependent Variable: YouthUnepRate

b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
					Change Statistics					
1	.883[a]	.738	.572	4.59529706	.738	8.146	3	21	.001	1.712

a. Predictors: (Constant), FdiPercentageOfGdp, GdpGrowth, LaborForceParticRate

b. Dependent Variable: YouthUnepRate

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	516.055	3	172.018	8.146	.001[b]
	Residual	443.452	21	21.117		
	Total	959.506	24			

a. Dependent Variable: YouthUnepRate

b. Predictors: (Constant), FdiPercentageOfGdp, GdpGrowth, LaborForceParticRate

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	-16.390	11.400		-1.438	.165	-40.098	7.318					
	GdpGrowth	-.370	.109	-.096	1.637	.531	-.458	.297	.068	.138	.094	.973	1.028
	LaborForceParticRate	.829	.186	1.293	4.455	.000	.442	1.215	.594	.697	.661	.261	3.827
	FdiPercentageOfGdp	-1.310	.587	-.800	2.742	.012	-1.389	2.831	-.295	.513	.407	.258	3.871

a. Dependent Variable: YouthUnepRate

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Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	22.8678913	40.9316406	30.8942779	4.63705446	25
Residual	-7.74111986	9.61500072	0E-8	4.29850700	25
Std. Predicted Value	-1.731	2.165	.000	1.000	25
Std. Residual	-1.685	2.092	.000	.935	25

a. Dependent Variable: YouthUnepRate

Charts

Histogram
Dependent Variable: YouthUnepRate

Mean = 1.94E-16
Std. Dev. = 0.935
N = 25