YOUTH IN THE CRISIS

WHAT WENT WRONG?

european youth forum

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INTRODUCTION

While discussions are ongoing about the different paths towards recovery from the global financial crisis, everyone agrees that figures on unemployment and specifically youth unemployment are still alarming. Even though we may have started a slow recovery process, recent projections point to either no change or to further increases in unemployment through to the end of 2015 in several European countries.[1] Clearly, 'the global recovery in the past 4 years has been muted and uneven'.[2] As a result, as of July 2014, the EU unemployment rate was still at a high of 10.2% and the youth unemployment rate at 22%[3]. It is clear that six years on from the onset of the economic crisis, 'both labour market and broader social conditions remain highly challenging, and the inclusive character of the possible recovery is uncertain'[4].

For young people the situation throughout the crisis and now has been typically worse than that of the adult working population. Between 2007 and 2013, youth unemployment rates at least doubled in 12 European countries: Cyprus, Spain, Ireland, Greece, Latvia, Estonia, Lithuania, the Czech Republic, Bulgaria, Croatia, Italy and Slovenia.[5]

Young people were already in a difficult economic situation before the crisis. Historically, the unemployment rate for those aged 15 to 24 in advanced economies has been two to three times higher than for older age groups[6]. Youth employment has been much more sensitive to business cycles and policy-induced economic downturns than adult employment[7]. In Spain, for instance, half of young workers were on temporary contracts before the crisis and were thus the first to lose their jobs when redundancies started occurring.[8]

This publication is an analysis of the consequences on youth of the financial crisis that hit in 2008 and the resultant fiscal consolidation programmes that took hold across the majority of European countries from 2009 onwards. It will examine, based on existing academic viewpoints and research, to what extent the financial crisis and answers to it affected young people- both in terms of employment but also in terms of young peoples' wider social well-being.

Whilst politicians promised outstanding measures to tackle youth unemployment, research

1 OECD (2014), OECD Employment Outlook 2014, OECD Publishing.
2 Ibid.
3 Eurostat (June 2014), Euro area unemployment rate at 11.5%, Eurostat Press Office.
4 European Commission (2013), Employment and social developments in Europe 2013, Publications Office of the European Union, Luxembourg.
5 Eurofound (2014), Mapping youth transitions in Europe, Publications Office of the European Union, Luxembourg.
6 Morsy, H. (2012), Scarred generation, Finance & Development, Vol.49, No 1.
7 Matsumoto, Hengge and Islam (2012), 'Tackling the Youth Employment crisis: a macroeconomic perspective', ILO Employment Working Paper No. 124, ILO Publications, Geneva.
8 Morsy, H (2012), Scarred generation, Finance & Development, Vol.49, No 1.

reveals that policy answers to the financial crisis, part of fiscal consolidation programmes, negatively affected society as a whole, and young people especially. Now, in 2014, unemployment, income inequality, poverty and social exclusion are defining characteristics of Europe's society. The crisis and European responses to it have broadly contributed to this social situation.

As a result, such social issues must now be put at the heart of today's economic policy debate[9]. This publication aims at paving the way for further discussion on appropriate macroeconomic policy responses and for more coordinated and inclusive European answers to improve young people's social situation in Europe.

9 Guntram B.Wolff and Zsolt Darvas, (2014) 'Europe's social problem and its implications for economic growth', Bruegel Policy Brief 2014/03, Bruegel, Brussels.

01.

RESPONSES TO THE CRISIS: THE IMPACT ON YOUTH

01. GOVERNMENT EXPENDITURE

When it comes to government expenditure following the crisis, the sectors that experienced the biggest budget cuts were ones such as education, families, children, health and social protection. Such cuts clearly had a direct impact on many segments of society. Youth, unfortunately, was no exception.

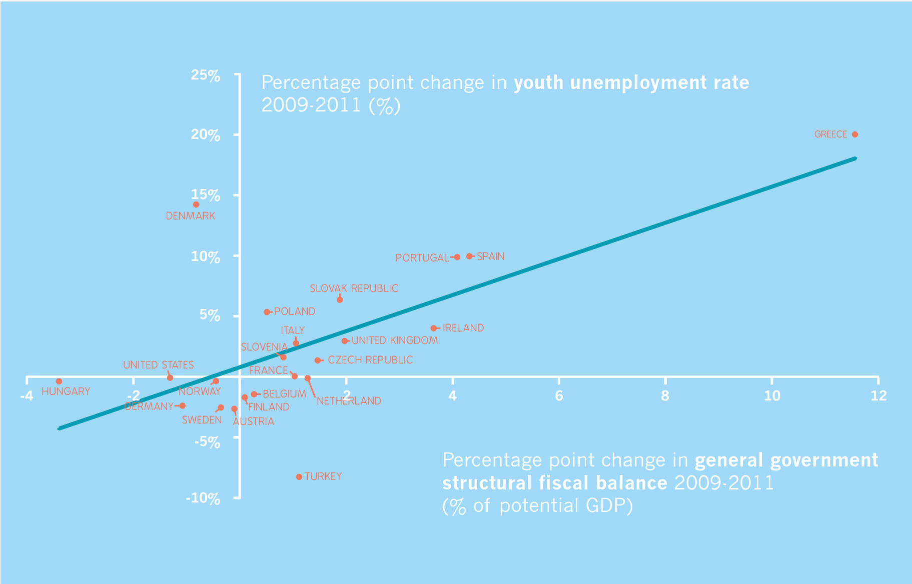
The general labour market impacts of the economic crisis are well known. Between 2008 and 2012, the youth employment rate in the EU fell by 5 percentage points, from 37.3% to 32.8%.[10] Long-term unemployment drastically increased for youth: since 2008 it has more than doubled, accounting for 7,9% of active youth at the end of 2012 (against 4,9% of adults). **In 2012, 15.9% of the youth population aged 15 – 29 were unemployed: that is 14.6 million young people not in education, employment or training.**[11]

The fiscal austerity programmes that took hold in more than 90% of advanced economies from 2009[12] have contributed consistently to these declining employment figures. Research from the International Labour Organisation shows that countries with the highest changes in structural balance in the EU have also been the ones with the highest contraction in GDP. In detail, one percentage point increase in fiscal tightening lowers GDP growth by 0.5% percentage points.[13] A paper from the International Institute for Labour Studies analyses the direct impact of fiscal consolidation on the labour market. Cuts in public spending as a share of GDP of 1.4% are projected to result in an output decline of 1.6%, corresponding to a 1.3% decrease in employment – that is, 2.84 million fewer jobs[14].

Such a correlation between fiscal consolidation and unemployment can be seen when examining statistics from the past years: **between 2009 and 2011, the countries that experienced the strongest fiscal tightening, have also experienced the highest increases in youth unemployment**, with Greece, Spain and Portugal, all of which were under economic adjustment programme measures, at the forefront of this trend (figure 1).

10 Eurofound (2014), Mapping youth transitions in Europe, Publications Office of the European Union, Luxembourg.
11 European Commission (2013), Employment and social developments in Europe 2013, Publications Office of the European Union, Luxembourg.
12 Matsumoto, Hengge and Islam (2012), 'Tackling the Youth Employment crisis: a macroeconomic perspective', ILO Employment Working Paper No. 124, ILO Publications, Geneva.
13 Ibid.
14 Torres, Kühn and Charpe (2013), Inequalities and Crisis Recovery in Reducing Inequalities: A Sustainable Development Challenge, TERI Press, New Delhi.

