

## Combating Youth Unemployment: The latest European fad?

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European policy-makers have decided that they must be seen to be “doing something” about youth unemployment. A special summit of Europe’s heads of state has been called, and a “Youth Employment Initiative”, proposed at the EU Council of Ministers meeting in March, aims to “reinforce and accelerate” measures that were recommended in a “Youth Employment Package” in December 2012.

This activism comes mainly in response to the latest alarming figures on youth unemployment in southern Europe, with sky-high rates of joblessness widely regarded as politically unacceptable. But there are several reasons to doubt that youth unemployment is a discrete problem meriting special treatment. Indeed, official youth unemployment statistics are misleading on two counts.

First, the data refer to those from 15 to 24 years old. But this age group consists of two sub-groups with very different characteristics. The “teenagers” (15-19 years old) should mostly still be in school; if not, they are likely to be very low skilled – and thus to have difficulty finding a full-time job even in good times. Fortunately, this group is rather small (and has been declining in size over time).

Unemployment among those aged 20-24 should be more troubling. Members of this cohort who are seeking full-time employment have typically completed upper secondary education, but have decided not to pursue university education (or have completed their university studies early).

Second, the data on youth unemployment are based on active labour-market participants. But labour-market participation averages just 10% among teenagers in Europe. (Teen-age activity rates come close to one-half only in countries like the Netherlands and the United Kingdom, where having a part-time job while in school is very common.)

Labour-market experts thus consider the unemployment rate a potentially misleading indicator, because a youth unemployment rate of 50% does not mean that half of the young population is unemployed. That is why one should look at the

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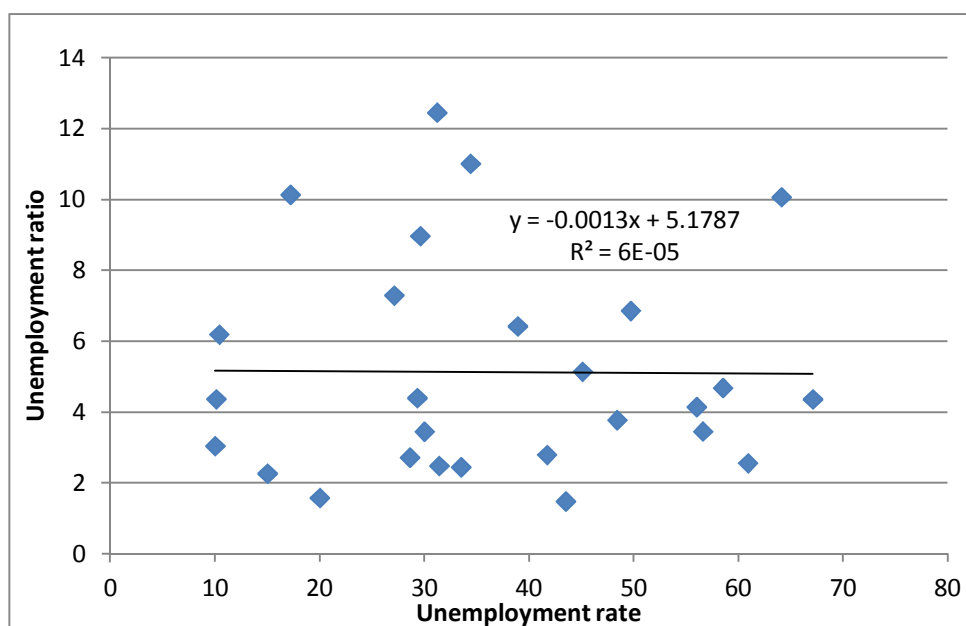
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unemployment ratio – the percentage of the unemployed in the reference population – rather than at the unemployment rate.

Indeed, this indicator paints a somewhat less alarming picture than that created by the headline youth-unemployment rate of more than 50% in Spain, or even the 66% rate recently reached in Greece. The youth-unemployment rate in Greece does not mean that two-thirds of young Greeks youth are unemployed. Only 9% of Greek teenagers are labour-market participants; two-thirds of that number cannot find a job. The unemployment ratio among teenagers in Greece is thus less than 6%. But this statistic is not reported widely because it is much less alarming. Figure 1 below shows that this is not an isolated case. The link between unemployment rates and ratios is very weak in general.

