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# The Impact of the Financial Crisis on Employment and the Social Inclusion of Young People. What should be done?

## ABSTRACT

The 2007-2008 financial crisis has given rise to a new phenomenon on the employment market: a negative correlation between youth (the under 30's) and senior employment (over 55's). Indeed, employment statistics over the last few decades have always shown a positive correlation in the figures between all age groups; the recession has penalised all categories, both young and old. However public policy has not taken this radical change on board, since austerity measures are affecting the poorest and especially, young people. The effects of these changes are clearly visible: rising youth unemployment, together with internal and external political instability are worsening as time goes by. In Greece, Spain and also in the UK there have been riots involving both the "socially excluded" and also the "technologically integrated", brought together by relative poverty, a lack of employment or tenuous work, as well as, to quote Rodney Barker, "poor education". As a solution the author suggests a return to the basics of European integration: the internal market, the balancing of public budgets, growth via innovation and productivity and above all, an education system that is better adapted to the employment markets. Finally he proposes the introduction of a new subsidy mechanism for young entrepreneurs. The former would provide start-up capital for the age group which finds itself excluded from the capital markets, but which might be in a position to offer innovative business strategies or products. Moreover this subsidy might remove the obstacles that are preventing access to the employment market for a generation which feels excluded from society and believes itself to have either been sacrificed or lost.

Above all politicians should not bury their heads in the sand, if they do not want the unrest and the riots seen over the last few months, in Greece, Spain, Italy or the UK to spread. As Rodney Barker, a Professor of Sociology at the London School of Economics (LSE) observes "what brings these young people together is relative poverty, lack of employment or tenuous work and poor education."<sup>[2]</sup> These young people are socially excluded but technologically integrated. Weakly organised from a political point of view, young people have become the first to suffer from the cuts in public services and in contributions made to associations which facilitate their socialisation. Now austerity programmes are especially affecting the poorest and with the financial crisis, young people have become the new "lost generation" in Europe. This change is revealed by statistics, surveys

and also in the way that young people perceive the situation themselves. Before setting out a few proposals, notably a subsidy mechanism for young entrepreneurs, we should throw light on the origin of the present crisis, notably with regard to the racial change in the situation of young people between 2007-2008, that has been marked by the collapse of the employment market on both sides of the Atlantic.

## 1. THE HISTORICAL COLLAPSE OF EMPLOYMENT IN 2007-2008 ESPECIALLY PENALISES YOUNG PEOPLE

Some months after the collapse of the American bank, Lehman Brothers, the data collated by the US Statistics Labor Bureau for the fourth quarter of 2008 revealed a new phenomenon in the way the various age groups participated in

1. This article does not represent the collective position of the Committee of Regions or any other European institution and only the point of view of its author.

2. Interview with Professor Rodney Barker, *Les Echos*, 10th August 2011

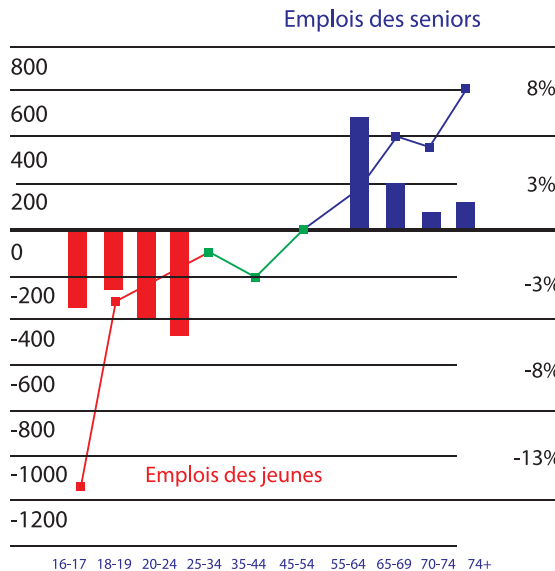
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the American employment market: there was a negative correlation between youth and senior employment. Although the long standing data on participation in the employment market, that was started in the 1960's in the US and in Europe, always showed a positive correlation between youth employment and that of the seniors – with macro-economic shocks affecting employment equally across all age groups – the data collated in 2007 and 2008 revealed a sharp deterioration in this correlation and the emergence of an unprecedented

"scissors effect". Employment of the under 30's, and that of the over 55's are not developing in a correlated, smooth manner as we have been accustomed to seeing over the last 50 years, since youth employment has literally collapsed whilst senior employment has even continued rather to rise.[3]

Between October and December 2008 and over the same period in 2007 youth employment contracted whilst senior employment increased during the same period.

Corrélation négative entre l'emploi des jeunes et celui des seniors entre 2007 et 2008



Data : U.S. Bureau of Labor Statistics.

