EUROPEAN POLICY CENTRE

POLICY BRIEF

26 April 2013

Youth unemployment – Does the EU care about its future?

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BACKGROUND

Youth unemployment levels in Europe are hitting new highs: more than 5.7 million (23.6%) young people (under 25) in the European Union (EU) were without a job in January 2013, and this trend indicates that things are not getting better. While this dramatic situation fell off the radar of EU media and public attention at the onset of the economic crisis, it has now become a recurrent headline in European news. Indeed, youth unemployment was significantly lower when the crisis broke out and public attention was mainly focused on brutal and sudden lay-offs hitting citizens who were relatively well-established in the labour market and had not experienced any such difficulties in the past. The issue of youth unemployment was, therefore, perceived as less pressing for two reasons: first, the difficult transition from school/university to work was nothing new bar a structural problem, which a lot of EU member states were already facing before the crisis; second, commentators believed that the younger cohort, in particular the most qualified, would be less affected by the recession in the long run and would easily manage to find a job once the crisis was over.

It was clearly wrong to underestimate the issue of youth unemployment. As the crisis persisted and the scale of the problem became evident, attention progressively shifted. This change of focus was the result of two ongoing phenomena.

On the one hand, most EU countries saw an ever-increasing number of young people struggling to get a foothold in the labour market. Hence, with youth unemployment more than double the rate of the total population, it became clear that the crisis was having a disproportionate impact on young people. Depending on how long young people remain jobless, this situation could have serious long-term consequences on the structure and performance of our labour markets. Indeed, whereas European labour markets will increasingly depend on the active and productive participation of young people due to ageing populations, a country's productivity could significantly deteriorate if a large number of young people were to remain unemployed for a long time, leading to a loss of skills and human capital in the long run. Beyond the question of labour market outcomes, high levels of youth employment are also a necessary, but not the only, precondition for maintaining our welfare state, in particular pension and healthcare systems.

On the other hand, waves of mass protest which were – and still are – generally carried out by young individuals brought their frustration out into the open. Young people's frustration with a system which is no longer able to respond to their aspirations or to meet their basic needs, such as having a job, could not be further ignored and became a hot topic for policymakers. Other factors such as growing dissatisfaction with the global financial system and the feeling that mainstream political parties have become too distant from realities on the ground, have certainly played a role in prompting this tide of rebellion. However, it is clear that difficulties entering the labour market together with poor economic prospects and low purchasing power, often leading to high dependency on relatives' savings, are pressing concerns for millions of young Europeans.

STATE OF PLAY

Young people not in employment, education or training (NEETs)

Unemployment is not the only difficulty faced by young people and being without a job is only one side of the coin. To get a full picture of the situation, one must consider the NEETs, i.e. young people aged 15-29 years old who are not in employment, education or training. According to Eurostat, the NEET rate in Europe has increased significantly since the start of the recession

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and is estimated to be 12.8% among 15-24 year olds, and 19.7% among those aged 24-29 years old.

Of course, NEETs do not constitute a homogenous group: some characteristics of NEETs vary from country to country and there are also different degrees of vulnerability within individual countries. Indeed, some young people may voluntarily become NEETs for a limited period of time, while others are at much higher risk of marginalisation and do not possess the instruments, such as the social or human capital, to exit such a situation.

However, individuals falling into this category generally present serious challenges in economic, political and social terms. Indeed, NEETs face multi-faceted disadvantages and multiple exclusions, not just from the labour market but also from education and training systems. All of this makes their chances of re-integrating into the labour market and participating in society even thinner than those of unemployed people. Research has proven that spending a long period of time in NEET status is likely to have wide-ranging effects over the course of an individual's life, leading not only to poor employment prospects and wage penalties on future earnings, but also psychological distress and social and political disengagement. However, the consequences of being NEET are not just a cause of serious concern for individuals: they also constitute a challenge for society as a whole.

An immediate impact on the economy

In 2011, economic losses due to disengagement of young people from the labour market and education totalled €153 billion, according to Eurofound, corresponding to 1.21% of European GDP. These costs were calculated in relation to young people's potential contribution to the economy and the savings for welfare spending. They include both direct and indirect costs. Direct costs represent the potential savings in public finance transfers if NEETs were to be re-engaged in the labour market and education systems. Indirect costs are the difference between the resource income produced by NEETs and the potential income they would produce if re-engaged in the labour market. While this estimate sheds light on the significant cost of failing to integrate a large proportion of young people into the labour market, it is also important to recognise that some costs cannot be monetised, and that the financial and economic consequences are likely to increase with time. This makes the need for policy interventions even more pressing, if Europe wants to mitigate the burden of youth unemployment in the future.

