

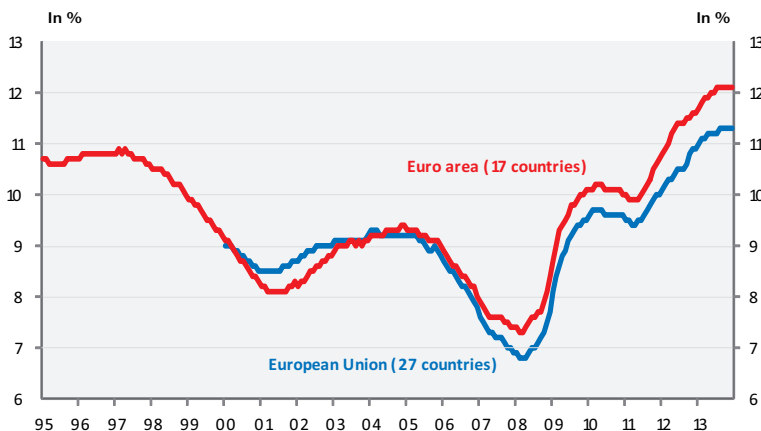
## THE SOCIAL IMPACT OF THE CRISIS

During the crisis, unemployment in the EU-27 has increased by more than 8 million people so that today more than 25 million Europeans are without work. This corresponds to an unemployment rate of 10.6% of the labor force in the EU-27 and 11.6% within the euro area. This is shown in Figure 8.

Figure 12 also shows unemployment is expected to reach more than 11% for the EU-27 and 12% for the euro area by the end of 2013.

Unemployment actually began to stabilize in the spring 2010 but since spring 2011 unemployment within the EU-27 and the euro area has begun to increase rapidly and in the past year alone unemployment has increased by 2 million people..

**Figure 8. Unemployment rate in Europe**

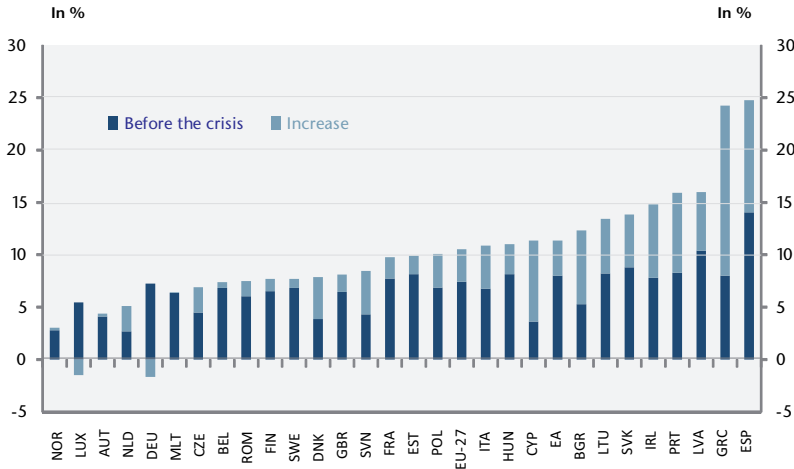


Note: The dashed line marks the beginning of the forecast.

Source: OFCE, ECLM, IMK on basis of Eurostat.

While the overall unemployment rate in the EU-27 is about 10.5%, the troubled countries in southern Europe and Ireland experience unemployment rates way beyond 10.5%. In both Greece and Spain for instance more than 20% of the work force are unemployed whereas in Luxembourg, Austria, the Netherlands and in Germany “only” about 4-6% are unemployed. This can be seen from Figure 9, which shows the unemployment level in the individual EU countries.

Figure 9. Unemployment levels in Europe



Source: OFCE, ECLM, IMK on basis of Eurostat.

