



Youth unemployment figures understate the true impact of the European crisis

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In the May 2014 elections, citizens gave their verdict on the handling of the eurozone crisis by European politicians. The unprecedented rise of the anti-European far right in these elections should give politicians of the mainstream pause for thought. One important factor that lies behind the rejection of mainstream parties is the plight of young people, particularly in the Southern Eurozone states. Austerity policies have left millions of young people across the continent without employment and, increasingly, without hope for the future.

The desperate state of youth employment across much of the eurozone is well known. Headline youth unemployment figures for 2013 are 40 per cent in Italy, 56 per cent in Spain and 58 per cent in Greece (see Table 1). On the basis of such figures, it is commonplace to find statements in the press to the effect that 'sixty per cent of young Greeks are without work'. In fact, out of just over one million Greeks aged between fifteen and twenty four, only 125,000 are employed – around twelve per cent. Almost nine out of ten young Greeks have no income from employment.

The discrepancy between these measures – sixty per cent 'unemployed' and ninety per cent 'not employed' – is down to the way that unemployment figures are calculated. In order to compute unemployment rates, the population is first divided between the 'economically active' labour force and those who are

TABLE 1 - YOUTH UNEMPLOYMENT RATES, PER CENT OF ACTIVE LABOUR FORCE, (AGES 15-24). SOURCE: EUROSTAT.

	Ireland	Greece	Spain	Italy	Portugal
2007	9	23	18	52	17
2013	27	58	56	40	38

'inactive'. The latter category includes those in education, performing compulsory service in the armed forces and so on. The unemployment rate is then calculated as the number without work as a proportion not of the entire youth population, but of the *active labour force*.

When changes in the unemployment rate are reported in the press, commentary is almost universally based on the implicit assumption that changes are driven by the number of people *employed*. This is reinforced by the usual tendency to simultaneously report the number of jobs 'created' or 'lost' since the last set of figures were released. This overlooks the important fact that changes in the unemployment rate result from changes in the relative sizes of *two* populations – the employed and the active labour force.

In order to correctly interpret unemployment figures, an understanding is thus required of what determines both the volume of employment *and* the number of people who are 'active' in the labour market. While substantial disagreement remains on the factors which determine employment – conventional

economic theory places the onus on supply-side factors such as price and wage flexibility, while progressive economists instead emphasise the central role of aggregate demand – the question of what leads to changes in the size of the active labour force receives almost no attention.

Since the onset of the crisis of 2008, shifts in the active labour force have in some cases been substantial. This is illustrated in Figure 1, which shows the composition, by employment status, of the Spanish youth population (defined as those aged between 15 and 24). In common with the majority of European states, an ageing population means that the total number of young people is falling: the youth population decreased from 5.8 million in 2000 to 4.5 million in 2013. However, between 2000 and 2008, despite a drop in the youth population of around 800,000, the size of the active labour force remained remarkably steady – between 2.4 and 2.5 million persons – while the volume of youth employment *rose* from around 1.9 million in 2000 to a peak of 2.0 million in 2007. As a result, the youth unemployment rate fell below twenty per cent



between 2005 and 2007.

The situation changed dramatically as the crisis gathered steam from 2008 onwards. The number of young people employed fell from a high of two million in 2007 to only 700,000 in 2013. Over the same period, however, the size of the active labour force also fell dramatically – from 2.4 million in 2008 to 1.7 million in 2013. What caused this drop in the active youth labour force by 700,000 persons? This fall is partially due to the effects of an ageing population: over the period, the total youth population fell by 500,000 – but it is unlikely that this is the whole story. After all, between 2000 and 2008 the youth population fell by over a million yet the size of the active labour force remained constant.

The conventional view found in the economics textbooks – a view which still holds an almost universal grip over European politicians – is that this exit from the labour market is an outcome of the optimising behaviour of workers reacting to changing labour market conditions. As the composition of skills demanded in the marketplace shifts, workers respond by leaving the labour market and entering education in order to upgrade their ‘human capital’ thus increasing their value when they return to the labour market. A falling rate of labour force participation is not therefore viewed as a sign of dysfunction. Any problems lie instead with under-skilled workers who demand wages unwarranted by their skill level, producing ‘rigidities’ which prevent the smooth adjustment back to full employment. In this view, the warranted policy response is the introduction of supply-side measures, such as reductions in welfare payments, in order to eliminate these ‘rigidities’.

Examination of Figure 1 makes clear that this account is inadequate. The only plausible explanation for the magnitude

FIGURE 1. EMPLOYMENT STATUS OF SPAIN'S YOUNG POPULATION (AGES 15-24). SOURCE: EUROSTAT, AUTHOR'S CALCULATION.

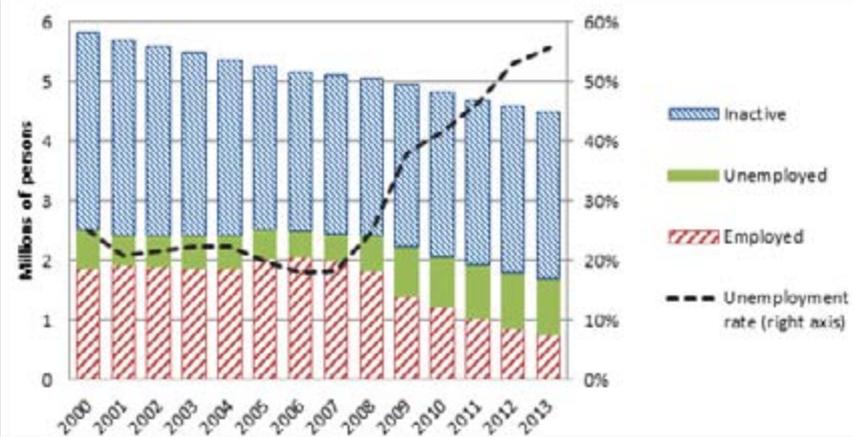


TABLE 2. EMPLOYMENT AS A PERCENTAGE OF TOTAL YOUTH POPULATION (AGES 15-24). SOURCE: EUROSTAT, AUTHOR'S CALCULATION.

	Ireland	Greece	Spain	Italy	Portugal
2007	50	24	39	25	35
2013	29	12	17	16	22

and timing of the falls in both the employed *and* the active labour force from 2008 onwards is a catastrophic fall in aggregate demand. In 2006, 40% of all young Spaniards were in work; by 2013 the proportion was 17%. Under such circumstances, many would-be workers – particularly those already disillusioned by experience of long-term unemployment – may conclude that the situation is so hopeless that they simply abandon the search for employment. Many of those that move into education may do so not as the result of an optimising decision, but rather on the basis that the alternative – continuing to search for work – is futile. Whether the education obtained under such circumstances does anything to improve these individuals' chances of future employment is questionable.

Table 2 extends this analysis to include other eurozone states that have been hit hard by the crisis. The table shows the proportion of the *total* youth population – not the active labour force – registered as employed in 2007 and 2013. As in the case of Spain, the scale

of the problem when measured in these terms is greater even than that implied by the official unemployment statistics – and cannot be accounted for simply by an informed decision by citizens to move out of the labour force.

The standard narrative is that the eurozone crisis is now over and European economies are safely on the road to recovery. But austerity policies have left a legacy of unemployment, job insecurity and fear. It is these conditions that have allowed the parties of the anti-European far-right onto the political main stage. So long as the majority of young people have no work and no hope for the future, these parties will continue to gain support. If this trend is to be reversed, it is imperative that austerity is abandoned and replaced with macroeconomic policies that have the overriding objective of job creation.

