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What policy-mix for European lost generation? Impact of the financial crisis on the employment, values and social inclusion of young people

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It was the EIN Working Group on Social Market Economy in January 2009 that originally highlighted a new phenomenon that has emerged in the labour market participation of different age groups as a direct consequence of the financial crisis: a negative correlation of employment between younger people and seniors. While in the long data series of labour participation started in 1960s in both the US and Europe, we can observe a positive correlation between the employment of young people and seniors because macroeconomic shocks affected employment at all ages in the same way, data collected in 2007 and 2008 demonstrated a brutal breakdown of this correlation and the emergence of an unprecedented scissor effect. The employment of young people (under 30) and seniors (over 55) no longer evolved the harmonised correlative way we had been used to observing over the last 50 years, but the employment of young people literally collapsed, while that seniors actually increased. Our conclusion was that "the disruption between the employment of youth and older persons suggests that young people are the most vulnerable age group in the current crisis".¹

This scissor effect of employment in these age groups demonstrated that seniors, especially in countries with flexible labour markets, have strong competitive advantages compared to young people or prime age persons and that they can easily integrate into the labour market even during a major economic crisis. Therefore, we have been calling

¹ Cf. full report on http://www.europeanideasnetwork.com/files/26_january_2009_stanicek.pdf

for policies that focus on youth employment, and we have also warned that "the fragile situation of youth in developed countries, as well as in emerging neighbouring countries, might increase internal and external political instability".² Looking back over the past two years we could not have been more accurate. Dramatic changes in Arab countries have been more "social revolutions" than "democratic revolutions" as Jana Hybášková, the newly-appointed EU head of delegation to Iraq, former Czech ambassador to Kuwait and MEP, recently stressed. Furthermore, the unrest we have witnessed in southern European countries is also the fruit of Europe's "lost generation" of young people and recent graduates who are having real difficulties joining the labour market.

As far back as 2009, we drew attention to the fact that young people today also feel excluded from the public arena. This is why they create parallel spaces in virtual worlds of Facebook and Twitter. But the virtual and the real are interchangeable. The cry of young people in Spain "Toma la Plaza", *take the place*, could be interpreted in this double meaning: as an idealistic wish to reintegrate into the public space of their own community or the result of a cynical manipulation developed by political spin-doctors. However, political power has become virtual, too. As we have seen in Egypt or Tunisia, the desire of young people for new reality and truth has become manifest in a twofold reality: the reality of corrupted representatives of political power and the real power of young people connected by virtual social spaces. This is a new political paradigm in which idealistic theory is the basis of new social praxis. We could praise this paradigm shift as a platonic return of innocence, created by social networks, into the hard (and dirty) world of politics, or stay in sceptical apprehension of "reality" and "actuality" as it is represented by mass media: corrupted rhetoric and its corollaries that have pervaded all political families and all levels of politics.

² Idem.

In contemporary Europe, one clear danger is the rise of populist and xenophobic movements. In the past, we saw *leaders* who preached *their own struggle* and had the capacity to mobilise frustrated masses. Today the fears are the same: unemployment, suspicion of others, the march of irrationality in politics, the claustrophobic perception of globalisation by those left behind. In these tumultuous waters, few travel in luxury yachts, masses are crowded in the basements, suffering, awaiting the hours of new hope. If this expectation is not respected, if it is betrayed by political elites, then the only perceived solution is revolt.

Let us come back to the issue of today's discussion: Flexicurity and the employment of young people. The current financial crisis, as we have already said, has demonstrated that, even in highly flexible labour markets, flexibility does not apply to all age groups. The labour market seems to have become a one-way street: the gates of the labour market have been opened to older people only. If young people cannot benefit from the same labour market conditions as older people, we must ask why this is so and what public policies could do to tackle the issue effectively. We believe that there are reasons directly linked to the crisis, as well as long term threats based on our poor education system and lack of innovative policies for youth entrepreneurship, among other issues. The core problems are elements that increase transaction costs within the labour market and within our internal and global markets as well. A policy mix that could support the employment of youth should be composed of following items: the deepening of European internal markets and the reduction of transaction costs, innovation, productivity increase, higher mobility and reorientation of our education system to the real needs of economy, and, last but not least, better support of youth entrepreneurship.

Allow me to develop these items one by one. Markets need a fluid movement of ideas, people and capital. Where centrifugal forces are threatening European monetary union, the real long-term – and indeed first-aid – solution is a return to the basic tenet of the EU venture: our internal market. We have to support the deepening of the internal market by all means, be it European patent law, modernised IT sector regulation, or financial services regulation. The EU already has the answers and it must not be used as a scapegoat. Corruption hampers our internal market as it increases transaction costs. It is present in particular in the countries of southern Europe that are suffering the most during the current financial crisis. According to a recent World Bank study, corruption costs us, in global terms, 5% of GDP growth. With corrupt economies, allocation of human and financial resources is not efficient.³

Financial transfers, be it within a country (North/South of Italy) or within the EU, are not a panacea. They are efficient only if combined with structural changes, innovation policy, industrial investments and increased productivity, as happened in eastern Germany following reunification. Unlike the situation in Germany, the growth of the southern European countries has been supported by large financial transfers but not accompanied by productivity increase. The results today are tangible: those countries that today are on the verge of financial default are outlying countries that simply used up most of European financial transfers without the necessary structural reforms. It seems that the main problem of the southern edge is not its geographical position. What country could be more peripheral than Finland, with its border with former Soviet Union? Yet it is innovation, good governance and accountability, increased investment in reformed educational system and a balanced public budget that has nurtured Finland's growth – not subsidies.