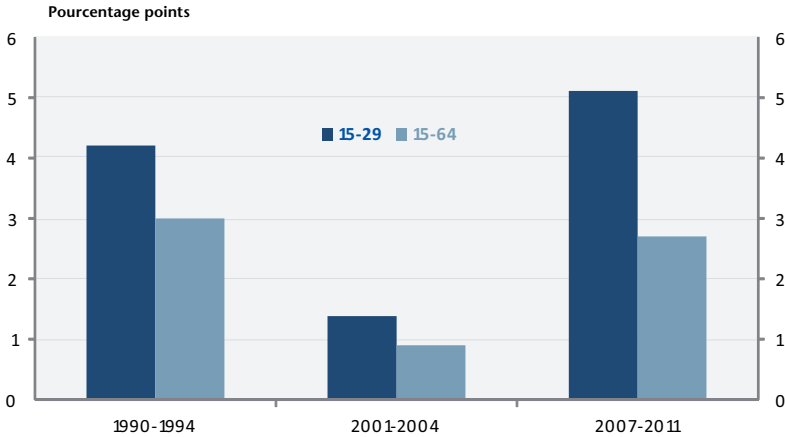
Youth unemployment has also increased dramatically during the crisis. In the second quarter of 2012, 9.2 million young people aged between 15 and 29 year olds were unemployed, which corresponds to 17.7% of 15-29 year olds in the workforce and accounts for 36.7% of all unemployed in the EU-27. If one compares the increase in youth unemployment with the increase in overall unemployment one can see that the increase in youth unemployment has been almost 6 percentage points while the increase in overall unemployment has been “just” 3.7 percentage points. Unfortunately this is not uncommon during a crisis. This is illustrated in Figure 10 which shows the increase in youth unemployment compared with the increase in the overall unemployment rate.

## 1. Why are young workers so hurt by recessions?

One obvious reason is that youths often have very limited working experience which of course makes it harder for them to get a job. Especially because the crisis has been particularly hard on the low-skilled workers without education. In Figure 11 the unemployment level of the 15-29 year olds are shown. Greece and Spain suffer from the highest levels in youth unemployment where 40% or more of 15-29 year olds are unemployed whereas the lowest unemployment rates for 15-29 year olds are observed in Germany, the Netherlands and in Austria where the comparable figure is about 7.0-7.5% unemployed.

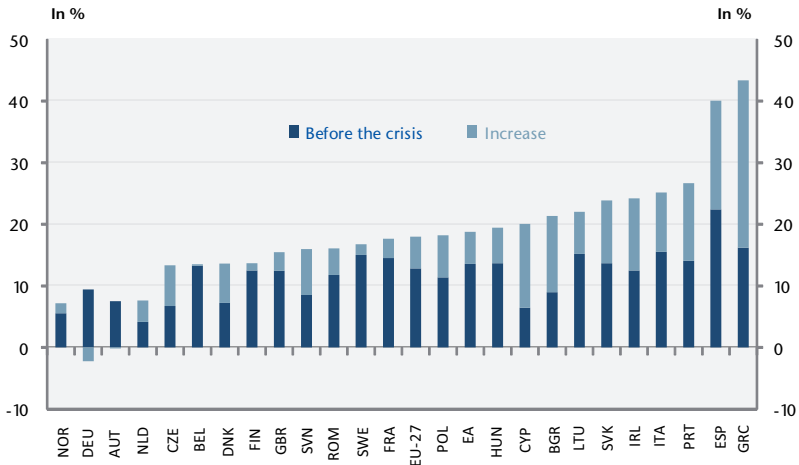
Spain and Greece have also experienced the largest increase in youth unemployed while both Germany and Austria are the only countries to have experienced a decrease in youth unemployment.

**Figure 10. Increase in youth unemployment vs. overall unemployment during other recessions**



Note: We are looking at age groups 15-29 vs. the 15-64. In the figure we look at the EU-12 (the European Community) since data for the EU-12 allows for a longer time period going back to 1987 while data for EU-27 is available for a much shorter time period.  
 Source: OFCE, IMK, ECLM on basis of Eurostat.