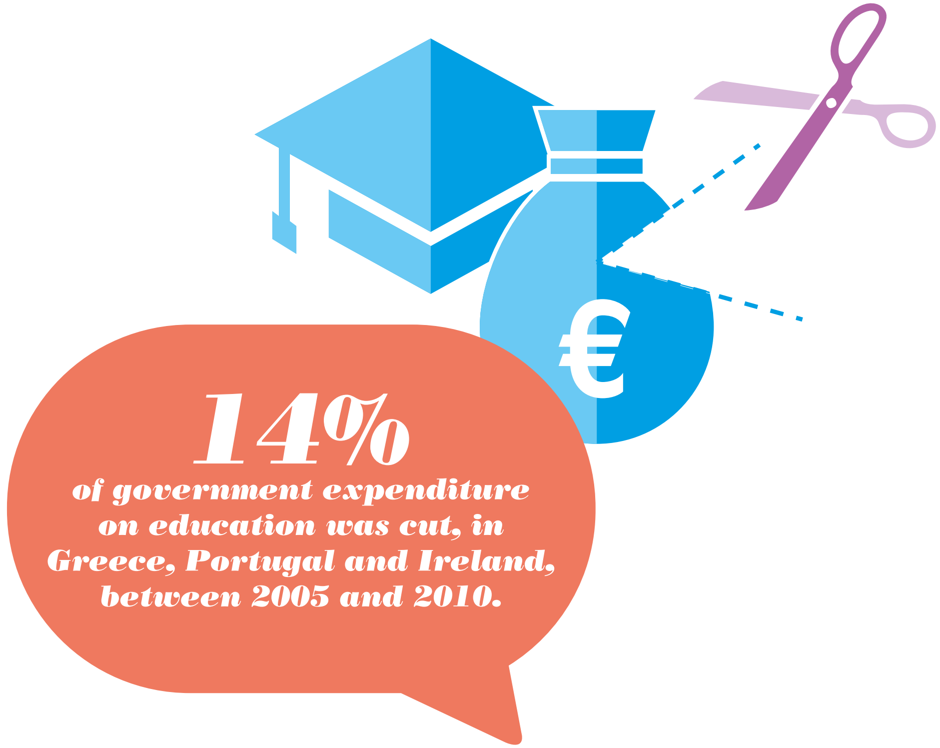
FIGURE 1: THE RELATIONSHIP BETWEEN FISCAL TIGHTENING AND YOUTH UNEMPLOYMENT BETWEEN 2009 AND 2011



(Source: Matsumoto, Hengge and Islam (2012), 'Tackling the Youth Employment crisis: a macroeconomic perspective', ILO, Employment Working Paper No. 124)

An examination of government expenditure adjustments as a result of the crisis also shows how youth were particularly hit by the impact of the crisis. Between 2009 and 2012, across the EU, spending on families and children, unemployment, education, health, sickness, and other social protection decreased across the board. Across Europe, cuts in education have been broadly undertaken. During the six-year period from 2005 to 2010, public expenditure on education as a percentage of total public expenditure decreased in around two-thirds of countries surveyed. In Greece, Portugal and Ireland, government expenditure on education was cut by 14%.[15]

15 OECD (2013), Education at a Glance 2013: OECD Indicators, OECD Publishing.



Educational experiences are a key factor in inequalities that exist in the labour market. Research shows that lower skilled workers face the most difficulty in finding a job and face lower job stability. Young low-skilled workers were the group most affected by the crisis with hiring falling by 31% between 2008 and 2013.[16] And the impact of lower education levels does not stop there: data from 15 OECD countries shows that, at age 30, people with highest levels of education can expect to live, on average six years longer than their poorly educated peers[17]. Fiscal consolidation programmes have therefore had a direct and disproportionate impact on Europe's youth in terms of both employment opportunities but also wider inclusion in society.

16 European Commission (2014), European Vacancy and Recruitment Report 2014, Publications Office of the European Union, Luxembourg.
17 OECD (2014), OECD Yearbook 2014 Resilient Economies, Inclusive Societies, OECD Publishing.

02.
EMPLOYMENT REGULATION AND SPENDING

Measures have also been taken across European countries to change employment regulation as a result of the crisis. This means minimum wages have been cut, unemployment benefits reduced, all based on the argument that this would make young people more employable. This has, however, not always been the case.

State austerity measures following the crisis have been a key driver of policy changes in the area of employment protection and regulation. Since 2007 and the beginning of the crisis, the dominant trend across Europe has been a decline in employment protection including cuts in minimum wages and in severance pay[18]. In Spain and Portugal in 2011, governments cancelled long-term agreements with trade unions for a structural increase in the minimum wage, freezing minimum wages for the first time in decades. The same occurred in Greece as a result of Troika interventions in 2012, with minimum wages reduced by a staggering 22%.

Such policies have often also been targeted specifically at youth. In Greece, whilst the general minimum wage was cut by 22%, the minimum wage for young people reduced by 32%. The UK also has a youth minimum wage, which in 2012 was frozen, whilst the minimum wage for the rest of the population increased.

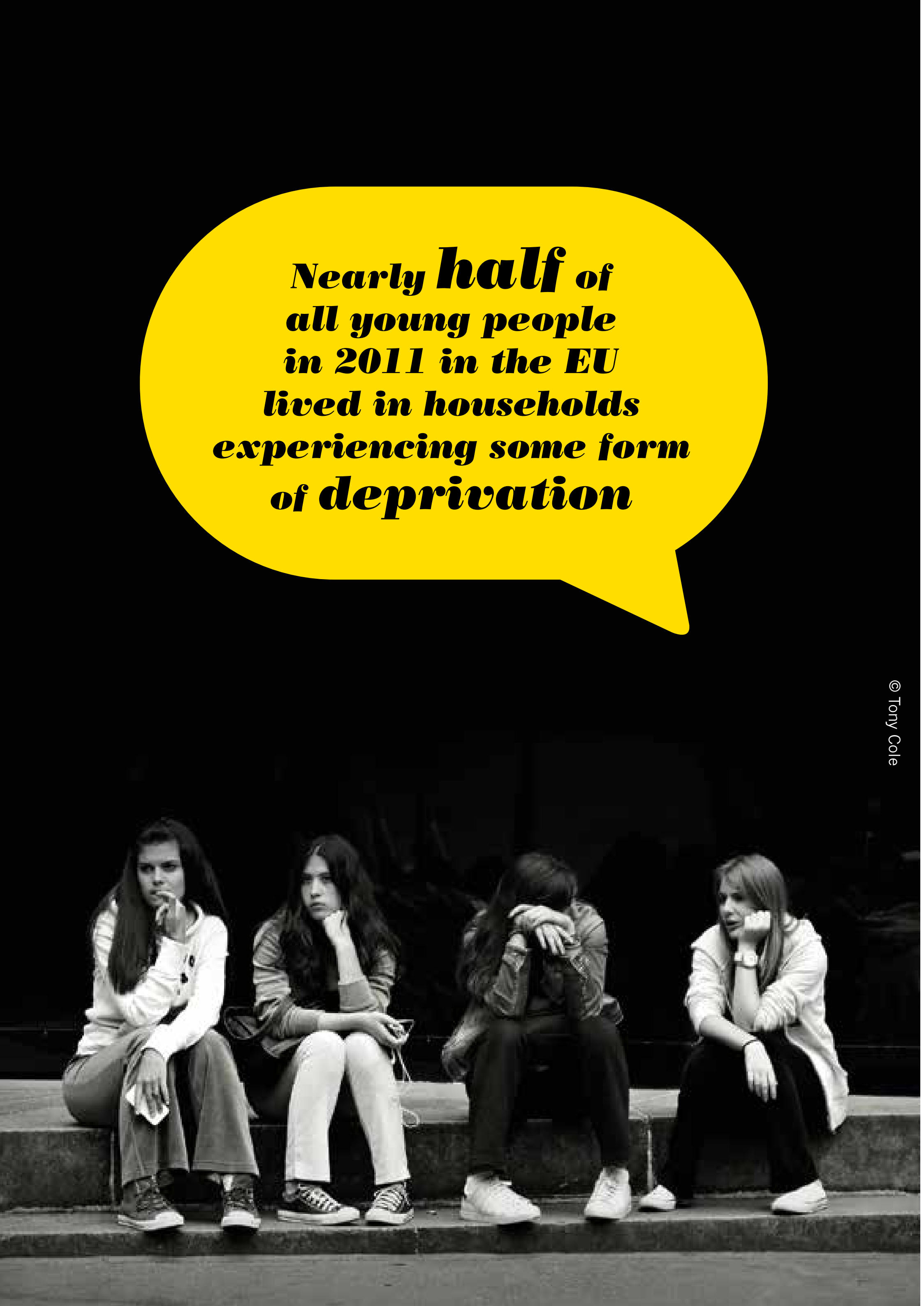
Youth targeted austerity measures on minimum wages, are theoretically based on the argument that high minimum wages and high severance pay have the effect of 'pricing out' young workers from the labour market. Lowering minimum wages for youth thus would make them more employable, lowering unemployment rates. However, this argument has proven to be lacking in empirical terms. Country level averages, as demonstrated by the ILO for the period 1980-2005, show that, both among high income and low and middle-income countries, youth unemployment rates are only minimally and insignificantly associated with the average level of minimum wages. The same can be said for severance pay: higher levels of severance pay do not seem to be associated with higher youth unemployment rates.[19]

