No Country for Young People?

Youth Labour Market Problems in Europe

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Youth unemployment and the Great Recession in Greece

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Youth unemployment in Greece is currently over 50%, second only to Spain. This chapter reviews recent developments in the country and policy options. The high rate of youth unemployment is partly due to adverse macroeconomic conditions affecting all age groups. The legacy of the recession and the austerity has been enormous loss in output and steep decline in real earnings, as well as mass unemployment. Internal devaluation, brought about via a sharp cut in minimum wages and sweeping deregulation of labour market institutions, has failed to engineer growth: employment continued to decline, while exports remained disappointing. But high youth unemployment is also due to a poorly functioning labour market, in particular skill mismatches, with joblessness being almost as high among university graduates aged 25-29 as among low-qualified youths. The challenge facing policymakers in Greece is to facilitate the transition from education to employment, and put in place institutions that will underpin a more competitive growth model.

The fallout from the Great Recession

In 2007-13, the Greek economy contracted by 23.6% in real terms. The loss in output was far greater than in other southern European economies (-6.8% in Portugal, -5.7% in Spain and -8.7% in Italy) and Ireland (-7.6%) over the same period. The decline in living standards was larger still: according to Bank of Greece estimates (2014), household disposable incomes fell by over 30% in 2009-13. Such a deep and drawn out recession has little, if any, precedence in the peacetime economic history of advanced economies, and comes quite close to the US Great Depression (-30% in 1929-32).

The steep rise in joblessness is no doubt the most characteristic feature of the Great Recession. In 2008q2, the total employment rate (population aged 15-64) was 62.2%. Six years later, it had fallen to 49.4%. The unemployment rate had fluctuated around the 10% mark in 2000-05. It then began to fall until May 2008, when it reached its lowest level for over a decade (6.7% of the labour force). Thereafter it started to rise again, gathering pace as the recession deepened. Unemployment peaked at 28.7% in November 2013, and fell back somewhat to 26.8% in 2014q2, or 2.3 times as high as in the Eurozone as a whole (while five years earlier, it had been exactly equal to the Eurozone average).

Youth unemployment (aged 15-24) had been rather high by European standards before the crisis (21.0% in Greece, compared to 15.5% in the Eurozone as a whole in 2008q2). However, it climbed abruptly during the crisis to 60.8% in February 2013. The latest Labour Force Survey (LFS) data, for 2014q2, put the youth unemployment rate in Greece at 52.2%, second only to Spain (53.1%) and more than twice the Eurozone average of 23.5%.

Given that the Greek crisis has been protracted as well as deep, it is hardly surprising that by now most unemployed workers have been out of work for over 12 months. The long-term unemployment ratio (as a percentage of all unemployment) stood at 74% in 2014q2. It was 65% in the 20-24 age group, and rose further still with age.

The proportion of youths not in employment, education or training (NEETs) has also gone up, from 15.8% in 2008 to 31.3% in 2013 among those aged 20-24, compared to 18.5% in the EU27 as a whole.

Furthermore, those young persons who do have a job tend to be in low-paid and/or precarious employment. Involuntary part-time work, involuntary temporary work and bogus self-employment (such as when independent workers are contracted to provide services to a single client or work provider in much the same way as if they were an employee) are all more extensive than elsewhere in Europe (Eurofound 2014a, 2014b).

The emigration of young Greeks, typically those with higher skills, is one response to poor employment prospects. Even though reliable data are hard to find, a rough indication of the willingness to seriously consider migration to another European country is the fact that the number of CVs completed and posted in the Europass website by persons resident in Greece has soared from 3,000 to 257,000 in 2007-2013 (CEDEFOP 2014). Reportedly, emigration to Canada, the US, Australia and even the Gulf states has also increased significantly.