**Figure 11. Unemployment rates for 15-29 olds**

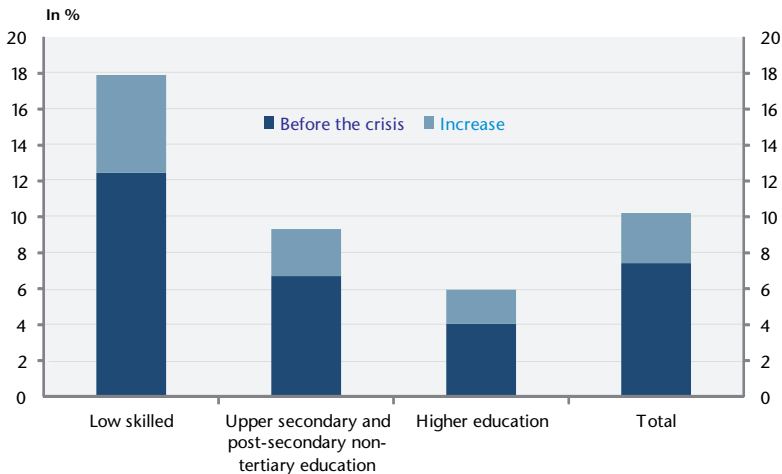


Source: OFCE, ECLM, IMK on basis of Eurostat.

### 9.5 million unemployed are low-skilled workers

Of the 25 million unemployed in the EU-27, 9.5 million are low-skilled workers that have not yet completed any further education beyond pre-primary, primary and lower secondary education (levels 0-2). In other words low-skilled workers account for 37% of all unemployment in the EU-27. If one looks at the unemployment rate of the different educational levels (Figure 12) it is clear that the workers with the lowest educational level in the EU have been most affected by the crisis. Before the crisis the unemployment rate of the low-skilled workers was about 12% but is almost 18% today. In comparison with workers with a higher education—first and second stage of tertiary education (levels 5 and 6)—workers with a higher education “only” have an unemployment rate of 6 percent.

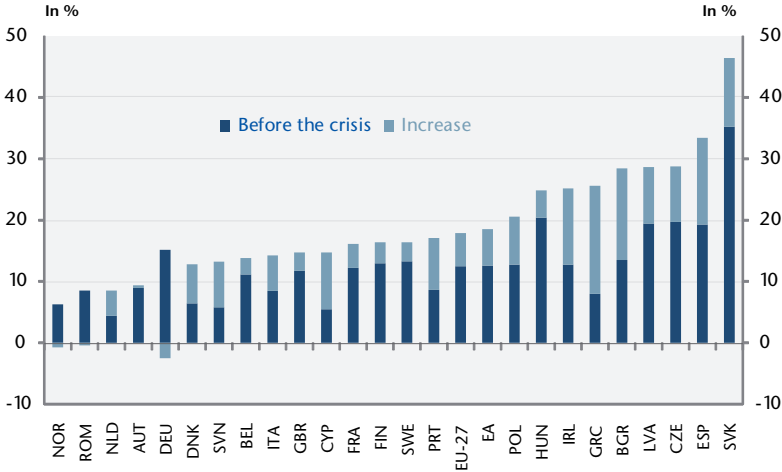
**Figure 12. Unemployment rates for different educational levels**



Source: OFCE, ECLM, IMK on basis of Eurostat.

If we look at the unemployment rates of the low-skilled workers in the individual countries (Figure 13) one can see that in Slovakia and Spain 46.4% and 32.4% of the low-skilled workers are unemployed. But unemployment among the low-skilled workers is also high in the troubled countries like Ireland and Greece where unemployment among the low-skilled workers is above 25 percent. The mentioned countries are also among the countries that have experienced the largest increase in the unemployment rate for the low-skilled workers.

The unemployment rate for low-skilled workers is the lowest in the Netherlands and Austria where 7.8% and 8.6% respectively of the low-skilled workers are unemployed.

**Figure 13. Unemployment rates for low-skilled workers in Europe**

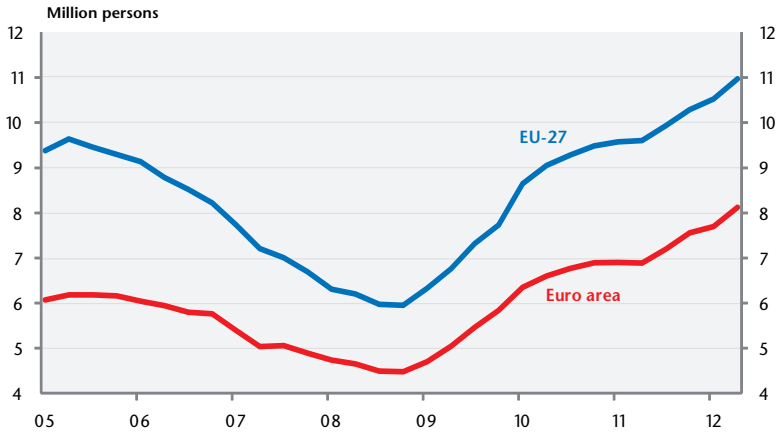
Source: OFCE, ECLM, IMK on basis of Eurostat.