18 Matsumoto, Hengge and Islam (2012), 'Tackling the Youth Employment crisis: a macroeconomic perspective', ILO Employment Working Paper No. 124, ILO Publications, Geneva.
19 Ibid.

In the long run, such changes in labour market regulations do not seem to have a positive impact on employment opportunities for young people.

Despite this, minimum wage cuts have gone ahead. Furthermore, **proposals to cut unemployment benefits for young people have also come into force across Europe, as one response to dealing with the levels of youth unemployment**. In Ireland, the recent Budget 2014 proposes to cut unemployment benefits of young people under the age of 25 in order to supposedly incentivise young people to work. The same has been proposed by the UK with the Conservative government stating that if re-elected they would strip school-leavers of the right to sign on to unemployment benefits with the general message to youth under the age of 25 that they need to be «earning or learning».[20] Unemployment benefits are not only key to ensuring that people who are unable to find work do not fall automatically into poverty but from a macroeconomic perspective they perform a role of automatic stabilisation, contributing to smoothing aggregate shocks.[21] Just like the correlation between lower minimum wage and lower unemployment, **this correlation between lower spending on unemployment benefits and lower youth unemployment is not empirically founded and, in fact, has high risks of pushing young people into poverty and social exclusion.**[22]

20 The Guardian, Cameron promises 'land of opportunity' where young people must 'earn or learn', 2 October 2013. http://www.theguardian.com/politics/2013/oct/02/tory-housing-benefit-under-25-david-cameron-tory-conference
21 European Commission (2012), Benchmarking Unemployment Benefit Systems, Publications Office of the European Union, Luxembourg.
22 See European Youth Forum (2012), Quality Jobs for Young People.



03. POVERTY AND INCOME INEQUALITY

One result of changes in labour market regulation as a result of the crisis is that poverty and social exclusion have become a reality for many young Europeans. This is linked to big income losses for youth, which have resulted in a strong generational divide amongst European society.

More than half of young Europeans feel that in their country young people have been marginalised and excluded from economic and social life by the crisis. In Greece, where austerity measures have been the most stringent, this figure is as high as 87%.[23] Greece, just as Ireland and Portugal, as recipients of bailouts between 2010 and 2012, had the largest decreases in social spending in the EU as a result of austerity measures imposed by the Troika. In these countries, **the austerity measures also included health system reform and expenditure cuts that have had an impact on access to social services, with a number of people denied access to social protection and health insurance coverage.**[24]

It is thus explicable that nearly half of all young people in 2011 in the EU lived in households experiencing some form of deprivation (according to Eurofound material deprivation is the inability to afford items considered essential).[25] The proportion of young people experiencing serious deprivation has increased by six percentage points since pre-crisis 2007, with the greatest increase seen in bailout countries: Spain, Cyprus, Portugal and Greece.[26]What is interesting however, is the generational divide present in this effect of the crisis. Whilst social spending was broadly cut, across Europe between 2009 and 2012, spending on housing and old age increased more than inflation.[27] As a result, social indicators for older people have shown little deterioration throughout the crisis – in fact the severe material deprivation rate for older people declined between those four years. **Youth have replaced older people as the group experiencing the greatest risk of poverty.** This is backed by research on income inequality. Estimates indicate that the increase in youth unemployment during the crisis has raised income inequality by 4 percentage points

23 European Parliament (2014). Flash Eurobarometer of the European Parliament: European Youth in 2014.
24 European Parliament (2014), Report on Employment and social aspects of the role and operations of the Troika with regard to euro area programme countries, A7-0135/2014.
25 Eurofound, (2014), Social situation of young people in Europe, Publications Office of the European Union, Luxembourg.
26 Ibid.
27 Guntram B.Wolff and Zsolt Darvas (2014), 'Europe's social problem and its implications for economic growth', Bruegel Policy Brief 2014/03, Bruegel, Brussels.

among all advanced economies- and by as much as 8 percentage points in the countries on the periphery of Europe - Greece, Ireland, Italy, Portugal, and Spain - where the youth labour market deteriorated much more than in other countries.[28] Given the weakness of the recovery in most countries, the income of the poorest 10% of the population has continued to decline, or to increase less than that of the richest 10%.[29]

Between 2007 and 2011, young people aged 18 to 25 suffered the most severe income losses. In the OECD countries the average disposable income of young people fell in real terms by 1% per year (around 11% per year in Greece, 5% in Spain, 4% in Estonia and almost 2.5% in the Netherlands); for people aged 65 and over, it increased on average.[30] Household disposable income of people aged 26 to 65 also fell in almost half of OECD countries but to a lesser extent.

Upcoming research from the ILO on youth wages shows that the crisis itself has had a specific impact on youth wages which has contributed to this rise of income inequality. The report reveals a current state of play that goes against the expected relationship between youth wages, labour supply and educational attainment: there is a "downward trend in youth wages relative to adult workers in recent years - (of the 11 OECD countries for which data are available for the trend period 1996-2006, nine register a falling relative pay level)- despite a declining youth share of the population (falling youth employment rates and rising education levels)". [31]

28 Morsy, H. (2012), Scarred generation, Finance & Development, Vol.49, No 1.
29 OECD (2014), Income Inequality Update, Rising inequality: youth and poor fall further behind, Insights from the OECD Income Distribution Database, OECD Publishing.
30 Ibid.
31 Grimshaw, D. (Forthcoming). At work but earning less: review of evidence, issues, and policy on decent pay and minimum wages for young people. International Labour Office (ILO) Working paper."