³ Cf. Proceedings of the G20-OCDE Conference on Corruption, 28 April 2011

We believe that two issues are emerging for the future of cohesion policy. Firstly, regional disparities are growing in both the old and the new Member States and these pose a clear challenge for convergence. Secondly, we must avoid beneficiary regions becoming dependent on aid and ensure a process of development that is not only sustainable but also sustained. Policy recommendations that could shape cohesion policy after 2013 must better promote knowledge networks, engage universities in local development and also help to develop an entrepreneurial support infrastructure conducive to innovation and productivity increase.

With regard to productivity, it should be remembered that Germany's success was created by ten years of productivity growth with limited wages increases. This rule was ignored in the southern periphery and we can only hope that the sound principle "create more than you consume" will be one lesson learnt from the current crisis. Mobility is linked to productivity. Countries with high population mobility have a more flexible labour market and higher growth. They also perceive European integration and globalisation as an asset, and not as a threat. Studies show that countries with higher mobility and flexible labour markets tend to have more optimistic young people. Not surprisingly, young people are facing the future more optimistically in the Scandinavian countries than in southern European countries like Italy and France.⁴

Reform of the educational system would require an in-depth analysis and a separate workshop. Policymakers should consider the educational system as an asset in the development of the knowledge-based economy. We must support better cooperation and networks between universities, research centres and the local business community. All

⁴ Cf. Fondapol/Kairos study on Youth, Paris, 2010. According to the Ifop study for La Mutuelle des Etudiants (LMDE) of May 2011, 38% of French students have been depressed in the last 12 months. What is worst, almost 75% of students feels to be "a sacrificed generation".

too often, our societies focus on mass producing graduates with skills that are mismatched to the needs of the labour markets. This is a huge waste both for individuals and for society. The costs of producing a graduate student, taking into account individual and public expenditure, including social security, health care, and potential losses as a result of not being productive during years of study, could be put, depending on location and studies specialisation, at EUR 500 000.⁵

While the costs of education have constantly increased, the new graduates of 2010 received 10% less in salaries compared to the pre-crisis period - even before inflation is taken into account. Moreover, a study released last Wednesday by Rutgers University, stressed that just 56% of 2010 graduates joined the labour market in the spring 2011, compared with 90% in 2006/2007. We have more expensive study programmes that create unemployed graduates. We studied this phenomenon in 2009, but new data are confirming our concerns and even our worst-case scenario: today's young people are a new sacrificed or lost generation. The question is: What policy-mix can be put forward to save this generation?

Our suggestion would be a policy proposal of a young entrepreneurial grant scheme. This grant scheme would provide starting capital to the age group that is excluded from the capital market, but could have an innovative entrepreneurial strategy or product. It would also allow innovative entrepreneurial projects to take hold in Europe, where venture capital is limited. In addition, this grant would lower entry barriers to the market for a generation that feels excluded from society as such. These are the findings of an in-

⁵ According to last report of the US National Center for Education Statistics (NCES) *The Condition of Education*, published in May 2011, in 2007–2008, the average price (tuition and fees, books and materials, and living expenses) for 1 year of full-time graduate education was \$34 600 for a master's degree program; \$39 700 for a doctoral program; and \$46 500 for a first-professional degree programme. However, these prices do not include other collective and social costs such as the wages of professors and educational staff, or potential wage losses of non-productive years of studies.

depth analysis and modelling and we might expect that the social and economic benefits of such a scheme would largely offset its costs.

Furthermore, a young entrepreneurial grant scheme might generate not only a new economic dynamism in Europe, but a political one as well, by integrating into mainstream society the potentially disruptive forces of Europe's lost generation. It would also be a new expression of European values and re-equilibrium of inter-age solidarity. Today, inter-age solidarity exists almost exclusively as one-way solidarity of young people with older people; through their pension schemes and through colossal public debts repayments, young people today are made to fund older people's consumption and lifestyle. Our entrepreneurial grant scheme for young people would also help to restore flexibility in the labour market as, currently, flexibility is one-sided and for older people only. As young people have no financial, human or social capital to compete successfully against older people for jobs and revenue, the proposed policy would make entrance tickets to the market cheaper. It would also enable a real choice between an academic career and entrepreneurship and save substantial individual and collective resources allocated to education. Renewed labour market flexibility would be an investment in the future, as it would mean more security for both younger and older people, as the wealth of older people is increasingly dependent on the economic health of those who are younger or in the prime of life.

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