## 2. Unemployment may remain high in the coming years

From past experience it is well known that once unemployment has risen to a high level it has a tendency to remain high the years after. This is known as persistence or hysteresis. Along with the rise in unemployment the first symptoms that unemployment will remain high in the coming years are already visible. This is clear by looking at the development in long-term unemployment. In the second quarter of 2012 almost 11 million people had been unemployed for a year or longer (Figure 14).

Although long-term unemployment had also begun to stabilize but within the last year long-term unemployment has increased with 1.4 million people in the EU-27 and with 1.2 million people within the euro area. If one compares unemployment with long-term unemployment one can see that more than four out of ten unemployed today are long-term unemployed in the EU-27. The large share of long-term unemployment is very concerning because of the risk that unemployment can remain high the coming years. This is due to the fact that the longer one is unemployed the more difficult it is to get a job. One loses skills as time goes by and firms do not find long-term unemployed workers as attractive as workers who have avoided unemployment or at least long-term unemployment. This may of course also lead to discouragement among the long-term unemployed so that the job search intensity at some stage may become lower. As a result of long-term unemployment the effective size of the workforce is diminished which in the end can lead to a higher structural level of unemployment.

Figure 14. Long term unemployment in Europe



Source: OFCE, ECLM, IMK on basis of Eurostat.

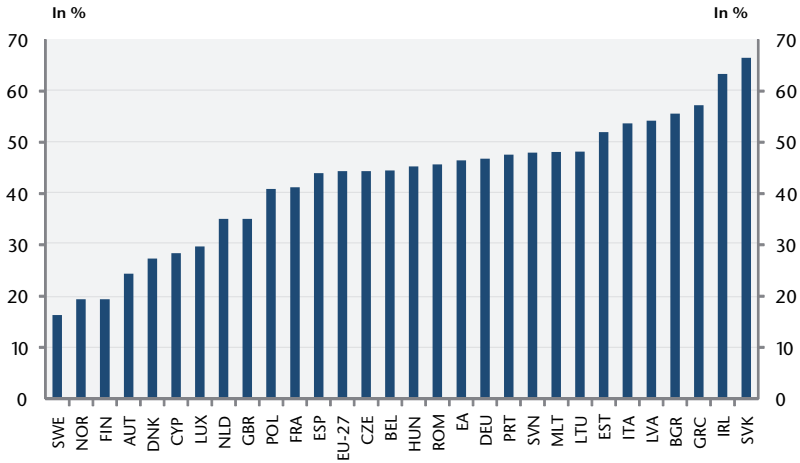
If the increase in long-term unemployment increases structural unemployment it will become even more difficult to generate growth and healthy public finances within the EU in the medium term. Besides the effect of long-term unemployment on potential growth and public finances, one should also add that long-term unemployment may cause increased poverty as unemployment benefits are cut or even stopped altogether as unemployment duration increases. Thus long-term unemployment may also become a deep social issue for the European society.

Figure 15 shows the share of long-term unemployed in the individual EU countries. Looking at the incidence of long-term unemployment one can see that Slovakia and Ireland suffer from the highest share of long-term unemployed workers. More than 60% of the unemployed are long-term unemployed in Ireland and Slovakia. In Greece more than 50% of the unemployed have been unemployed for a year or longer. In countries like Spain, Portugal and Italy the share of long-term unemployment will probably also increase the coming years due to the serious situation in these countries.

### *Long-term unemployment can reach 12 million in 2013*

Since unemployment began to rise again in the spring 2011 so has long-term unemployment begun to increase again. When one looks at the unemployment rate and the long-term unemployment rate (both as a share of the total labor force) there seems to be a quite linear relationship between unemployment and long-term unemployment. This is illustrated in Figure 16 where the long-term unemployment rate for the EU countries is plotted against the unemployment rate. This rather simple relationship explains 86.2% of the observed variation in the data.