Figure 1. Unemployment rate versus unemployment ratio among teenagers (15-19)

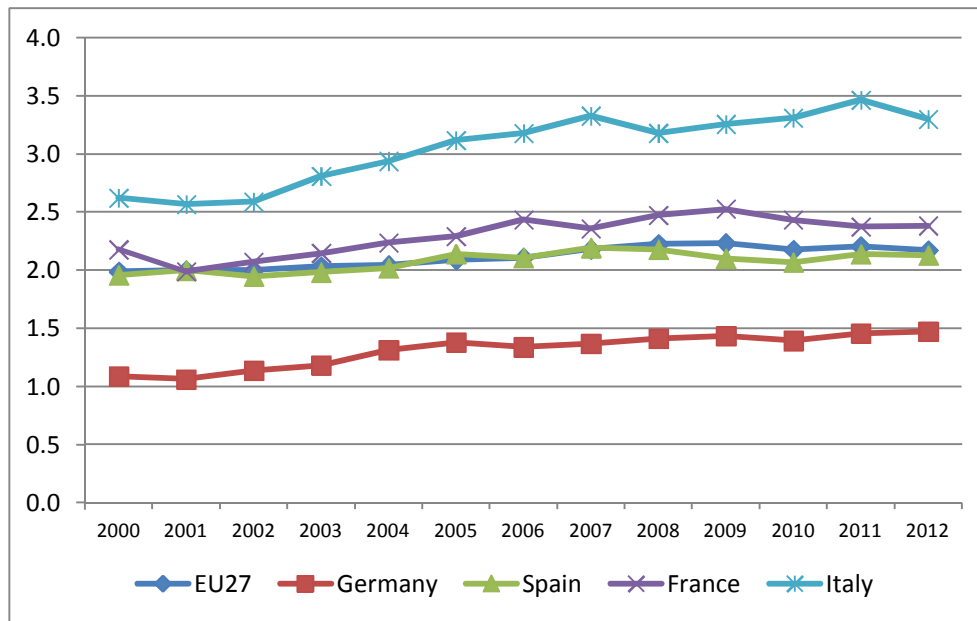


Source: Own calculations based on Eurostat data.

Among the “twens” (20-24 years old) the difference between the reported employment rate and the percentage of youth without a job and looking for one (the unemployment ratio) is less stark. But, even among this age group, one finds that the unemployment ratio is often about one-half of the widely reported unemployment rate.

Moreover, one should look at youth unemployment in the context of the overall labour market. Figure 2 shows that for most countries youth unemployment has been rather stable if compared to overall unemployment. But in some countries, youth unemployment is much higher relative to overall unemployment. Italy constitutes the most egregious case with the youth unemployment rate over three times higher than the overall unemployment rate. But this is not a recent phenomenon –it was like this even before the outbreak of the crisis. By contrast, the youth unemployment rate in Germany is ‘only’ 1.5 times higher than the overall unemployment rate (it used to be lower, but this relationship deteriorated somewhat after the Harz reforms of 2003, which led to lower unemployment among older workers).

Figure 2. Youth unemployment rate relative to total unemployment rate



Source: Own calculations based on Eurostat data.

Finally, one must ask how much youth unemployment contributes to total unemployment. Looking at the problem this way reveals a completely different picture from the one usually presented.

In those countries where the problem makes the biggest headlines (the eurozone's south, with Greece and Spain supposedly the worst cases), youth unemployment accounts for less than a quarter of overall unemployment. By contrast, youth unemployment contributes relatively much more (about 40%) to overall unemployment in countries like Sweden and the UK. One could argue that the latter two should worry about their youth unemployment more than Spain or Greece should.

The fact that youth unemployment is just a part of a larger problem leads to the real policy question: Why should officials spend limited time, energy and public funding specifically on unemployed young people, rather than on all of the unemployed?<sup>1</sup> Does a teenager's unemployment represent a greater loss to society than that of a single mother or an older worker, who might have been providing an entire family's only income? The loss of the value added produced by a teenager is probably much lower.

In purely economic terms, one could thus argue that youth unemployment (especially teenage part-time unemployment) is much less important than unemployment among the 'prime age' segment of the population. Moreover, young people have the option of continuing their education, thus adding to their future earnings power, whereas continuing education is a much less viable alternative for their elders.

<sup>1</sup> The example of the Harz reforms in Germany is instructive: these reforms were not targeted at youth specifically, but are widely credited with having lowered the overall unemployment rate.

Europe has a general macroeconomic problem, owing to demand factors that interact with a rigid labour market, rather than a specific youth-unemployment problem. This implies that there is no need for ad hoc measures for young people, which merely risk overloading welfare systems with even more exemptions and special rules.