A significant difference among EU member states

Clearly, the cost of NEETs varies considerably between member states. While some EU countries, such as Bulgaria, Cyprus, Greece, Hungary, Ireland, Italy, Latvia and Poland, are paying an especially high price (higher than 2% of their GDP), others, such as Denmark, Germany, Luxembourg, the Netherlands and Sweden, have managed to keep the cost below 0.6%. Being the result of public finance and resource costs, the significant variation in total cost between member states is explained by two factors. On the one hand, the public finance cost, which is much lower than the resource cost, depends on the welfare model applied in each country. On the other hand, resource costs differ according to the size of the NEET population, signalling that some member states are performing much better in countering the issue. Indeed, while the NEET rate rose in almost all member states during the crisis, the largest surges took place at the periphery of the EU, i.e. in the countries hit worst by the crisis.

Nothing is irremediable

Good practice does exist in Europe, proving that it is possible to prevent today's young people from becoming a lost generation. Some member states have adopted interesting measures in view of facilitating the transition of young people from education to work. For instance, a 2012 Dutch initiative called the *Work Experience Grant* is a proposal aiming to mitigate the impact of the recession on young people and provide work experience to school-leavers who have completed education and hold qualifications. The grant, given for a maximum period of six months, consists of €500 per month, divided into €100 paid by the employer and €400 covered by the municipality. In exchange, the employer is obliged to provide guidance and training to the school-leaver, making sure that this labour force does not carry out normal work at a low salary for a long period of time and replace workers on long-term contracts.

Other countries such as Austria and Germany have also implemented their own instruments, including pragmatic education and training systems offering robust apprenticeship possibilities, which have proven successful in averting youth unemployment. Although countries with low unemployment rates tend to be those that have been less affected by the crisis, variations between countries also shed light on the role and quality of public policies, showing that nothing is irremediable and that mutual learning should be harnessed more effectively across Europe. In addition, it is worth asking if the implementation of instruments as described above does not reflect the capacity of some labour-market institutions and political systems to react more quickly to changes, and therefore to become more resilient to economic crises.

A pan-European challenge

The rapid development of European youth unemployment policies and youth-related policy initiatives which have taken place since the beginning of the millennium speaks for itself. Youth unemployment and inactivity are pan-European challenges, justifying EU action not just because numerous countries have to cope with it, but also because youth unemployment in one member state – like any other economic and social dysfunction – is likely to have strong repercussions in other EU countries due to high interdependence.

Youth unemployment policies have featured on the EU agenda since the establishment of a coordinated approach to employment policy in 1997, but EU efforts have clearly intensified since the beginning of the economic crisis and initiatives have proliferated since then. In April 2009, the European Commission published a communication entitled 'An EU Strategy for Youth – Investing and Empowering', paving the way for a more proactive approach in this area. Furthermore, combatting youth unemployment and equipping the young generation with relevant skills and competencies feature prominently in the Europe 2020 strategy and are subject to specific flagship initiatives, such as *Agenda for New Skills and Jobs* and *Youth on the Move*, which are explicitly designed to meet the employment headline target, according to which 75% of the active population should be employed by 2020. In January 2012, the European Council endorsed a Commission proposal to send 'youth action' teams to member states with high unemployment rates in order to reallocate Structural Funds to youth employment and job creation, and to examine where national policy priorities should lie.

More recently, the *Youth Opportunities Initiative*, consisting of a set of measures for 2012 and 2013, was approved. This initiative aims to unleash the potential of all young people by providing assistance with returning to school, enrolling in vocational training or gaining first-time experience in the labour market. The initiative is directed at both youngsters who left school before completing upper-secondary education and graduates who lack basic work experience. The *Youth Guarantee Scheme*, adopted by EU ministers in February 2013, is part of this package. It tasks member states with providing youngsters under the age of 25 with high-quality offers of employment, continued education, traineeships or apprenticeships within four months. The budget allocated to this amounts to €6 billion for the period 2014-2020 and comes partly from the European Social Fund and partly from a dedicated youth employment budget line. This money will be dedicated to regions with youth unemployment rates of over 25%.

A welcome but insufficient step forward

The policy initiatives described above clearly indicate a slow but steady process of Europeanisation of youth-related policies. Their inclusion in the European Semester and in country-specific recommendations, together with the increased participation of youth organisations in EU consultations, supports this argument.