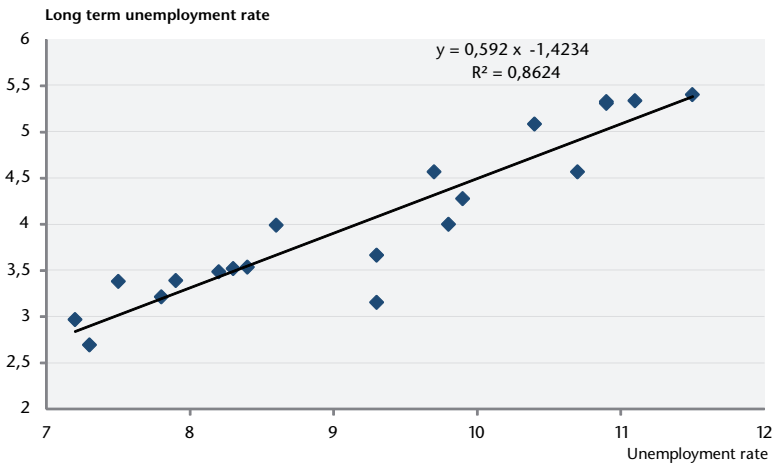
Figure 15. Share of long-term unemployed in the European countries



Source: OFCE, ECLM, IMK on basis of Eurostat.

The implication of the relationship is that around 60% of the increase in the unemployment rate in time will turn into long-term unemployment (the slope of the estimated line is 0.592). This nicely matches the observed movements in unemployment and long-term unemployment during this crisis.

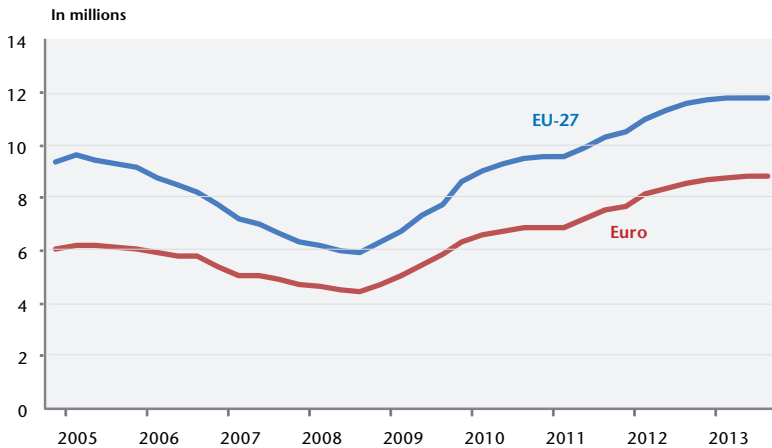
Figure 16. Relationship between unemployment and long-term unemployment



Source: OFCE, ECLM, IMK on basis of Eurostat.

With the latest forecast for the unemployment rate in EU-27, which is expected to increase from 9.7% in 2011 to 11.4% in 2013, one can thus expect the long-term unemployment rate to increase by another 1 percentage point. Given today's labor force this translates into an additional increase in the long-term unemployment of approximately 2 million persons over the period of 2011-2013 so that in 2013 one can expect around 12 million unemployed persons who have been unemployed for a year or more. Using the same argument one would expect long-term unemployment to increase to approximately 9 million people in the euro area. However it should be stressed that there are uncertainties of the forecast for the long-term unemployment because it takes time before newly unemployed turn long-term unemployed and even if unemployment should begin to decrease long-term unemployment could still rise because of delayed effects. Finally if the crisis gets worse than expected long-term unemployment may increase even further.

**Figure 17. Forecast for long-term unemployment within EU-27 and the euro area**



Note: The number of long-term unemployed is defined as the number of unemployed who have been unemployed for a year or more. The dashed line represents the beginning of the forecast.

Source: OFCE, ECLM, IMK on basis of Eurostat.

