



**EUROPEAN IDEAS NETWORK**

## **EIN Roundtable Seminar**

***The Social Agenda:  
the impact of the financial crisis on daily life, employment and  
incomes***

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**Branislav Stanicek**

***"Meeting the new generation's expectations at  
local and global level"***

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## Introduction

The unemployment and the accession to the labor market are the first and most important preoccupation of young people. Kairos Future-Fondapol survey on "Global Youth"<sup>1</sup> released in January 2008 also underlined the correlation between anxiety of young people, unemployment and non-flexible labor markets. In the countries with low flexibility of the labor markets (France, Italy), youth is facing its future with more anxiety than in those countries with **higher flexibility labor markets** (USA, Scandinavian countries), where young people are more optimistic.

Recent academic papers, based on the data collected before the start of the current financial crisis, such as the NBER study on "Social security programs and retirement around the world: the relationship to youth employment" prepared by Jonathan Gruber, Kevin Milligan and David A. Wise<sup>2</sup> suggest that the **employment of youth is positively correlated with the employment of older persons and the unemployment of youth is negatively correlated with the employment of older persons. That is, macroeconomic "shocks", rather than social security programs, affect employment at all ages and in the same direction.**

Analyzing the data released at the end of 2008 by the US Bureau of Labor Statistics, our paper suggests that the long term correlation, observed in the Gruber, Milligan and Wise paper, between the employment of youth and older person, was disrupted by the financial and economic crisis. **According to the US Bureau of Labor Statistics, the age population over 55 actually gained jobs in 2008. On the other hand, young people under 20 have been the most affected age group by the layoffs.** We don't believe that these figures represent a "scissors effect" based on the "lump of labor" theory, but **we would rather suggest, that compared to prime age persons or young people, experienced seniors keep great comparative advantage, and can easily integrate labor markets even during a time of massive layoffs.**

We believe that without appropriate policies the financial and economic crisis could deepen the "age fracture" that, together with social, gender or racial cleavages, has a direct impact on the social integration and wealth of our societies. Recent unrests in Greece, Italy, France, Latvia, as well as in some emerging countries like Russia and Turkey, would require further long term policies both at the national as well as at the EU level that would tackle the fragile age group of youth.

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The international study directed by Gruber, Milligan and Wise presents the relationship between the timing of program reforms and the trends in the employment of older persons (age range 55 and 64), the employment and unemployment of youth (20-24) and prime age persons (25 to 54). It compared the employment data for 12 countries, among them USA, Japan, Germany, France, Belgium; the longest period is from 1960 to 2006 (in Germany) and the shortest period from 1983 to 2004 (in Belgium). One of key findings of the study is a **correlation between the employment of youth and employment of older persons: the employment is affected more by macroeconomic "shocks" within all ages and in the same direction, rather than by particular social programs of policies.**

The interpretation of these findings, based on the data collected *before* the current financial crisis, could be questioned by the last series of statistics released by the US Bureau of Labor Statistics at the end of 2008. In December 2008, the number of unemployed persons increased by 632,000 to 11.1 million and the unemployment rate rose to 7.2 percent in the USA. Since the start of the recession in December

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<sup>1</sup> Anna Stellingner (dir.), *Les jeunes face à leur avenir. Une enquête internationale*, Kairos Future- The Foundation for Political Innovation (Fondapol), Paris, January 2008

<sup>2</sup> 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

2007, the number of unemployed persons has grown by 3.6 million, and the unemployment rate has risen by 2.3 percentage points.<sup>3</sup>

When we compare the evolution of employment of young and older persons in the USA in 2008 and 2007, we cannot observe a positive correlation as observed by Gruber, Milligan and Wise in the 1970's – 2000s' period, but an important disintegrated or opposite evolution of the young persons and seniors' labor market participation. **Young persons have been affected by losses of jobs, when employment of persons over 55 years actually increased by more then 900 thousands** (cf. Table).