In January 2009 a conference on the impact of the crisis on employment, organised at the European Parliament concluded that "the disruption between the employment of youth and older people suggests therefore that young people are the most vulnerable age group in the current crisis".[4] The "scissors effect" in employment across these age groups showed, particularly in countries where the employment market is flexible, that seniors enjoy a major competitive advantage over young people or over those in the first age group and they could easily integrate the labour market, even during a major economic crisis. Policies that emphasised youth employment were put forward; it was also pointed out that the vulnerable position of young people in developed and also neighbouring emerging countries could increase both internal and external political instability.

The present crisis shows that even in extremely flexible employment markets, such as in the US, flexibility does

not apply to all age groups. It seems that the employment market is now a one-way street, with the doors to a job only being open to the eldest. If young people cannot enjoy the same conditions on the employment market as the eldest workers, we must ask why this is so and what public policy can do to address this problem effectively. It seems that there are reasons directly linked to the crisis, but also long term threats that result from weaknesses in the education system and a lack of innovative policy for young entrepreneurs. The main problems are caused by events which increase transaction costs within the employment market, on a domestic, as well as a world level. We believe that a package of policy measures that is able to support youth employment should comprise the following: the further development of the European internal market, the reduction of transaction costs, innovation, greater productivity, greater mobility, the reorientation of our education systems towards the real needs of the

3. This positive correlation is shown in the study by Jonathan Gruber, Kevin Milligan and David A. Wise (dir.), "Social security programs and retirement around the world: the relationship to youth employment", National Bureau of Economic Research (NBER Working Paper 14647), January 2009

4. Cf. rapport complet sur [http://www.europeanideasnetwork.com/files/26\\_january\\_2009\\_stanicek.pdf](http://www.europeanideasnetwork.com/files/26_january_2009_stanicek.pdf)

economy and finally, greater support for young entrepreneurs. In the spring of 2008 before the collapse of Lehman Brothers, the youth unemployment rate in the euro zone lay at 15% on

average. In 2011, 20.5% of young people are looking for a job. These figures mask the differences in unemployment rates in the various countries of Europe.

**Taux de chômage des 15-24 ans dans la zone euro**  
(07/2011, en %)

Espagne	46,2
Grèce	38,5
Slovaquie	32,9
Irlande	28,3
Italie	27,6
Portugal	27,2
France	23,4
Estonie	21,8
Zone euro	20,5
Finlande	20,4
Chypre	19,6
Slovénie	18,6
Belgique	17,6
Luxembourg	13,3
Malte	12,4
Allemagne	9,5
Autriche	7,8
Pays-Bas	7,5

Data : *The European Statistics Office (Eurostat)*

**2. A RETURN TO THE BASIC PRINCIPLES UNDERLYING THE EUROPEAN UNION**

The markets need the fluid circulation of ideas, people and capital. When centrifugal forces threaten the European Monetary Union, the real long term solution and *de facto* the most pressing solution, is a return to the European Union's internal market. We must support the development of the internal market by all means possible, whether this implies legislating on the European patent, updating regulations relative to the ITC sector, regulating on financial services or bringing in new legislation that facilitates access to venture-capi-

tal everywhere in Europe, as suggested by Michel Barnier, responsible for the internal markets and services at the European Commission in the "*Act for the Single Market: twelve levers to boost growth and strengthen confidence.*" that was adopted April this year. The European Union has the answers and must not be used as a scapegoat. Corruption impedes our internal market from developing in that it increases transaction costs in areas where it is particularly prevalent, for example in the South and East of Europe, which are most affected by the financial crisis. According to a recent study by the World Bank, overall the cost of corruption represents 5% of the GDP. With corrupt economies, human

and financial resources cannot be allocated effectively. [5] Financial transfers within a country (North/South of Italy) or within the Union (centre/periphery) are not a cure-all. They are only effective if there are also structural and cultural changes, innovation policies, industrial investments and increased productivity, as was the case in the former East German Länder after reunification. Contrary to growth in Germany, that of the countries in the South of Europe has been supported by major transfers of money, which were not accompanied by an increase in productivity, because no institutional or cultural change took place. [6] The consequences are visible: many countries, close to financial bankruptcy, simply accepted European financial transfers without completing the necessary structural reforms. It seems that the main problem in the countries in the South is not related to their geographical position. Which country could be more peripheral than Finland, which lies on the borders of Russia? And yet, innovations, greater investment in a reformed education system, a balanced public budget and not subsidies have contributed towards Finland's growth.

In our opinion the future cohesion policy faces two challenges. Firstly, regional disparity is growing, both in the old Member States, as well as in the new ones, which is clearly a challenge to convergence. Secondly, we must prevent beneficiary regions from becoming dependent on aid, to ensure that we achieve sustainable and also sustained development. Finally political recommendations that

might shape the cohesion policy post 2013 should foster knowledge networks, involve universities in local development and help develop support infrastructures for entrepreneurs that foster innovation and greater productivity.