04. NON-REGULAR EMPLOYMENT

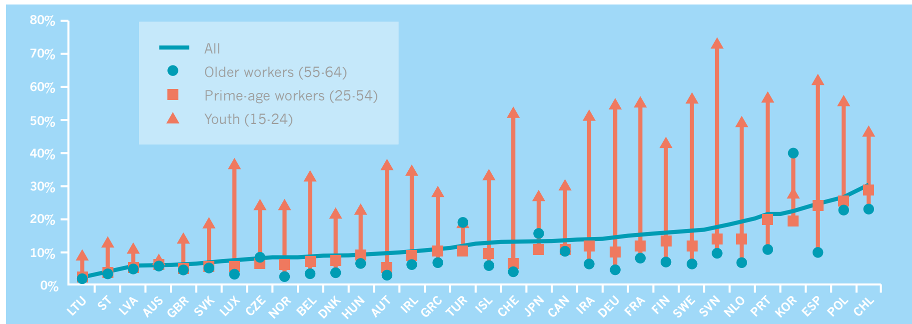
Not only has access to the labour market become more challenging for youth, but also access to regular and quality employment has decreased for young workers resulting in lower job stability and an even greater divide between young and old.

DEFINITION: Non-regular employment
Non-regular employment is those forms of employment where the employee does not benefit from the same degree of protection as permanent employees, often associated with less job security and less access to social protection. [32]

As a way to promote flexibility in the labour market, many countries over the past decade have eased regulation on non-regular contracts, whilst retaining stricter regulations of permanent contractual arrangements. This has resulted in a polarisation of the labour market, only heightened with the onset of the crisis.

Figure 2 shows the striking demographic pattern in this incidence- the disproportionate representation of young workers affected by the increase in this type of precarious employment. In ten of the countries shown below, more than 50% of young workers between 15-24 were on temporary contracts in 2011-2012. In Slovenia, this figure is as high as 73%.

FIGURE 2: TEMPORARY EMPLOYMENT BY AGE GROUP, 2011-2012



Source OECD Employment Outlook 2014

32 OECD (2014), OECD Employment Outlook 2014, OECD Publishing.

05.
DEALING WITH THE YOUTH CRISIS: THE SKILLS MISMATCH ARGUMENT

Policy measures to deal with the impact on young people of the crisis have of course been introduced throughout Europe, but a focus has been placed on the skills of youth – with policy responses centred not on demand but on the supply-side of the labour market, such as the skills of youth – often with negative consequences.

There have, of course, been many European and national policy measures targeted specifically at young people. From the European level, the Youth Guarantee has been lauded as a panacea for youth unemployment, whilst measures such as the Quality Framework for Traineeships and the European Alliance for Apprenticeships have been hailed as ways of reducing precarious work amongst young people.[33] However, policy responses have often been flawed or at least lacking. The following examination of the 'skills-mismatch argument' explains why.

The correlation between skill-level and employment opportunities is a well-established one. It has, however, fed a discourse that has greatly grown since the onset of the crisis on the topic of youth employment: namely the skills mismatch. **European policy-makers have increasingly focused on the argument that young people have difficulties in getting jobs largely due to the kind of skills that they have acquired and the current irrelevance of these skills in the labour market.**

Such a discourse has been backed by statistics that point out that despite the growing rate of youth unemployment, there are still vacancies open across Europe. In the fourth quarter of 2011, there were more than six unemployed persons for each available vacancy in Europe.[34] This situation has been brought on through a more long-term shift in the structure of labour markets, namely **the polarisation of the job market with muted growth in middle-income and middle-skilled jobs, and a corresponding increase in demand for high and low-skilled jobs, particularly since the onset of the crisis.**[35]

33 For an overview of all the European measures targeted at youth unemployment, see European Commission, (2014) MEMO/14/466 EU measures to tackle youth unemployment.
34 Cedefop (2012), Annual Report 2012, Publications Office of the European Union, Luxembourg.
35 Eurofound (2013), Eurofound Yearbook 2013 : Living and Working in Europe 2013, Publications Office of the European Union, Luxembourg.

There has, therefore, been a distinct policy move towards improving the labour market through more closely matching supply and demand. One response to this end has been the promotion of Vocational Education and Training (VET).

> **DEFINITION: Vocational Education and Training**
> **Education and training which aims to equip people with knowledge, know-how, skills and/or competences required in particular occupations or more broadly on the labour market**.

Young people can be helped in their transition from education to work through VET.[36] Statistics frequently show that the youth employment rate and proportion of students combining work and education are highly related.[37] Germany and Austria are often cited as cases of this, having displayed consistently lower youth unemployment rates than the rest of Europe since the crisis, credited largely to the fact that their VET systems are very advanced: in Austria the majority of 25-34 year olds hold a vocational upper secondary or post-secondary non-tertiary qualification.[38]

European policy-makers have, as a result, tended to focus on VET and dual-education systems as one key way through which youth unemployment can be addressed. As part of the European semester, VET reforms have been increasingly put forth in Member States' country-specific recommendations, with 12 CSR's in 2014 recommending reform in VET systems. European-wide initiatives include the EU Alliance for Apprenticeships, launched in 2013 and designed to bring together key actors in apprenticeships, and reform and promote the benefits of apprenticeship systems. Bilateral agreements have also been established between Germany and several other EU Member States to export the German dual education system to other countries. Furthermore, in more of a short-term attempt to address the skills mismatch, several European tools have been put in place to help match supply and demand. EURES, the European jobs and mobility portal allows European citizens to search all vacancies published by Member States' public employment services, and in January 2014, a proposal was made by the European Commission to improve the portal. The EU Skills Panorama is another online information tool, presenting quantitative and qualitative information on short- and medium-term skills needs, and skills supply and skills mismatches. The rationale behind such tools is to bridge the skills gap and increase employment rates, through facilitating job mobility across the EU.

Clearly, such initiatives are welcome and should of course continue, as the dual education system has positive impacts on the transition from school to work of young people. However, **there are several issues that can be identified with this European approach as a response to the crisis.** Firstly, such initiatives have not been coherent and effective. In practical terms, the European Alliance has had no concrete financial investment in order to clearly impact on national VET systems; a review of CSR's reveals that few countries have showed real progress in reforming VET systems.[39] A recent Eurobarometer on the European area of skills and qualifications, showed that only 4% of EU citizens surveyed are even aware of EURES and only 2000 or so companies across Europe using the site.[40] Furthermore, merely exporting one national system to another country is not necessarily effective – dual educational systems are rooted in certain structural and even cultural realities – in Germany for example, very strong and positive tripartite relations between social partners, public agencies and the government exist – which in some countries, particularly in Southern Europe, is the not case. Moreover, the possibility to combine work and studies has decreased itself as a consequence of the crisis: **the percentage of young people combining work and their studies in Europe went down from 22.2% in 2009 to 21.5% in 2011.** This decrease was more prominent in countries severely hit by the crisis such as Bulgaria, Greece, Ireland, Lithuania, Romania and Spain.[41]

Secondly, and more specifically, **such a supply-side focus is not enough. Research shows that, as the relationship between skills and the labour market is not independent of the business cycle, focusing only on alleviating labour supply constraints is not enough**. Whilst such efforts should of course continue developing, they should also be accompanied by measures to stimulate the demand side of the labour market. An initiative such as the Youth Guarantee has the potential to be such a measure, for example through hiring subsidies to companies. However there is not enough European direction and as yet, no consistent indicators to showcase whether demand-side measures such as hiring subsidies for companies have actually been employed by Member States implementing the scheme. Supply-side measures such as labour-matching services and skills activation investment are in themselves not enough to bring young people into the labour market. A focus on demand, as well as better coordination between supply-side and demand-side measures is necessary – and will be examined further in Section 2.

