



# BULLETIN

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## Youth Unemployment? Time for Re-industrialisation!

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*The unemployment rate among young people hit a record high in the EU in 2012. In 2013, it has remained at about the same level and is unlikely to improve in the near future. EU leaders have announced countermeasures, not only at home but also at the EU level, as witnessed by the inclusion of the topic on the June European summit agenda and the July meeting of 20 Member State leaders in Berlin. The problem, however, is not unemployment as such, but rather a lack of industrialisation of the EU economy. This should be the issue discussed during the European Council summits, and Poland should take the lead.*

In May 2013, 23.1% of professionally active people under the age of 25 lack a job, and a substantial further portion is underemployed. Compared to 22.8% in May 2012, no real improvement has been made EU-wide—indeed, within the eurozone the situation has been getting steadily worse. Given the pre-crisis youth unemployment rate of around 15%, the deterioration is significant. Poland, with around a 25% youth unemployment rate since 2006, is no longer unusual. The situation nevertheless has political, social and economic consequences. Politicians EU-wide fear the loss of a generation of human capital and thus a setback in global competitiveness. In the near term, the social tensions linked with youth unemployment are also likely to influence electoral outcomes.

**Social Background.** Since the beginning of the economic crisis, labour market conditions have greatly deteriorated and a substantial number of under-25s were excluded from work. The increasing number of NEETs (those “Not in Education, Employment or Training”) during the downturn has entailed political costs. In Spain in 2011, for instance, the Indignado movement formed to protest a range of issues, including austerity measures and bailouts for banks as well as the grim outlook for young Spaniards in the labour market.

Since then, the situation has hardly improved. Worse, the pre-crisis assumption that good training and education enhances the chances to get a job has been shown to be incorrect. This generation of young people with an advanced education and a range of language skills is having bigger problems finding any employment, let alone a decent job, than their parents did two or three decades ago. According to labour statistics, they can count on holding a series of unpaid, or at best poorly paid, internships or unsecured jobs without prospects of promotion to a regular job.

Hence, even if the protests seen in Spain in 2011 are not widespread throughout Europe, youth are still in the streets. In the middle of July, young people in Brussels—ordinarily viewed as a city offering real prospects for people starting a career—organised what they called a Sandwich Protest in front of the European Parliament to attract attention to the conditions young people are subject to in the city. The group of protesters consisted of interns from EU institutions, Brussels-based think tanks and corporations. This action, which was supported by a number of MEPs, is the beginning of a longer campaign, the organisers declared.

**EU-level Action So Far.** Since the beginning of the economic crisis, the EU has proposed several instruments to help a new generation to successfully enter the labour market, from the Agenda for New Skills and Jobs (2010) to the Framework of Actions on Youth Employment (2013) prepared by organisations such as the European Trade Union Confederation and BusinessEurope to share best practices by governments and local organisations in improving youth employment. Besides measures to boost intra-EU mobility, there is also the Youth Opportunities Initiative (2010), which supports on-the-job training and apprenticeships as well as voluntary services. At the very end of the

negotiations on the EU Multiannual Financial Framework 2014–2020 (MFF), moreover, President Herman Van Rompuy found around €6 billion in the extremely tight budget for one instrument—the Youth Employment Initiative (YEI)—designed to help reach this goal.

The preponderance of youth unemployment as a political issue is also reflected in conclusions from the summits of the European Council. It has been listed in every such document since March 2012 (as a side topic to the Growth and Jobs Agenda). Most recently, in June 2013, it was even promoted to a separate topic “grade” (around three pages) to agree on the EU summit agenda at the cost of pushing forward with the Banking Union or EMU completion issues. The summit conclusions, noting that action should be taken on the national as well as EU level, stress the effectiveness of Structural Funds, operationalising the YEI by January 2014, implementing the Youth Guarantee scheme, boosting EIB contributions through the Jobs for Youth initiative and Investment in Skills programme, and enhancing cross-border mobility, apprenticeships and work-based learning.

The increased interest in the fight against youth unemployment is also being echoed in other forms of intergovernmental cooperation. On 3 July, 20 heads of government met in Berlin, where a roadmap on reducing the youth unemployment rate was agreed. It obliges employment ministers to make structural changes in national law, such as the improvement of work-linked training. Member States are encouraged to use EU funds more effectively, if necessary even through grants paid directly to employers or as wage supplements. For its part, the EIB was encouraged to deliver more microcredits to small and medium-sized enterprises to give them incentives to hire and train young workers. A review is planned for November 2013.

**Is Youth Unemployment a Red Herring?** With eurozone integration currently demanding long-term, multi-generational commitments from governments, young voters are in the spotlight. Obvious efforts to tackle youth unemployment may thus boost trust in the EU. For the southern Member States badly hit by unemployment problems, the creation of a new facility under the MFF is also something worth boasting about. And for Germany this is a good topic, displacing the thorny discussion on EMU completion, ahead of the country’s September elections. Chancellor Angela Merkel, in organising the July meeting, has shown solidarity with the troubled countries in a less politically costly manner than proposals for possible further bailouts.

Unsurprisingly, however, the growing political activity around the problem cannot fully disguise the lack of real ideas about how to save the “lost generation.” Experts from the European Economic and Social Committee (EESC) fear that the reform proposals have even neglected to remedy the existing measures designed for this purpose. The European Social Fund will, they claim, in large part end up in intermediaries’ pockets, and thus fail to serve their primary goal. More worrisome, however, is that the new programmes only poorly take into account the broader context of the generally weak performance of the EU economy. This matters because youth unemployment is in fact strongly correlated with general unemployment levels, and they will bear little fruit unless underlying growth problems are tackled.

It would, of course, be an exaggeration to say that the proposed youth unemployment programmes are a waste of money. These measures may well bring positive results. This is especially true of EIB funding to SMEs or other measures stimulating entrepreneurship. The on-the-job training programmes and improvement of work-linked education are also important, even if they are currently bringing meagre results. Nevertheless, the relationship between unemployment rates amongst young people and the entire population has remained at quite a similar level, both before and during the crisis, and the young have been hit by the crisis in “proportion” to other age groups. To put it simply, these programmes would not be sufficient. The focus should therefore be on the root causes of youth unemployment.

**Conclusions and Recommendations.** Bearing in mind the need to address the underlying causes of youth unemployment, the main goal for EU decision-makers should be to assure stable growth. Put simply, the proposed programmes will not solve the problem if businesses do not wish to hire workers. This can best be achieved by focusing on the re-industrialisation and modernisation of the EU economy. Of course the services industry will also be important in boosting growth and employment in the European Union, but the lesson from abroad—notably the relatively constant growth levels in China ensured by its status as the “world’s factory,” not to mention Germany’s internal stability—is that industrial production is key. Moreover, a strong industrial base also helps to boost other aspects of the economy, including innovation, which is a key to competitiveness, and thus in the longer term, to welfare.

A reduction of administrative and other burdens is not the only, but the easiest way to secure industrial expansion, as witnessed by the creation in Poland of several Special Economic Zones. Their existence is often a decisive factor in re-locating a business to Poland from elsewhere in the EU, and these areas improve the macroeconomic indicators of the whole region. Next to the paragraphs dedicated to youth unemployment in European Council conclusions, therefore, there should be paragraphs on skilfully re-industrialising the EU, that is re-acquiring the production of high technology goods. This general shift could be beneficial to Poland and the other CEECs because this is a group of countries possessing competitive advantages to attract new manufacturing. For Poland, the particular interest would be in boosting its existing economic zones. Thus, Poland should use the attention currently focused on youth unemployment to deal with the root causes of the problem.