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### **The ‘scissors effect’ of the current recession Repercussions of the financial crisis for employment and the social inclusion of young people**

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*The financial crisis of 2007-2008 created a new phenomenon in the labour market: a negative correlation between employment of young people (under-25s) and that of older people (over-55s). Over recent decades employment statistics had always shown a positive correlation in employment, independently of age: the recession penalised workers of all ages, both young and old. Public policies have not taken account of this radical change, given that austerity measures currently affect the poorest members of society, especially young people. The results of these changes, i.e. the sharp increase in youth unemployment and internal and external political instability, are worsening with the passage of time. In Spain, Greece and the United Kingdom there have been disturbances involving socially excluded but technologically integrated young people, united by their relative poverty, lack of jobs, or insecure employment, and ‘poor education’ (Rodney Barker). By way of a solution, the author proposes a return to the basic principles of European integration: consolidation of public finances, growth through innovation and productivity and, above all, an educational system better adapted to labour markets. Finally, he also suggests the introduction of a new subsidy mechanism for young entrepreneurs. This would provide easier access to start-up capital for members of an age group who are excluded from the capital market but who have the potential to draw up business plans or develop innovative products. Moreover, this subsidy could reduce obstacles to accessing the labour market for a generation which feels excluded from society and considers itself a lost, sacrificed generation.*

#### **Introduction**

Politicians should on no account adopt ostrich tactics when attempting to prevent the spread of the discontent and disturbances among young people seen in recent months in Europe’s periphery (Greece, Spain, Italy) as well as in northern Europe (United Kingdom). As Rodney Barker, Professor of Sociology at the London School of Economics (LSE), has pointed out: “what unites young people is relative poverty, lack of jobs or insecure jobs and poor education.”<sup>1</sup> These are young people who are excluded socially but integrated technologically. As they are a very poorly organised politically, young people have been the first victims of the cuts in public services and in funding for bodies which facilitate their integration into soci-

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<sup>1</sup> Interview with Professor Rodney Barker, Les Echos (10 August 2011).

ety. Currently, austerity programmes are hitting the poorest members of society hardest and, with the financial crisis, young people have become a new “lost European generation”. This change is illustrated both by the statistics and by surveys of young people’s own views on their situation. But before making any proposals, particularly a mechanism for providing subsidies to young entrepreneurs, we need to clarify the origin of the current crisis and, above all, the radical change in the situation of young people between 2007 and 2008, a period characterised by the collapse of the labour market on both sides of the Atlantic.

### **The historic collapse of employment in 2007-2008 hits young people hardest**

A few months after the collapse of Lehman Brothers, data collected by the US Bureau of Labor Statistics for the final quarter of 2008 revealed a new trend in the participation of the various age groups in the US labour market: a negative correlation between employment of young people and that of older people. Although the long series of data on labour market participation, which started to be collected in the 1960s in the USA and Europe, had always shown a positive correlation between the employment of young people and that of older people, as macroeconomic crises affected jobs for all age groups, the data collected in 2007 and 2008 showed a sharp deterioration in this correlation and the appearance of an unprecedented ‘scissors effect’. Employment of young people (under-25s) and older people (over-55s) was not developing in the correlated and harmonised way we had come to expect over the last 50 years, as youth unemployment was literally collapsing while that of older people had in fact increased sharply.<sup>2</sup>

This imbalance between the employment of young people and that of older people suggested that young people are the group most vulnerable to the effects of the current crisis. The ‘scissors effect’ of employment in these age groups showed that older people, especially in countries with a flexible labour market, have major competitive advantages compared with young people or workers from the first age group, and that they can easily be integrated into the labour market even in a situation of serious economic crisis. Thus for example, policies focusing on youth employment were proposed; it was also demonstrated that the insecure situation of young people in the developed countries, and in neighbouring emerging countries, could increase internal and external political instability. As has been pointed out, the current crisis has shown that, even in countries with very flexible labour markets like the United States, labour market flexibility does not apply to all age groups. It appears that the labour market has become a one-way street, as the door to employment is open only to older workers. If young people cannot obtain the same conditions in the labour market as older workers, we need to ask why, and what public policy can do to tackle the problem effectively. We believe that there are reasons linked directly to the crisis, as well as long-term threats deriving from shortcomings in the educational system and a lack of innovative policies to promote entrepreneurship among young people, among other reasons.