36 European Youth Forum (2010), Policy Paper on Vocational Education and Training.
37 Eurofound (2014), Mapping youth transitions in Europe, Publications Office of the European Union, Luxembourg.
38 OECD (2013) Education at a glance: Austria, OECD Publishing.

39 European Parliament (2013), Country Specific Recommendations 2012 and 2013 : comparison and overview of implementation.
40 Eurobarometer (2014), Special Eurobarometer 417 : European Area of Skills and Qualifications.
41 Eurofound (2014), Mapping youth transitions in Europe, Publications Office of the European Union, Luxembourg.

CONCLUSION

This section has argued that the responses to the crisis did not take into account the needs of young people. Decreases in employment security, reductions in youth minimum wages, cuts in education budgets and uncoordinated, ineffective European measures, as well as a focus on the skills mismatch argument have, in fact, negatively and disproportionately affected young people. **European governments and the EU as a whole must move away from only supply-side measures to deal with youth unemployment and examine further the long-term drivers of youth employment.** Better coordination of demand management at the European level is needed to create sustainable solutions for young people. The following section will examine such potential macroeconomic solutions.

02.

MOVING OUT OF THE CRISIS: MACROECONOMIC POLICIES FOR SOCIAL INCLUSION OF YOUNG PEOPLE IN SOCIETY

Section 1 has shown that the global financial and economic crisis and the fiscal consolidation programmes had dramatic consequences on youth, influenced their access to employment and their inclusion in society. Such an impact confirms the assumption that employment and social issues cannot be totally separated from macroeconomic policies. As clearly underlined during the discussions on the Post-2015 Development Agenda:

'In order to generate decent employment at the required scale, countries will have to achieve sustained and inclusive growth, which in turn critically depends on supportive macroeconomic policies.'[42]

Therefore, this second section will focus on the **long-term drivers of youth employment and on macroeconomic policy choices that can create sustainable solutions for young people**: how can we create quality jobs for young people and make sure that these measures are inclusive and sustainable?

As discussed in our first chapter, there seems to be a supply side bias in policy design that needs to be rectified.[43] In this regard, this chapter will first identify alternative demand side policy options that intend to support job creation for young people. This section will then assess which kind of environment and growth can lead to job creation and more generally young people's social inclusion and, accordingly, how European governance can help to achieve this.

42 UN (2012), System task team on the Post-2015 UN Development Agenda: Macroeconomic Stability, Inclusive Growth and Employment, United Nations.
43 Matsumoto, Hengge and Islam (2012), 'Tackling the Youth Employment crisis: a macroeconomic perspective', ILO Employment Working Paper No. 124, ILO Publications, Geneva.

01. YOUTH EMPLOYMENT: THE NEED TO SUPPORT JOB CREATION

Since the beginning of the crisis, youth unemployment has been at the core of political debates and promises, putting more and more pressure on education and training providers. However, besides supply-side measures, such as skills activation investment and labour-matching services, demand-side tools exist and have a potent influence on the employment opportunities for young women and men.

Hiring subsidies (providing employers with wage subsidies or targeted reductions in social security contributions for employers), public sector job creation and other forms of subsidised work experience are examples of active measures for labour demand support that can impact positively on labour demand.[44] Evidence from OECD countries from 2000 to 2007 show that **Labour Market Policies are efficient instruments that can be used to foster job creation for young people**: throughout this period, higher spending on Active Labour Market Policies was associated with substantially higher employment-to-population ratios for young workers. Even Passive Labour Market Policies, such as higher expenditures on out-of-work maintenance are, as seen in Section 1, not associated with lower youth employment-to-population ratio (See figures 3 and 4).[45]

44 European Commission (2014), EEPO Review – Stimulating job demand: the design of effective hiring subsidies in Europe, Publications Office of the European Union, Luxembourg.
45 Matsumoto, Hengge and Islam (2012), 'Tackling the Youth Employment crisis: a macroeconomic perspective', ILO Employment Working Paper No. 124, ILO Publications, Geneva.

FIGURE 3: SPENDING ON TOTAL ACTIVE MEASURES AND YOUTH EMPLOYMENT IN OECD COUNTRIES, 2000-2007

(Source: Matsumoto, Hengge and Islam (2012), 'Tackling the Youth Employment crisis: a macroeconomic perspective', ILO, Employment Working Paper No. 124)

FIGURE 4: SPENDING ON UNEMPLOYMENT BENEFITS AND YOUTH EMPLOYMENT IN OECD COUNTRIES, 2000-2007

(Source: Matsumoto, Hengge and Islam (2012), 'Tackling the Youth Employment crisis: a macroeconomic perspective', ILO, Employment Working Paper No. 124)

Accordingly, **Member States, when designing youth employment programmes, should treat labour market policies as part of their fiscal policy design**. This would give a comprehensive overview of the long-term fiscal requirements of youth employment programmes to ensure a coherent resource mobilisation strategy to enhance their viability.[46] In this regard, the 2012 Communication of the European Commission '*Towards a job rich recovery*' underlines that targeting vulnerable groups such as young people or the long term unemployed, via hiring subsidies can have positive effects especially where they are combined with additional efforts to help the target population.[47] 21 EU Member States taking part in the European Employment Policy Observatory Review 2014 have reported specific hiring subsidy measures for young people. The implementation of such measures would therefore imply consequent budget mobilisation.

The need for a more global implementation strategy when using active labour market policies is also confirmed by an evaluation of the use of hiring subsidies in Austria. In this Member State, accompanying support and preparation measures complementing the subsidy schemes had a key role: these measures help to prevent participants dropping out at an early stage of the subsidised employment or apprenticeship contract. Conversely, in Bulgaria, the lack of complementary services offered to programme beneficiaries were cited as leading to long periods of unemployment at the end of the programme.[48]

Undeniably, **an overall strategy to support the creation of quality and sustainable solutions for young people is needed for labour market policies to be efficient and meaningful.** This strategy should subsequently be allocated necessary resources through a coherent budget plan. However, the possibility for Member States to use efficient fiscal policy to build on efficient coherent and long-term programmes was restricted by the fiscal consolidation approach driven by European governance.

Another important element of the macroeconomic environment is the level of binding constraints on the expansion of business operations.[49] Surveys undertaken in more than 100 countries in the Global Competitiveness Report produced by the World Economic Forum in 2011 point out that access to finance is considered as one of the five 'most problematic factors in doing business' by respondents in 85 per cent of the cross country sample that cuts across high, middle and low-income countries.[50] Appropriate changes in the design of monetary and fiscal policies could help to enhance access to finance. **Facilitating access to finance for the private sector or more generally alleviating constraints on the capacity of the private sector to hire young people can encourage the creation of new jobs for young people.**

46 Matsumoto, Hengge and Islam (2012), 'Tackling the Youth Employment crisis: a macroeconomic perspective', ILO Employment Working Paper No. 124, ILO Publications, Geneva.
47 European Commission (2014), EEPO Review – Stimulating job demand: the design of effective hiring subsidies in Europe, Publications Office of the European Union, Luxembourg.
48 Ibid.
49 Matsumoto, Hengge and Islam (2012), 'Tackling the Youth Employment crisis: a macroeconomic perspective', ILO Employment Working Paper No. 124, ILO Publications, Geneva.
50 World Economic Forum (2011), The Global Competitiveness Report 2011-2012, World Economic Forum, Geneva.