Nevertheless, conclusions should not be drawn too quickly. Although important developments in the EU's commitment are indisputable, its action in the realm of youth policies remains limited, both with respect to the financing and nature of policy measures. The International Labour Organisation estimated that an investment of €21 billion was required to adequately address the issue and to put in place an effective Youth Guarantee in Europe. The €6 billion foreseen in the EU budget seems, therefore, insufficient compared to the scale of the problem. In addition, EU policy initiatives and recommendations remain vague and the general nature of country-specific recommendations with regard to the inclusion of young people in the labour market, which are *inter alia* non-binding, gives member states enough leeway to claim that specific actions have been taken. In other words, it remains to be seen what real results recent and forthcoming developments, such as the possible introduction of bilateral contracts between member states and the European Commission, will produce.

PROSPECTS

Making optimal use of current instruments

As highlighted above, several relevant instruments exist at EU level. The *Youth Guarantee Scheme* is one of them, and making the most of its potential is all the more critical given its limited budget. In this respect, there is an urgent need to prepare member states, and more specifically EU regions, to use this instrument and to clarify the rules of its application. Indeed, although it is widely recognised that the fund will only target regions with a youth unemployment rate above 25%, a lot of uncertainty remains as regards the concrete implementation of the scheme. For instance, what level of national co-financing will be required, and how are member states such as Spain or Greece, where more than half the population of young citizens is unemployed, going to finance such a scheme? In addition, the new instrument emphasises the quality of the offer, ensuring that it will not lead to low-quality internships or precarious jobs. But how will the Commission measure the quality of the offer? Will specific standards be put in place? The *Youth Guarantee Scheme* will only produce successful results if member states play the game, making sure that all stakeholders, including employment agencies, trade unions and businesses, are fully committed and that it brings tangible added value to existing programmes.

Furthermore, despite the welcome introduction of the *Youth Guarantee Scheme*, it would be wrong to cry victory. Addressing youth unemployment is not an easy task, but it is a serious problem that requires multiple actions at the same time. Therefore, given the need for fiscal consolidation, the EU will also have to resort to tools that do not increase the burden on public finances too much and offer young people a better future. In this respect, the process of increasing and optimising the mobility of young unemployed citizens is valuable and needs to be better exploited.

Developing a comprehensive strategy

Developments in the last few decades indicate that youth-related policies have been treated more as part of the European Employment Strategy than the subject of a comprehensive strategy. Indeed, EU youth policy action consists more of a juxtaposition of modest initiatives – much welcome nonetheless – rather than a common shared policy model including all aspects of employability, such as education, mobility, training, entrepreneurship and social protection. Addressing youth unemployment requires much more than a piecemeal approach; rather, it needs a cross-sectoral approach, starting with an education system adapted to the needs and close to the reality of European labour markets, backing young people during transition periods with sufficient financial support (as many young unemployed people don't have access to social benefits), providing more personalised guidance, and empowering people to move both geographically and across occupational sectors.

Forget the past, invest in the future!

As indicated earlier, the immediate future of Europe depends upon its young generation, i.e. the 94 million Europeans aged between 15 and 29. But looking at the policy areas prioritised by the EU budget suggests that member states are not on the right track. The recent agreement of Heads of State and Government on the 2014-2020 EU Multiannual Financial Framework (MFF) confirmed the old tradition: member states are more interested in financing policies defending vested interests and rooted in history rather than in investing in innovative policies with long-term effects. In this respect, the European Youth Forum recently pointed out that the EU spends more on cows than it does on its young people.

While spending on agriculture is justified to a certain extent, rebalancing the EU budget is an absolute priority, which could give a strong signal in both political and economic terms: on the one hand, showing that the EU cares about its young people would have helped to reconcile citizens with the European project, and on the other hand, Europe's economies urgently need forward-looking policies capable of facing the challenges of today. That includes investing in sectors with high potential growth and job creation, as well as in human capital. The final outcome of the MFF, for which the European Parliament (EP)'s consent is required, is still uncertain, as the EP has expressed its profound dissatisfaction with the Council agreement. Therefore, two options remain possible: either some of the Parliament's demands, such as increased flexibility, will get through, or no compromise will be found by the start of 2014, meaning that the 2013 budget ceilings will apply for 2014.

Both scenarios confirm that the opportunity to turn the EU budget into a powerful instrument for investing in a common future has been missed. Efforts should now concentrate on the future. Other EU financial instruments not covered by the MFF, such as an appropriate 'fiscal capacity', have recently been proposed. Although this instrument would be specific to the euro zone, making sure that it is designed to support the weakest regions in their fight against youth unemployment would be a way to compensate for an EU budget lacking in ambition.

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This paper forms the basis of further discussion and analysis in the context of the EPC's programme on Europe's Political Economy.

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