### **What can be done? Reform of the educational system**

Too often our societies insist on churning out graduates whose qualifications do not match the needs of the labour market. This is an enormous waste, both for individuals and for society. The cost of a graduate, taking into account the cost to the individual and to society, including social security, health care and the potential loss of resources arising from the fact that the student is not productive during his/her years of study, can be estimated, depending on the place and course of study, at EUR 500 000.<sup>3</sup>

The cost of teaching has risen steadily, but 2010 graduates earned 10% less than they would have received before the crisis, even without taking account of inflation. Moreover, a study published by Rutgers University in May 2011 showed that only 56% of 2010 graduates had found employment by the autumn of

<sup>2</sup> This positive correlation is particularly well demonstrated in the study by Jonathan Gruber, Kevin Milligan and David A. Wise (Ed.), ‘Social security programs and retirement around the world: the relationship to youth employment’, National Bureau of Economic Research - NBER Working Paper 14647 (January 2009).

<sup>3</sup> According to the most recent report of the US National Center for Education Statistics (NCES), ‘The Condition of Education’ (May 2011), “In 2007–08, the average total price (tuition and fees, books and materials, and living expenses) for one year of full-time graduate education was \$34,600 for a master’s degree program; \$39,700 for a doctoral program; and \$46,500 for a first-professional degree program.” These figures do not, however, include other collective or social costs, such as the salaries of university teachers and educational staff, or the potential loss of resources during the student’s years of study, during which he/she is not productive.

2011, compared with 90% in 2006/2007. We are seeing more expensive programmes of study which create many more unemployed graduates. This phenomenon was already observed in 2009, but the new data confirm our concerns and the worst-case scenario: today's young people are a lost, sacrificed generation.

### **A new mechanism for supporting young entrepreneurs**

In addition to the proposals outlined above, another suggestion would be a support mechanism for young entrepreneurs. This mechanism would provide initial start-up capital to the members of an age group who are excluded from the capital market but who have the potential to draw up business plans or develop innovative products. It would also facilitate the start-up of entrepreneurial projects in Europe, where risk capital is limited. Moreover, this subsidy could reduce obstacles to labour market access for a generation which feels excluded from society.

According to the OECD, the SMEs (small and medium-sized enterprises) account for 60 to 70 % of jobs in most OECD countries. Throughout they also account for a disproportionately large share of new jobs, especially in those countries which have displayed a strong employment record. Some evidence points also to the importance of age, rather than size, in job creation: young firms and start-ups generate more than their share of employment.<sup>4</sup> The Ewing Marion Kauffman Foundation analysis of new data set from the US government, called Business Dynamics Statistics, showed that start-ups are not just an important contributor to job growth: they are the only thing. The Kauffman Foundation research demonstrates that most net jobs in the US were created by start-ups. From 1977 to 2005, existing companies were net job destroyers, losing 1 million net jobs per year. In contrast, new businesses in their first year added an average of 3 million jobs annually. Half of the start-ups go out of business within five years; but overall they are still the ones that lead the charge in employment creation.<sup>5</sup> The 2010 Entrepreneurship Index of Danish Enterprise and Construction Authority supports similar findings: "Both in the US and in Denmark, newly started enterprises create the most jobs."<sup>6</sup>

As underlined by the OECD research paper, financing is the biggest problem of SMEs and in particular of young enterprises and start-ups. These firms generally tend to be confronted with higher interest rates, as well as credit rationing due to shortage of collateral. The issues that arise in financing differ considerably between existing and new firms, as well as between those which grow slowly and those that grow rapidly. The expansion of private equity markets, including informal markets, has greatly improved the access to venture capital for start-ups and SMEs, but considerable differences remain among countries. A mechanism for providing subsidies to young entrepreneurs could also generate a new dynamic in Europe, not only economic but also political, integrating into society potentially disruptive members of a lost European generation. It would also be a new expression and a rebalancing of inter-generational solidarity, which today is expressed only in one direction, i.e. in favour of older people. Through their contributions to pension schemes and the gigantic repayments of public debt, young people are currently financing the consumption and lifestyle of older people. We know that this model is unsustainable in the long term.