02.
SUSTAINABLE AND INCLUSIVE GROWTH

Not only should labour market policies be part of the fiscal policy design but they should also be part of a coherent broader strategy towards sustainable and inclusive growth:

'Without investments that lead to expansion of existing economic activities and generation of new ones, only limited employment opportunities for new entrants can arise – mainly to replace those that have exited from the labour force for reasons such as age and health.'[51]

The measures to enhance the creation of quality jobs will be inefficient if they are counterbalanced by measures weakening public and private demand. This is unfortunately what happened in the aftermath of the crisis, as reported in July 2014 by the European Parliament: *'the combination of fiscal consolidation and restrictive wage policy in the 4 countries under the Troika programmes had depressed both public and private demand.'* [52]

At the opposite to budget restrictions that were imposed on Member States, an ambitious public investment program could have led to the expansion of existing economic activities that is mentioned above by the ILO. Germany, for instance, has been mentioned as one country being potentially able to invest in major investment programs due to very low long-term interest rates.[53] As a consequence, "Future generations will not understand why these governments did not invest in productive assets that improve their welfare, while these governments could do so at historically low financing costs."[54] An increase in EU investment projects using euro-project bonds, enabling Europeans to mutualise their public debt, and more forceful EIB lending[55] such as the programme "Skills and Jobs' of the European Investment Bank, could also be interesting options to stimulate aggregate demand in the short and long run.

51 Matsumoto, Hengge and Islam (2012), 'Tackling the Youth Employment crisis: a macroeconomic perspective', ILO Employment Working Paper No. 124, ILO Publications, Geneva.
52 European Parliament (2014), Report on the enquiry on the role and operations of the Troika with regard to the euro area programme countries, A7-0149/2014, European Parliament.
53 De Grawe, P, 'Stop Structural Reforms and start public investment in Europe', 17 September 2014, Social Europe Journal
54 Ibid.
55 Guntram B.Wolff and Zsolt Darvas, (2014) Europe's social problem and its implications for economic growth, Bruegel Policy Brief, April 2014, Bruegel, Brussels.

The "Skills and Jobs' programme has been allocated 6 billion euros to target projects in both the public and private sectors which actively promote youth employment measures. Financing of investment, working capital and youth oriented training programmes are eligible. The initiative will also foster youth employment programmes promoted by the public sector, such as investment in educational facilities, student loan schemes and young employee mobility initiatives.[56]

The European Parliament's 2014 evaluation of consolidation programmes of the Troika for Ireland, Cyprus, Greece and Portugal, recognised the lack of such a policy focus and a resultant absence of a coherent and ambitious strategy to move out of the crisis. The European Parliament notes that 'the objective of the Commission in the 4 programme countries has been fiscal consolidation' and that *'the objective of reforming both the industrial base and the institutional structures in programme countries, rendering them more sustainable and effective, has received less attention than the above-mentioned objectives.'* Later in the report, the European Parliament goes even further, suggesting that the European Commission should set up, for each programme country, a 'growth task force' consisting of experts from Member States and the European Investment Bank, representatives from the private sector and civil society, adding that the Troika recommendations for Members States should serve the objectives of the Union's Growth Strategy and the declared social cohesion and employment objectives.

To that extent, the patterns of growth are also key to understanding the challenges met by the youth labour market: **economic growth does not always translate into shared gains and into opportunities for quality jobs for young people. Growth, to create opportunities for decent jobs for young people, should be inclusive, ensuring that it reduces poverty and inequality:** *"Inclusive growth should provide broadly shared opportunities to accumulate productive assets like education, that it allows people to use these assets in growth-enhancing activities and benefit from these activities and that it provisions for those that do not benefit directly from growth"*.[57] To achieve this cyclical objectives the right policy choices have to be taken.

One such policy choice is focusing on the sustainability of growth. There seems to be considerable potential in generating decent work from 'greening' the economy[58] and sustainable growth will not be achieved without contribution from the world of work. The environmental and the social challenges should therefore be simultaneously and equally taken into account.

56 European Investment Bank Website: http://www.eib.org/projects/priorities/skills_and_jobs/index.htm
57 UN (2012), System task team on the Post-2015 UN Development Agenda: Macroeconomic Stability, Inclusive Growth and Employment, UN Publications.
58 UN (2013), A New global partnership: Eradicate poverty and transform economies through sustainable development UN HLP Report Post 2015, UN Publications.

'Worldwide, the damage to economies and society caused by environmental degradation has the potential to undo many of the gains in development and poverty reduction achieved over the past decades. Sectors that are the most threatened by climate change, such as agriculture, forestry and fisheries employ well over a billion people'.[59]

> **DEFINITION: Green economy**
> **The green economy is, practically speaking, "one whose growth in income and employment is driven by public and private investments that reduce carbon emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services."**[60]

The comparison of the Eurostat data on the environmental goods and services from 2002 and 2011 illustrates the potential of job creation of the green economy: employment in EU environmental goods and services sectors increased from 3 to 4.2 million between 2002 and 2011, including by 20% during the recession years.[61]

Accordingly, this year's Communication of the European Commission on Green Employment Initiative recalls that the Commission Employment package put forward a framework for a job rich recovery putting emphasis on the need to further develop labour market tools and identify skills needed to support the transition to a green economy and progress towards the Europe 2020 Employment objectives.[62] **Given the potential in the green economy there is a need to develop integrated policy frameworks linking green growth and decent employment. However, currently this kind of framework only exists in a small number of Member States, with the majority having a disjointed and fragmented approach.**[63]

Governments should combine measures such as market-based instruments, regulations, public investment and procurement policies to support enterprises, especially SMEs who are generally disadvantaged compared to large firms regarding access to information about green markets and new technologies, and create an environment that encourages the adoption of green workplace practices and investments in new green products and services. In particular, eco-taxes, which raise the price of energy consumption and pollution and reduce the cost of labour, coupled with clear and stable targets and timelines for greening and emission reductions, can be a powerful driver of green investment and net job creation.[64]

59 International Labour Conference (2013) Report V: Sustainable development, decent work and green jobs, International Labour Office, Geneva.
60 United Nations Environment Programme, http://www.unep.org/greeneconomy/aboutgei/whatisgei/tabid/29784/default.aspx
61 Eurostat (2014), Environmental goods and services sector.
62 European Commission (2014), Green Employment Initiative: tapping into the job creation potential of the green economy, COM(2014) 446 final.
63 European Commission (2013), Joint Employment Report, COM(2013) 801 final.
64 International Labour Conference (2013) Report V: Sustainable development, decent work and green jobs, International Labour Office, Geneva.