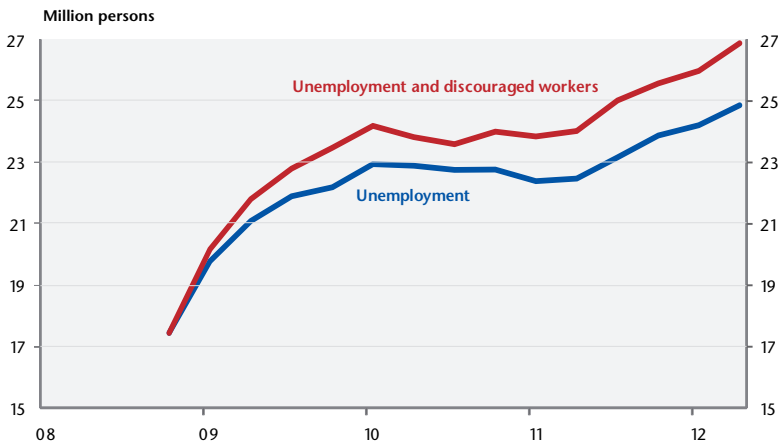
### *Long-term unemployment can discourage workers*

Besides the danger of becoming long-term unemployed making it harder getting a job, unemployed workers might also become discouraged as they continue to be unemployed. If one looks at the inactive part of the population who are not actively seeking a job but indeed would like to have a job this group has, according to Eurostat, increased by more than 2 million people since the outbreak of the crisis. This increase is very likely to be a result of an increase in discouraged workers who do want a job but have lost faith and stopped searching actively. As a consequence these workers are no longer a part of the labor force although they do want a job.



If this increase in the number of discouraged workers continues it might have a large negative impact on the growth potential in Europe. The increase in unemployment of 8 million people during this crisis is therefore in some respect understated and instead of just looking at unemployment one should also add the increase of discouraged workers who have left the labor force. So instead of 25 million unemployed persons in the EU-27, adding the increase in the number of discouraged workers gives 27 million unemployed in the EU-27. This is shown in Figure 18. The increase in unemployment of 8 million people since the beginning of the crisis and the increase in the number of discouraged workers of 2 million people during the crisis approximately equals 420 billion euro<sup>17</sup> in lost welfare for the EU-27.

**Figure 18. Development in unemployment with and without discouraged workers**



Source: OFCE, ECLM, IMK on basis of Eurostat.

### *How bad can things go? Case study: Denmark*

To get an idea of the social consequences of the crisis we take a look at a case study from Denmark. Denmark like many other European countries suffered from high unemployment in the mid 90'ties. Like today, one of the major concerns was youth unemployment which in 1993 reached 14.5% for the 15-29 year olds. After 1993 youth unemployment began to drop slowly but was in 1996 still around 9.5 percent. On the basis of Register data from Statistics Denmark and the DREAM database from the Ministry of Employment it is possible to keep track of the "1994 generation" (those aged between 15 and 29 in that year) and see how they have

17. The calculation is based on GDP per employed in 2008 times the increase in unemployment and in the number of discouraged workers.

managed up until today. The latest available data is for 2009 and earliest reliable data is for 1994.

First, the 1994 generation is divided into those who were unemployed for at least 80% of the year 1994 and those who were not. The 80% criteria corresponds to the Danish criteria of being long-term unemployed. So in fact we are looking at those under 30 years who back in 1994 were long-term unemployed and those who were not. We then look at the labor market status after 5 years, in 1999, after 10 years, in 2004 and after 15 years, in 2009. The results are shown in Table 8.

One can see that even after 15 years employment for those who were long-term unemployed back in 1994 is today significantly lower than for those who avoided long-term unemployment. Only 68.3% of the long-term unemployed in 1994 are employed today while 75.2% of the young people who avoided long-term unemployment are employed today. Also those who were long-term unemployed in 1994 have a higher risk of being outside the labor force or may even have gone into early retirement, and these differences apply even 15 years later.

**Table 8. Labor market status for the 1994-generation**

	Youth's that were unemployed			Youth's that were not unemployed			Comparison		
	5 years after	10 years after	15 years after	5 years after	10 years after	15 years after	5 years after	10 years after	15 years after
	1999	2004	2009	1999	2004	2009	1999	2004	2009
	Percent			Percent			Difference in percentage points		
<b>Employed</b>	66.1	68.2	68.3	71.4	75.2	75.2	-5.3	-7.0	-6.9
<b>Unemployed</b>	10.7	9.2	5.3	4.2	4.2	3.0	6.5	5.0	2.3
<b>Outside the labor force</b>	11.1	14.6	19.4	9.8	10.4	13.2	1.3	4.2	6.2
<b>Students</b>	10.3	5.0	2.8	11.1	5.2	2.7	-0.8	-0.2	0.1
<b>Unknown</b>	1.8	3.0	4.2	3.5	5.0	5.9	-1.7	-2.0	-1.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	—	—	—

*Note:* The table shows the labor market status in 1999, 2004 and 2009 of youth's under 30 years depending on whether they were unemployed at least 80 percent of the year 1994.