### **Conclusion**

The young people who pillage and destroy Britain's city centres, but also Spanish, Greek and Italian young people, are not united by a political ideal but rather by relative poverty, lack of jobs or insecure jobs, and an education which is not adapted to the labour market. They are not the children of immigrants from ethnic ghettos, highlighting the shortcomings of multicultural integration. There is no doubt that the current crisis has changed the labour market, especially for young people. We are convinced that the financial and social crisis is giving rise to a new political paradigm defined by age differences. Moreover, as the British Prime Minister David Cameron stated, the disturbances of August 2011 are the result of a 'moral collapse' of society which is unable to bind society together using traditional structures like the family, the

<sup>4</sup> Cf. OECD, 'Small Businesses, Job Creation and Growth: Facts, Obstacles and best practices', [www.oecd.org](http://www.oecd.org).

<sup>5</sup> Cf. Ewing Marion Kauffman Foundation, 'The Importance of Startups in Job Creation and Job Destruction', [www.kauffman.org](http://www.kauffman.org) (2010). See also John Maulden & Jonathan Tepper, 'Endgame. The End of the Debt Supercycle and How It Changes Everything', John Wiley & Sons (2011).

<sup>6</sup> Cf. Danish Enterprise and Construction Authority, 2010 Entrepreneurship Index ([www.ebst.dk](http://www.ebst.dk))

urban community and the neighbourhood. His new urban security adviser, William Bratton, former police chief in New York, Los Angeles and Boston, went so far as to state that the disturbances reflected “the disintegration of the family (...) Human beings are social animals, they want to belong to something.”<sup>7</sup>

Against this background of the disintegration of the family, our political system needs to integrate young people, both politically and socially. For our parents' generation, the place of social integration was above all the workplace, and the family contributed both the social and economic capital to achieve this integration. Currently, the fragmented family cannot fully play the role of social glue. Thus, social connections are created in parallel spaces by real networks (gangs) or virtual ones (Facebook). If our societies do not respond to this demand for social integration, to this need to develop positively as a member of society, there is a risk of escalating violent confrontation and the emergence of radical political discourse, characterised by ‘youth’ populism. Clearly the crisis, which has prevented young people from expressing their vital and creative instincts, is exacerbating the destructive force of the death instinct. Faced with this trend towards destructiveness, aggression and disintegration, as a primary instinct reflected not only in acts but also in political discourse, we propose a return to the basics of European integration and the sense of community: the consolidation of public finances, innovation and increased productivity. Our education system will also have to tackle the challenges of a globalised world; there is an urgent need to reform a system which, at a steadily increasing cost, is turning out more and more unemployed graduates.

Finally, we consider that young people should be able to choose their way of life, i.e. decide whether to embark on a course of study or begin a career as an entrepreneur, and this decision should be supported, also financially, by society. The system of subsidising entrepreneurship which we are proposing would also help to restore the flexibility of the labour market, given that this currently exists only for older people. Given that young people lack the financial, human and social capital to compete effectively with older workers in the labour market, the proposed policy would facilitate cheaper access to the market and open up the possibility of a real choice between a university career and entrepreneurship, which would make it possible to save considerable individual and collective resources which are currently spent on education. New labour market flexibility would be an investment in the future to the extent that it would bring more security, for both young and old, as the prosperity of the latter depends to an increasing extent on the economic health of the young and of those who are in the prime of life.

Branislav Stanicek – Administrator of the Committee of the Regions of the European Union.

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<sup>7</sup> Interview with William Bratton, ‘The US *supercop* David Cameron turned to after the recent British riots tells Gillian Tett what he really thinks of Scotland Yard’, Financial Times (2 September 2011).