03.
REDISTRIBUTION SYSTEM AND SOCIAL INCLUSION OF YOUNG PEOPLE:

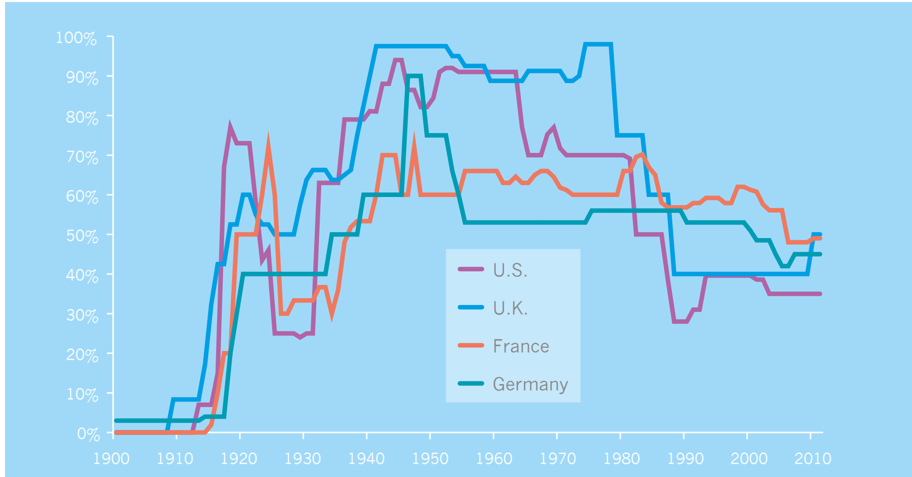
As underlined in this publication, the high youth unemployment rate is not the only consequence of the crisis on young people. The younger generation has been especially hit by the crisis and by the first measures taken at the national and European level, making their transition to adulthood longer and more challenging. The risk of poverty and social exclusion for young people between 2008 and 2012 has increased in 22 Member States[65] but at different levels. It has increased by 17 points in Ireland, and 14 points in Greece while increasing only by 2 points in Belgium and staying more or the less the same for Germany, the Netherlands, Slovakia, Poland, and Sweden. By analysing this data, one assumption is that the effects of unemployment on poverty and risk of social exclusion, and the correlated inequalities, might have been even greater without advanced economies' extensive social safety nets.[66]

The risk of poverty and social exclusion for young people between 2008 and 2012 has increased in 22 Member States

65 Eurostat (2014), Young people at risk of poverty or social exclusion by sex and by age.
66 Morsy, H. (2012). Scarred generation. Finance & Development, Vol.49, No 1.

Furthermore, the fact that different countries with technology and productivity evolutions have gone through very different patterns of income inequality (namely the US and the UK on the one hand and countries such as France and Germany on the other hand), supports the view that institutional and policy differences – especially tax policy differences – play a key role and that purely technological stories solely based upon supply and demand of skills can hardly explain such different patterns.[67] Indeed, it is noticeable that countries where top income shares have increased the most, increasing inequalities – typically the US and the UK – are also those where top marginal income tax rates were cut the most (Figure 5). Without defining what could be an optimal tax policy, it seems then necessary to try to identify the role that tax policies might play.

FIGURE 5: TOP INCOME TAX RATES BETWEEN 1910 AND 2010 IN US, UK, GERMANY AND FRANCE



Source: Piketty, Thomas and Emmanuel Saez (2012)

In the specific context of the economic crisis, it seems that tax policies had a real impact. Indeed, labour market income inequality rose by 1 percentage point or more in 20 OECD countries between 2007 and 2011, however inequality of disposable income increased by 1 percentage point or more during the same period only in a small number of countries (namely Spain, France, Sweden, the Slovak Republic and Hungary).[68] Redistribution played an important role in cushioning market income inequality, particularly in Iceland, Portugal and Belgium where inequality of market income rose while inequality of disposable income fell. Conversely, redistribution declined in a few countries, leading to a more important increase of disposable income inequality than market income inequality.

67 Piketty, Thomas and Emmanuel Saez (2012), 'Top incomes and the great recession, recent evolutions and policy implications', IMF 13th Jacques Polak Research conference.
68 OECD (2014), Income Inequality Update.

Furthermore, as discussed in section 1, not only did the crisis increase the inequalities between rich and poor but it also deepened the generational divide. Tax systems should ensure solidarity between generations and, therefore, be better targeted to the needs of the younger generation.

While analysing these effects, it is interesting to note that, generally, the increase in poverty and unemployment has been more pronounced in countries that already had higher levels of inequality pre-crisis, in particular the countries of Southern Europe and the Baltics[69]. **Therefore, one could recommend, for the countries with less efficient pre-crisis redistribution systems, a review of the tax benefit systems to improve intergenerational equity and fair burden sharing between the wealthy and the poor could have a positive impact to decrease the consequences of the crisis on young people.** To that extent, the European Parliament report on the evaluation of the Troika programmes rightly recalls *'the need for measures to safeguard tax revenues, in particular for programmes countries (...), aiming to reinforce the efficiency and effectiveness of revenue collection capacity and the fight against tax fraud and evasion'*.[70]

69 Guntram B.Wolff and Zsolt Darvas, (2014) 'Europe's social problem and its implications for economic growth', Bruegel Policy Brief, April 2014, Bruegel, Brussels.
70 European Parliament (2014), Report on the enquiry on the role and operations of the Troika with regard to the euro area programme countries – A7-0149/2014.

The consequences of the crisis have increased inequalities in such a way that the debate on inequalities and redistribution systems has been re-opened: indeed, redistribution of income is not enough to decrease inequality: *'both capital income and inherited wealth (...) are still powerful drivers of inequality - and their importance is growing (...) Capital still matters; at the very highest reaches of society, income from capital still exceeds income from wages, salaries, and bonuses'*.[71] Following this assessment, some economists, such as Thomas Piketty, highly recommend that 'governments step in now, by adopting a global tax on wealth, to prevent soaring inequality contributing to economic or political instability down the road'[72]. This controversial suggestion has the merit of suggesting an ambitious and innovative idea and of questioning our definition of an inclusive society,

Questioning the efficiency of redistribution systems is as important for young people to move out of the crisis as it is for macroeconomic stability as a whole. The interplay between inequality and macroeconomic fragility is demonstrated by a recent International Monetary Fund study, explaining that redistribution and related lower net inequality can be correlated with faster and more durable growth.[73] Conversely, countries with high inequalities are more at risk of macroeconomic fragility: income inequality increased in almost all EU countries in the pre-crisis period, from 1987-2007.[74] This paves the way for suggesting the need for better redistribution systems, which would protect the income of vulnerable groups such as young people, decreasing inequalities and the correlated risk of macroeconomic downturn.

71 Krugman P. (2014) 'Why we are in a new gilded age', The New York Review of Books, May 8, 2014
72 The Economist,'Thomas Piketty's "Capital", summarised in four paragraphs', 4 March 2014
73 Ostry, Jonathan D., Andrew Berg and Charalambos G. Tsangarides (2014) 'Redistribution, inequality and growth', Staff Discussion Note SDN/14/02, International Monetary Fund.
74 Guntram B.Wolff and Zsolt Darvas (2014), 'Europe's social problem and its implications for economic growth', Bruegel Policy Brief 2014/03, Bruegel, Brussels.