*Source:* OFCE, ECLM, IMK on basis of Statistics Denmark and the Ministry of Employment, the DREAM-register.

Long-term youth unemployment also had severe consequences for future income. This is illustrated in Table 9 which shows the average yearly income from work for those of the 1994 generation who were long-term unemployed at the time and for those who were not unemployed.

As can be seen from Table 9 the yearly average gross income is significantly lower for those who were long-term unemployed in 1994 compared with those who avoided long-term unemployment. This goes for the low-skilled workers as well

as for the skilled/high skilled workers. For the unskilled workers the difference after 15 years is about 6.600 euros while the difference for skilled/high skilled labor is about 7.500 euros.

The reason for the lower average income is probably that the young people got unemployed at a very critical stage of their working life where they did not have much experience yet. Lesser experience makes it harder to obtain well paid jobs and perhaps the young unemployed at some stage accepted less well paid jobs. If people get trapped in long-term unemployment and through their working life earn less money it also has a negative impact on the wealth of the society and on tax revenue from income taxes. The consequences for the long-term unemployed youth in the mid 90'ties in Denmark were severe even though the overall labour market improved after 1994. Also notice that an unemployment rate of 10-14% for the 15-29 year olds that Denmark suffered from in the mid 90's was lower than the overall youth unemployment in Europe today. The severe consequences experienced by the youths in Denmark in the mid 90's may therefore be a serious warning of what might happen this time if things do not improve soon.

**Table 9. Yearly gross income of 1994 generation**

	5 years after 1999	10 years after 2004	15 years after 2009
<b>Low skilled workers</b>			
Unemployed, Euro	27.400	34.200	42.100
Not unemployed, Euro	32.600	40.200	48.700
Difference, Euro	-5.000	-6.000	-6.600
Difference, percent	-15.8	-15.0	-13.6
<b>Skilled or high skilled workers</b>			
Unemployed, Euro	31.000	39.300	48.700
Not unemployed, Euro	36.700	46.000	56.200
Difference, Euro	-5.700	-6.700	-7.500
Difference, percent	-15.4	-14.7	-13.4

*Note:* The table shows the average yearly income from work for those that were employed in 1999, 2004 and 2009 depending on whether they were long-term unemployed in 1994 or not. The study looks at young people between 15-29 years. Furthermore the young people are divided in to low-skilled workers and skilled/high skilled workers. Students are excluded from the analysis.

*Source:* OFCE, ECLM, IMK on basis of Statistics Denmark and the DREAM register from the Ministry of Employment.

The social consequences of the crisis in Europe has already been severe and may soon impose serious risks for the European economy and society. In fighting these social risks, it is vital that more is done in the short run to stimulate growth and job creation to prevent persistence of high unemployment. Persistence of high unemployment might in the medium term result in a lower growth potential of the European economy—making it even harder to create growth, jobs and better public finances. Second the skills of the work force need to be upgraded. If they are not, low-skilled workers will have difficulties escaping unemployment and may risk becoming marginalized. The same concerns apply for the youth. The target of the Europe 2020-strategy is that no more than 10% of the 18-24 year olds should be early school leavers, but in 2011 13.5% of the 18-24 year olds left school early. If this target is not fulfilled large numbers of youths may only get a marginal attachment to the labor market.

Third active labor market policies are an important tool in order to prevent long-term unemployment. Active labor market policies should aim at upgrading the skills of the unemployed and active labor market programs ought to be initiated very early when one becomes unemployed. Finally one could consider introducing schemes that allow employees to go back to school while the job in the meantime is looked after by an unemployed person. In this way the unemployed person gets some valuable experience and at the same time the skills of the unemployed are kept a jour. Such a scheme could also increase productivity in the economy. Schemes like these might also serve as an important tool in fighting youth unemployment.