Implications of the jobs crisis

The economic implications of all this, reviewed elsewhere in this eBook, are grim enough. A recent study (Eurofound 2014b) estimated the cost of youth disengagement from the labour market at nearly 4.3% of GDP in 2012 (almost one percentage point more than 2011), compared with 1.26% in Europe as a whole (up from 1.21% in the year before). At the individual level, a slow transition from education to employment raises the probability of higher unemployment and lower earnings in the future. The longer unemployment spells are, the faster human capital depreciates, and the starker the consequences in terms of employment prospects and future earnings. A recent study (Brandt and Hank 2014) confirmed that such ‘scarring effects’ of youth unemployment are significant and persist late in life.

On the other hand, emigration can be seen as a solution for the individuals concerned, discounting the various emotional costs. However, its effects on the home country are often ambivalent: brain gain if the young emigrants return with extra qualifications and skills, brain drain if they instead commit to a career abroad.

The social implications have also been dramatic. The social safety net had been patchy before the crisis, and has largely remained so ever since. Contributory unemployment insurance, the main instrument of income support to jobless workers and their families, is by definition unavailable to new entrants to the labour market. Since the maximum duration is 12 months, the long-term unemployed are also ineligible. In 2011, conditions for entitlement to unemployment insurance benefit (UIB) were tightened further (Matsaganis 2013).

As a result of all this, just as the number of unemployed workers doubled in 2010-14, the number of UIB recipients over the same period was more than halved. So, in 2014q2, UIB recipients (of all ages) amounted to 11.2% of all unemployed workers registered with the Public Employment Service (PES), and to a mere 7.2% of the LFS unemployed. The figures for unemployed workers aged 15-29 were 8.7% and 4.7%, respectively.

High unemployment, low earnings, and lack of income support have all reinforced older tendencies of delayed youth autonomy. In 2011, the age by which half of all young (and not so young) Greeks have left the parental home was 31.5 for men and 26.3 for women, i.e. 5.2 and 3.0 years, respectively, above the EU27 average (Eurofound 2014b).

Nevertheless, the family safety net, imperfect at best in good times, has recently come under great pressure, as parents have also faced job losses and pay cuts. Unsurprisingly, the poverty rate is now highest among couples living with their grown-up children. Specifically, we have estimated that 27% of all persons aged 18-29 in 2013 lived in households with an income below the standard poverty line (at 60% of median equivalised disposable income), while as many as 52% were below the ‘anchored’ poverty line (at 60% of the 2009 median), adjusted for inflation (Matsaganis and Leventi 2014).

As for the political implications, these are there for all to see. Greece is unique in Europe – even among those countries hit hardest by the crisis – in featuring an avowedly neo-Nazi party winning seats in the national as well as the European Parliament, even though its leaders are in jail facing criminal charges. Mass discontent with austerity and declining living standards culminated in the victory of the radical left, committed to putting an end to the bailout agreement, at the general election of January 2015.

Internal devaluation

In 2009, as the country's fiscal crisis rapidly turned into a sovereign debt crisis, Greece entered an era of *de facto* limited sovereignty. Under the terms of the May 2010 bailout agreement, the Greek government signed a Memorandum of Understanding (revised several times since) with the IMF, the European Commission and the ECB, known collectively as the 'Troika' of lenders. As in other so-called 'Programme Countries' (most importantly, Ireland and Portugal), access to credit has been dependent upon satisfactory progress on a detailed programme of fiscal consolidation and structural reforms. Unlike Ireland and Portugal, which had successfully exited their economic adjustment programmes by the end of 2014, Greece is not expected to do so anytime soon.