04. EUROPEAN FISCAL AND MACRO-STRUCTURAL CHALLENGES: HOW FAR DOES EUROPEAN GOVERNANCE GO?

The consequences of the fiscal consolidation programmes, as described in the first section, could in theory be offset by expansionary monetary policy and exchange rate devaluations to encourage growth that would be correlated to job creation. However, members of the Eurozone no longer have an independent exchange rate policy, nor an independent monetary policy. In fact, the EU countries facing the most severe social problems have no way to support demand with any fiscal tools, because of their weak public finance position. The Report of the European Parliament on the evaluation of the role and operations of the Troika underlines *'the fact that most traditional macroeconomic instruments such as budgetary policy or external devaluation were not available due to the constraints of monetary union and the incomplete nature of the euro area.'*[75]

At the heart of the European Union's new economic governance framework, the European Semester could give recommendations to support demand side policies and set up the framework for an efficient European strategy for inclusive growth. However, a major weakness in the 2013 Country Specific Recommendations (CSRs) is that demand management is only indirectly included in the euro-area recommendations.[76] Amongst Germany, the Netherlands, France, Italy and Spain only Germany received a suggestion that it should boost domestic demand *'sustain conditions that enable wage growth to support domestic demand.'* Furthermore, investment is not made a priority in 2013 CSRs: whereas the 2012 euro-area recommendations stated the goal of increasing public investment, the recommendation was not made in 2013 (neither in Germany's CSR). This is surprising if we take into account that the IMF July/August 2013 recommendations favoured a less austere fiscal stance for the euro area. On top of that, considering that, in 2013 the Commission identified a degree of progress in comparison with previous years in only 15% of the approximately 400 individual CSR recommendations,[77] the legitimacy and efficiency of the process of the European Semester itself can be questioned.

75 European Parliament (2014), Report on the enquiry on the role and operations of the Troika with regard to the euro area programme countries – A7-0149/2014.
76 Darvas Z. and Vihriala E, (2013) 'Does the European Semester deliver the right policy advice?' Bruegel Policy Contribution, September 2013, Bruegel, Brussels.
77 European Parliament (2014), Report on the enquiry on the role and operations of the Troika with regard to the euro area programme countries A7-0149/2014.

The European Semester also has the role to try to coordinate fiscal and economic policies of Member States to encourage demand and job creation and try to avoid asymmetric shock. In this regard, the 2014 Council recommendations for the Euro-area mention the need for better *'coordination of fiscal policies, in close cooperation with the Commission.'* There is indeed some space to use the European Semester to achieve an optimal aggregate fiscal stance for at least the Euro area[78]. However, facing the slow pace of improvement of the coordination of Euro-Member States' economic and fiscal policies, **it seems that only the establishment of a euro-area fiscal institution responsible for managing the euro-area fiscal stance (financed ideally from direct tax revenues) could achieve an adequate aggregate fiscal stance.**[79]

Another way to allow national fiscal policy to play its role of national automatic stabiliser would be to complement it with a euro-area supranational automatic stabiliser. Indeed, there is a growing consensus that such a stabiliser would smooth the cyclical situation and help fiscal policy to focus on structural balances.[80] Such a built-in incentives-based system could encourage Member States to continue to pursue sound fiscal and structural policies, linking the two objectives of asymmetric shock absorption and the promotion of sound economic policy.[81] A kind of European transfer system, such as a European unemployment benefit scheme, could therefore contribute to stabilising the euro area by synchronizing business cycles in the monetary union[82] and cushioning the consequences of an economic crisis on young people and on society as a whole.

Last but not least, **the need to reform the financial sector, which was at the root of the global economic crisis, should not be underestimated.** Indeed, to ensure long-term solutions for young people, incentives for banks to support investment in sustainable jobs of the future, not focused on short-term transactions, are necessary. There is also a prerequisite for strong financial regulations and for a European policy framework that would allow more viable and inclusive business models to flourish.

78 Guntram B.Wolff and Zsolt Darvas, (2014) Europe's social problem and its implications for economic growth, Bruegel Policy Brief, April 2014, Bruegel, Brussels.
79 Darvas Z. and Vihriala E, (2013) Does the European Semester deliver the right policy advice? Bruegel Policy Brief, September 2013, Bruegel, Brussels.
80 European Commission, (2013) Paper on Automatic Stabilisers.
81 Ibid.
82 Dullien S. and Fichtner F. A Common unemployment Insurance system for the euro area

CONCLUSION: AVOIDING A PETER PAN GENERATION

Youth is a period of transition towards work for young people but more importantly towards making their own way in life; towards becoming independent citizens integrated into society. The crisis and European responses to it have deeply and disproportionately impacted young people, affecting also this general movement into adulthood. **There is a positive association between a young person's income and the probability of leaving home in all European countries:** European countries where young people leave home quite late, such as Greece, Italy, Portugal and Spain, are often the ones with high unemployment rates, low wages and difficult housing markets.[83] This is also true for the age of becoming parents, which is notably postponed in these Mediterranean countries in comparison with the rest of Europe. In Italy, Greece and Spain, 50% of young people have children at the age of 36 or older for men and about 32 for women, when the EU average was 34 for young men and 30 for young women in 2011.[84] It is clear that the fiscal strategy developed at the European level in the context of the crisis reflected from the outset a consolidation bias[85], which, as shown in this report, has ultimately had an impact on this path into adulthood. Taking into account, of course, the existence of cultural and personal reasons for delaying the progression into adulthood, one can still remark that young people's transitions in Europe as a result of the crisis have become primarily one thing: delayed.[86]

As this report has shown, the crisis is not a simple cyclical downturn but has structural origins. The impact of the crisis can, therefore, only be effectively addressed with deep structural and institutional changes, and policies dedicated to the creation of quality jobs. In order to ensure the broader social inclusion of young people in society, **such policies should be part of a coherent macroeconomic environment aiming at the long-term objective of inclusive and sustainable growth.** The interplay between the creation of decent employment and inclusive and sustainable growth is crucial. As expressed by the UN system task team on the Post-2015 UN Development Agenda:

'Inclusive and sustainable development will depend on the integration of growth-promoting macroeconomic policies with developmental industrial policies and redistributive measures, all geared towards the creation of decent employment'.

83 Iacovou, Maria (2010), 'Leaving home: independence, togetherness and income in Europe', United Nations Expert paper 2011/10, United Nations.
84 Eurofound (2014) Mapping youth transitions in Europe, Publications Office of the European Union, Luxembourg.
85 Darvas Z. and Vihriala E (2013), Does the European Semester deliver the right policy advice? Bruegel Policy Contribution. September 2013, Bruegel, Brussels.
86 Eurofound (2014) Mapping youth transitions in Europe, Publications Office of the European Union, Luxembourg.

To that extent, research examined in this report has shown that labour market policies should be part of an ambitious fiscal policy design and investment programs in high potential sectors, such as the EU environmental goods and services sectors, which could contribute to increasing aggregate demand and create jobs. Research has also underlined that inclusive and sustainable growth would only happen with better redistribution systems, which would protect the income of vulnerable groups, such as young people, decreasing inequalities and the correlated risk of macroeconomic downturn.

Finally, European economic governance can be a promising framework with which to try to coordinate policy changes such as demand-side policies, incentives and tax policies, redistribution systems and banking regulations. However, there is a clear **need for better coordination of ambitious macroeconomic policies at the EU level and for a sound EU budget to stimulate job creation and to decrease the negative impacts of the crisis on European society.** This is all the more important from a youth perspective, in order to avoid a generation of young people with no jobs, no security and no ability to progress safely into an adult life. Europe must further investigate how to avoid creating a Peter Pan generation.

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