### 3. WHAT SHOULD BE DONE?

#### *Return to the wise rule "produce more than you consume"*

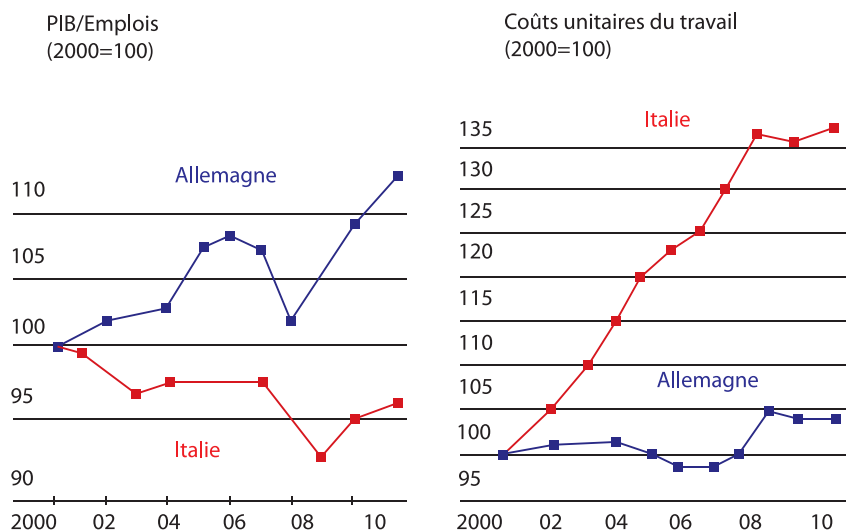
As far as productivity is concerned, we should recall that Germany's success is the result of increased productivity over ten years coupled with limited salary increases. But this rule has been ignored by the countries on the southern periphery and we can only hope that the wise rule "produce more than you consume" will be one of the lessons that has been learned from the present crisis. Italy's present difficulties are notably linked to a decline in productivity in comparison with other members of the euro zone. Italy has suffered after joining the monetary union because of a decline in productivity. Five years after its accession to monetary union, unit labour costs have increased by 15%, against a rise of 3% in France and a 5% decrease in Germany. At the end of 2011 unit labour costs are 30% higher in comparison with Germany than they were in 2000.[7] In a situation like this Italian industrialists might very well call for the re-introduction of the lire in order to create an opportunity for competitive devaluation. In Italy, productivity and GDP are contracting whilst labour costs increased sharply between 2000 and 2011.

5. Cf. Speech by Christine Lagarde, G20-OECD Conference on corruption, 28th April 2011..

6. Cf. Emanuele Felice, *Divari regionali e intervento pubblico, Per una rilettura dello sviluppo in Italia*, il Mulino, 2007

7. Cf. aussi Zafiris Tzannatos, *The Financial Crisis's Impact on Employment in the Mediterranean Region: The Story of Two Coasts*, OECD, 2010

Evolution du marché du travail et du PIB en Allemagne et en Italie



Data : OECD and EUROSTAT

Mobility is linked to productivity. Countries whose populations are extremely mobile have a more flexible market and higher growth. Studies show that countries, whose populations are more mobile, have more flexible employment markets.[8] In countries with high mobility and whose employment market is flexible, young people tend to be more optimistic. As a result it is not surprising that in Scandinavian countries they foresee their future with greater optimism than in countries in the South, like Italy or France.[9]

### **Reform of the Education System**

The reform of the education system demands an in depth analysis. Political decision makers should consider the education system as an important asset in the development of an economy based on knowledge. We should provide better support to cooperation and networks between universities, research centres and local business. Far too often our societies place emphasis on the mass production of graduates, whose competences do not match the requirements of the employment market. This is an enormous waste both for individuals and society.

The cost of a graduate, if we take individual, as well as public expenditure into account, likewise social security, healthcare and the potential loss of productivity whilst he studies, can be estimated – depending on the location and specialisation, at 500,000€.[10] Education costs have continued to rise, but graduates in 2010 receive a salary that is 10% less than that earned during the crisis period – even excluding inflation. In addition to this, a study published in May 2011 by the University of Rutgers pointed out that only 56% of graduates in 2010 had integrated the employment market by autumn 2011, against 90% in 2006/2007. We have more costly study programmes that are creating even greater numbers of qualified job-seekers. We looked into this phenomenon in 2009, but new data confirms our concern and the worst scenario: young people are a sacrificed or lost generation. The question is: is there a package of political measures in order to save it?