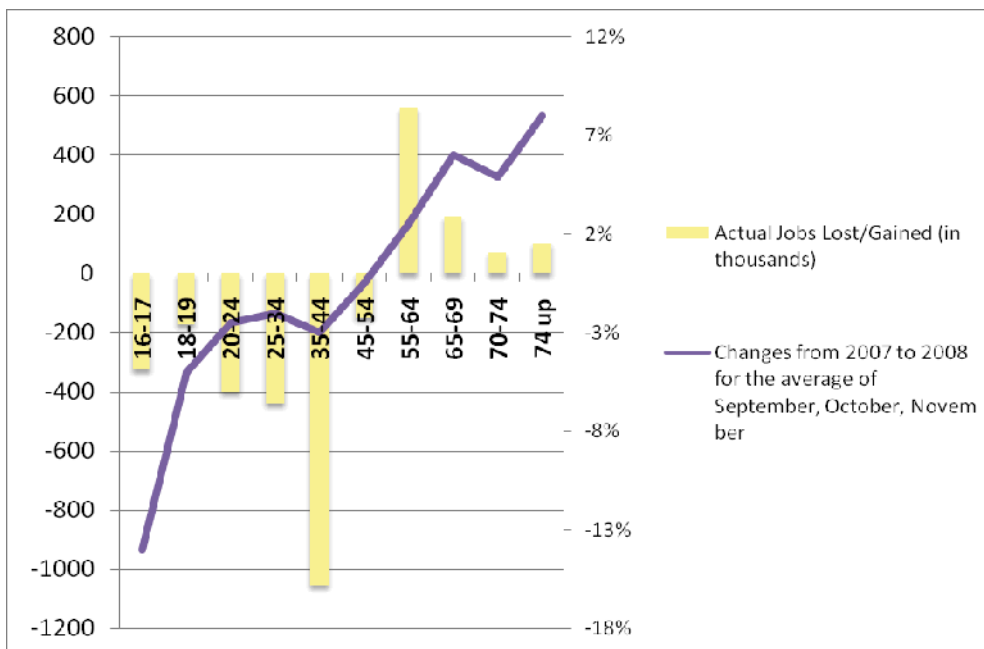
**Table 1: Impact of the financial crisis on the change in jobs by age group in the US**

|  | 16-17 | 18-19 | 20-24 | 25-34 | 35-44 | 45-54 | 55-64 | 65-69 | 70-74 | 74 up |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Actual Jobs Lost/Gained (in thousands)</b>                                    | -324  | -171  | -402  | -438  | -1053 | -152  | 559   | 191   | 71    | 104   |
| <b>Changes from 2007 to 2008 for the average of September, October, November</b> | -14%  | -5%   | -2,5% | -2%   | -3%   | -0,5% | 2,5%  | 6%    | 4,9%  | 8%    |

Data: US Bureau of Labor Statistics.

We would suggest that these recent data show not only an unprecedented impact of the mid-2007 burst of financial markets on the employment of the whole population, but also unprecedented age groups' disruption. **When persons over 55 gained jobs, the prime age persons, and particularly young people under 20 have suffered a huge loses** (cf. Table 2). We don't believe that there is a “scissors effect” based on the “lump of labor” theory, that would literally say that if an additional older worker is employed one younger worker must be displaced.

**Table 2: Impact of the financial crisis on the change in jobs by age group in the US**



Data: US Bureau of Labor Statistics. Graph: Author

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US Bureau of Labor Statistics

As stressed by Gruber, Milligan and Wise and other authors, the proposition that more work by older persons reduces the job opportunities for younger persons was put forth in many different forms and has influenced some labor market policies in the past (among other policies also the “35-hour week” in France). The implication is that economies are boxed and the box cannot be enlarged. As stressed by Gruber, Milligan and Wise, “the labor force participation of older persons began to increase sometime during the last 10 or 15 years and (...) the countries with the greatest increase in the employment of older persons had the greatest increase in the employment of the young and the greatest decline in the unemployment of the young”<sup>4</sup>. Historically, the employment of youth is positively correlated with the employment of older persons. How to explain the recent disruption between the employment of older people and younger people?

In the past, strong social programs, growing financial assets and savings of the aged workers have created incentives for them to leave the labor market (but have not created, as expected by the “lump of labor” theory, any new places for young workers). On the other hand, the massive decrease of the retirement-assets following mid-2007 burst of stock markets (that impacted the seniors in the USA where public retirement schemes are relatively weak compared to some EU countries) has created a strong incentive to reintegrate the labor market among the aged population.

**The disruption between the employment of youth and older persons suggests therefore that the young people are the most vulnerable age group in the current crisis. Following the 2007 recession, the increase of the US seniors' participation in the labor market was determined by the deflation of the retirement schemes and savings; and it could indicate a huge negative impact on seniors' personal finances and their fragile social situation. But the increase of jobs by 925.000 in September, October, and November 2008 compared with the same period of 2007 in the age group of 55 and older suggests that experienced seniors keep their comparative advantages and can easily integrate flexible labor market even during a time of massive layoffs.**

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With the long-term trend of low fertility rate, delayed access of youth workers to the labor market, and expanding of the life expectations, the **working-age population in the developed countries, and particularly in Europe, will decline sharply, both in absolute and proportional terms. The policy solution would be to support the labor market participation of both seniors and juniors.** Our findings based on the recent US data should be further developed and compared with other EU and international surveys (OECD, ILO).<sup>5</sup> **However, our preliminary conclusions could lead to a more cautious approach to the intuitive policies that would support, in the context of current financial crisis, the labor market participation of seniors.**

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<sup>4</sup> Gruber, Milligan and Wise, p. 64.