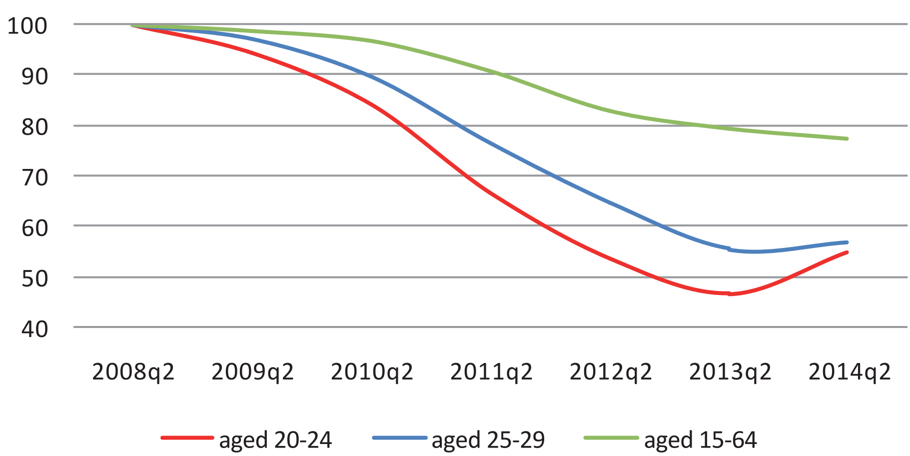
Labour market policy under austerity relied on 'internal devaluation' as a means to boost competitiveness, revive the economy and reverse the rise in unemployment. The strategy had two main features. On the one hand, in February 2012 there was a drastic cut in the minimum wage – by 32% in nominal terms for young workers, and by 22% for those aged over 25. Unemployment insurance benefit was also cut, from €454 to €360 a month (i.e. by 22%), for all workers irrespective of age. On the other hand, there was a sweeping deregulation of labour market institutions, from employment protection legislation and collective bargaining to working-time regulations and non-wage costs (Matsaganis 2013).

The fall in minimum wages and labour market deregulation had repercussions across the distribution. Average real gross earnings in non-banking firms declined at a faster rate in 2011-13 (-17.0%) than in 2009-11 (11.8%), and fell fastest (-10.6%) in 2012, the year of the minimum wage legislation. Overall, real gross earnings went down by over 25% in 2009-13 (Bank of Greece 2014).

Has internal devaluation worked? LFS data show that unemployment continued to rise in 2012 and 2013, and only fell back slightly in 2014. As for employment, it has kept falling, albeit less precipitously so in 2014.

Obviously, the fact that the minimum wage cut was more drastic for young workers constitutes a quasi-natural experiment. In theory, employment prospects for them should be improving – if not in absolute terms, at least relative to those for workers aged over 25. Are they? There is some evidence that this may actually be the case. Even though still below its 2012q1 level (when the minimum wage was cut), employment is rising for workers aged 20-29, while still falling for the general population. But workers aged 20-24 (whose minimum wage was cut to €511 a month) seem to be finding jobs faster than those in the 25-29 age group (where the minimum wage was cut to €568 a month).

Figure 1 Number of employed workers



Otherwise, in terms of a boost to export-led growth, internal devaluation has clearly *not* worked as intended: as the IMF (2014) has acknowledged, exports of goods and services excluding oil and tourism actually *fell* in 2012-14. As explained in another IMF report (IMF 2013), while "competitiveness improved somewhat on the back of falling wages, structural reforms stalled, [and] productivity gains proved elusive".

On the whole, as I have argued elsewhere (Matsaganis 2014), the ‘Greek programme’ pushed for labour market deregulation, but put too little emphasis on product market liberalisation where progress was scant. So it was successful in defeating the opposition of labour unions, but ran out of steam against resistance from professional associations and business interests in product markets, in connivance with domestic actors across the political spectrum.

This flies in the face of evidence that the potential benefits of structural reforms in Greece were (and to some extent, still are) not only greater than in other countries, but also greater in product markets than in the labour market. Barnes et al. (2011) estimated that moving to the OECD average in terms of labour market regulation could raise real GDP per person by 6%, but a similar move in terms of product market regulation could add as much as 22%.

Skills mismatches

As mentioned earlier, youth unemployment in Greece was higher than in most other EU countries even before the crisis. This was also the case for highly qualified persons in their late 20s. For instance, the unemployment rate of individuals aged 25-29 holding university degrees at bachelor, master or doctoral level (ISCED levels 5-8) in 2008q2 stood at 2.5 times the Eurozone average (15.4% versus 6.1%). Five years later it had gone up to 3.0 times as high (37.4% versus 12.6%). Plenty of other evidence confirms that the transition from education to employment has always been slower and more incomplete in Greece than in most other European countries, and has become even more so under the impact of the current crisis (Mitrakos et al. 2010, Eurofound 2014b).