### **A New Support Mechanism for Young Entrepreneurs**

In addition to the proposals that have already been put forward, another idea would be to have a support mechanism for young entrepreneurs. This mechanism would provide the start up capital for the age group that is excluded from the capital market, but which might be in a position to propose a business strategy or an innovative product. This might also lead to the establishment of innovative business projects where venture-capital is limited. Moreover this subsidy might remove the obstacles that are preventing access to the employment

market for a generation which feels excluded from society. These are the conclusions of an in depth analysis and financial modelling; and we might expect the social and economic benefits of a system like this to easily compensate the cost.

Moreover a subsidy mechanism might boost entrepreneurial dynamism in Europe – not only from an economic, but also from a political point of view, by absorbing back into society potentially disruptive elements from the lost generation of Europe. It would also represent a further expression and a re-balancing of intergenerational solidarity, since this is almost only undertaken in one direction today – ie in the support of the elderly. By way of their contributions to retirement funds and the colossal reimbursement of the public debt, young people have to fund the consumption and lifestyle of the older generation. But we know that this model is unsustainable long term.

### **CONCLUSION**

The young people who are pillaging and ransacking the British, Greek, Italian or Spanish town centre are not united by a political ideal, but by relative poverty, a lack of employment or tenuous jobs that give them no independence and by education that is poorly adapted to the employment market. Certainly the present crisis is causing turmoil on the employment market, notably that of young people. As we stand and watch, the financial and social crisis is giving rise to a new political paradigm that is determined by age. To this we might add that there is the "moral collapse", as recalled by British Prime Minister David Cameron, during the riots last August, of a society that is no longer able to create a social link via traditional institutions like the family, or the urban or neighbouring community. Mr Cameron's new Urban Security Advisor, William Bratton, former US police chief, even said that the riots revealed "the disintegration of the family" ... (...) leading to the feeling that "humans are social animals, they want to belong to something." [11]

At a time when there is a danger that the family is disintegrating, our political system certainly needs to integrate young people both politically and socially. For our parents' generation the place of social integration was especially to be found at work, with the family providing both the social and economic capital for the success of this. Today, the fragmented family is failing to play its full role as social mortar. Social links are now created in parallel areas, where real networks come together in gangs or in a virtual form on Facebook, for example. If our societies do not respond to this demand for social integration and this need to build oneself positively as a member of society, we run the risk of increasing vio-

8. Andrea Bassanini, Romain Duval, "Employment Patterns in OECD Countries: Reassessing the Role of Policies and Institutions", OECD Economics Department Working Papers, No. 486., 2006

9. Cf. Fondapol/Kairos study on youth, Paris, 2008-2009. According to an IFOP survey in May 2011 undertaken for La Mutuelle des Etudiants (LMDE), 38 % of French students have suffered depression over the last twelve months. Worse still 75% of students feel that they belong to a "sacrificed generation".

10. According to the latest report by the UN Centre for Education Statistics, (UNCES) *The Condition of Education*, published in May 2011, in 2007-2008, the average price (enrolment fees, books and equipment as well as housing and living costs) for a year of full time university education totalled 34,600 dollars for a Masters degree; 39,700 dollars for PhD and 46,500 dollars for a first professional specialisation. However these prices do not include other collective or social costs, such as teachers' and educational personnel salaries or the potential loss of productivity by the student during his years of study.

11. Interview with William Bratton, "the US 'supercop' David Cameron turned to, after the recent British riots, tells Gillian Tett what he really thinks of Scotland Yard", in the *Financial Times*, 2nd September 2011

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lent conflict and the emergence of extreme political discourse marked by "youth" populism. Clearly, the crisis, which has impeded the natural, creative expression of life amongst the young, is exacerbating the destructive instinct of death (Thanatos). In the face of this destructive trend, this aggressiveness and dislocation as a primary instinct, which is not only reflected in acts, but also in political discourse, we suggest a return to the basics of European integration or more simply, to common sense, such as the balancing of public finance, innovation and improved productivity. What is more our education systems must rise to the challenges of a globalised world; it is urgent to reform a system which, with ever increasing costs, is leading to more and more "qualified jobless".

In all we believe that young people must have a choice in life – either to study or to start a life as entrepreneurs: this choice deserves to be helped, even in a financial manner, by society. A system to subsidise entrepreneurs which we are now suggesting aims to restore the flexibility of the employment market – which at present is

only open to the older generations. Given that young people have no capital, whether this be financial, human or social, to enter into competition with older workers on the employment market effectively, the policy we suggest would provide cheaper a "entry" onto the market and to enable a real choice between a university career and entrepreneurial activities; in turn this would lead to savings on both individual and collective resources devoted to education. The renewed flexibility of the employment market would be an investment for the future, since it supposes greater security for young people and the older generations because the wealth of the latter increasingly depends on the economic health of the youngest and on those who are in the prime of life.

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