<sup>5</sup> Eurostat intends to publish a comprehensive study on “Youth in the European Union” in the first semester 2009. This publication will cover a wide range of topics such as demography, health, education, transition from school to work, poverty, living conditions, use of information and communication technology (ICT) and participation in voluntary activities.

**We believe that seniors, especially in the countries with flexible labor markets have strong competitive advantages compared to young people or prime age persons and that they can easily integrate the labor market even during a major economic crisis. The labor market participation of seniors is influenced more by individual micro-decisions (level of savings, retirement benefits) and macroeconomic cycles (evolution of financial markets), than by social and retirement policies. On the other hand, young people have not sufficient comparative advantage (professional experience, skills, social networks) to compete and take over jobs from seniors. Furthermore, their employment is negatively affected by higher charges (retirement schemes and contributions supported by employers). In the economic slowdowns, seniors are relatively cheap; they combine experience, greater mobility, low or inexistent training costs, and no retirement payments.**

We believe that public policies that would support labor market participation of youth should address and rebalance in particular the comparative weakness of young workers. Our hypothesis and recommendations could be further developed and analyzed within the larger context of the social crisis that affects the transmission of values, wealth and skills, and affects the cohesion of our societies. The fragile situation of youth in developed countries, as well as in emerging neighboring countries, might increase internal and external political instability. The greater emphasis on youth within the EU external policies' programs and funds would allow better training and formation of the youth *in* the neighboring countries, and then develop a potential reserve of skilled work force also for EU internal market. The social inclusions, linguistic and cultural training of young migrants in the EU should be tackled as well.

## Appendix: Key policy recommendation for increased employment of youth

| Issue  | Policy recommendation   | Comments  |
|--|---|---|
| <b>Insufficient professional experience and training</b>       | Increased emphasis on efficient “employment-oriented” education and training; further collaboration of public authorities/universities/businesses   | Internships/practical labor market experience could be obligatory in all types of schools/universities  |
| <b>Juniors are expensive: training costs/integration costs</b> | Develop existing instruments such as EU social fund and other schemes - EU Globalization Fund, or programs for professional training and life-long learning   | Policy exists at EU level, could be developed further within the EU social fund, EU globalization fund, education and training programs   |
| <b>Juniors are expensive: payment of retirement schemes</b>    | National public authorities could decide to cover the retirement schemes (contributions of employers) for all young people under 20 years. AND/OR National public authorities could also decide to cover all retirement schemes during a limited period of time (18-24 months) of a young people engaged in their first jobs. | Young people under 20 (the most affected age group by the crisis), as well as low-skill workers, people without graduation, and workers with disabilities are the most fragile labor market group. The retirement contribution paid by the State could enhance labor market participation of these groups |
| <b>Youth with disabilities</b>                                 | A “European Social Enterprise” could be developed with special incentives (e.g. State could pay full/partially the social/retirement contributions)   | Young people with disabilities are highly affected by unemployment and businesses should be a sphere of their social integration  |
| <b>Mobility</b>  | Support youth persons’ mobility: subvention of driving licenses, or subvention for/or free public transport; support of shared/combined transportation  | Mobility (car/also gas price/insurances etc) has higher relative cost for young persons   |
| <b>Young women participation</b>                               | Increase "active gender balance" and balance between professional and family life   | Low labor market participation of women and low fertility rate in developed countries require infrastructures (kindergartens) but also changes of social perceptions (“working mothers”, men on “parental leave”) and increase in “women’s status” <sup>6</sup>   |
| <b>EU Internal Labor Market</b>                                | “EU Social/Retirement Scheme”   | “EU Social/Retirement Scheme” develop the EU internal labor market mobility, as well as creation of more cross-border and international jobs  |
| <b>Youth in emerging markets</b>                               | Increase help for education and training of youth <i>in</i> the emerging neighbors countries. Help for better social inclusion in the EU.   | EU external policies should also develop the skills of youth in the neighboring countries and develop skills of future potential EU labor force   |

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“Increase in women’s status [that] may eventually reverse fertility trends in Europe and Japan (...) In particular, men in all high-income countries appear to be taking on a larger share of household duties, which could lead to a large positive increase in fertility”, Bruce Sacerdote, James Feyrer, and Ariel Stern, *Will the Stork Return to Europe and Japan ? Understanding Fertility within Developed Nations*, National Bureau of Economic Research (NBER Working Paper No. 14114), December 2008

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