Skills mismatches are a crucial factor here, caused by problems on the demand as well as the supply side. To start with, the skills mix produced by the education system at all levels seems poorly designed for the needs of a dynamic economy. Parents tend to hold manual labour in low esteem, so vocational education is eschewed by school children of average ability and above, who overwhelmingly opt for general education leading to university. As a result, vocational schools are perceived – and often are – of inferior quality, so they end up catering to low performers, typically from low-income families, often with a foreign migrant background (CEDEFOP 2014, Ioannidou 2014). If initial vocational education and training (VET) is perceived to be of poor quality, so is continuing VET (following entry to the labour market). Vocational training, a key component of the active labour market policies promoted by the European Employment Strategy, to a large extent financed by the European Social Fund and other EU institutions, has grown exponentially over the last few decades, but seems to operate on the assumption that the absorption of available resources must be maximised at all costs. Usually that implies that the acquisition of skills is of secondary importance.

In such a context, it should not be surprising that VET providers have successfully resisted occasional attempts by the Ministry of Labour to force them to follow up former trainees in order to monitor how they are faring in the labour market, on the grounds that this would interfere with maximising the use of earmarked EU funding. As for universities, those in highest demand prepare graduates for careers in the so-called liberal professions of medicine, law and engineering or architecture, and the rest for jobs in the civil service and the broader public sector. As a result, employers find that young people applying for jobs lack the skills they value. As a recent McKinsey study found, the skills missing the most include ‘hard skills’ such as proficiency in English and ‘hands-on experience’, as well as softer skills like ‘work ethic’ and ‘problem solving and analysis’ (McKinsey 2014). The same study established that small firms faced greater difficulties in recruiting suitable new hires, and were less likely to work with education providers and with other employers to tackle their skills problems.

Again, Greece stands out not only in terms of the low degree of cooperation among firms and between firms and education providers, but also in terms of its exceptionally low firm size. A recent study analysing social security data (Kanellopoulos 2014) estimated that, in the non-banking private sector, very small firms (with fewer than ten workers) accounted for 86% of all firms, and 27% of all employment in that sector (an average of 2.3 employees per firm). If one takes into consideration that own-account workers are twice as common in Greece as in the rest of Europe, one can easily see why there are so few job opportunities for highly skilled youths in the private economy. In fact, almost half of all jobs – a far higher proportion than in other European countries, including in the south – are in very small firms (employing 1-9 workers) and micro firms of self-employed workers. And even though, in theory, very small firms can actually be high-tech and export-oriented, in practice most such firms in Greece are low-tech and cater for the domestic market. It is in this sense that youth unemployment is associated with anaemic labour demand (and the outdated growth model that lies behind it) as much as with issues located on the supply side.

Future prospects

It may well be that the economy has entered a Keynesian range, in which recovery requires some sort of reflationary stimulus. However, the room for a domestic boost to investment and growth is severely limited by the requirements of the fiscal rules currently in place. As Crafts (2014) has recently pointed out, Greece will have to maintain a primary budget surplus of about 9% of GDP for every year from 2014 to 2023, according to OECD estimates. It is difficult to see how further fiscal consolidation on such a massive scale can be sustainable – economically, socially or politically.

So the stimulus must come from outside. A large investment programme in Europe – public and private – to kick-start the European economy; a more accommodating monetary policy coupled with stricter macroprudential regulations; somewhat higher inflation in the Eurozone (especially in the north); and a deal on debt restructuring – all these would help reduce unemployment (and in particular youth unemployment) in Greece and elsewhere in the south of Europe.

But the effect of a demand stimulus cannot be permanent, or significant enough, as long as domestic issues remain unresolved. Removing obstacles to structural reform (other than labour market deregulation), improving skills to facilitate the transition from education to employment, and putting in place the institutions that will underpin a more competitive growth model – these are some of the challenges the Greek economy must deal with, whatever happens in the rest of the world.

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