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Stolen Dreams

Our ability to set the world economy straight will decide the fate of today's young people

WHEN the young Tunisian street vendor Mohamed Bouazizi set himself on fire a little more than a year ago to protest the confiscation of his wares, he didn't just start a revolution in his own country. His desperate act also set off the chain of events that led to the wider Arab Spring. "I believe the reason why the young man in Tunisia changed the world was not because he was unemployed. It was because he had his dreams stolen."

These words, spoken by a young entrepreneur from Kenya at an IMF seminar last September, have stuck in my mind because they sum up the terrible price that young people who are unable to find jobs may ultimately end up paying: their futures diminished, their dreams impaired.

Lost generation

Young people were innocent bystanders in the global financial crisis, but they may well end up paying the heaviest price for the policy mistakes that have led us to where we are today. Young people will have to pay the taxes to service the debts accumulated in recent years. Moreover, the global economy is threatened by intensifying strains in the euro area, and unemployment is still climbing in several countries, in particular in Europe. Young people (those ages 15 to 24) are the most affected, and youth unemployment has reached record levels in a number of countries.

If the right policies are not put into place, there is a risk not only of a lost decade in terms of growth but also of a lost generation.

Consider this. In Spain and Greece, nearly half of all young people cannot find jobs. In the Middle East, young people account for 40 percent or more of all unemployed people in Jordan, Lebanon, Morocco, and Tunisia and nearly 60 percent in Syria and Egypt. And in the United States, which traditionally has had a strong job creation record, more than 18 percent of all young job seekers cannot find employment.

Young people tend to be hurt more by recessions than the rest of the labor force—when economic growth slows, youth unemployment rises. As new entrants to the labor market they already face the most obstacles. One such obstacle is the fact that young people have less job-specific experience, which means they often need additional on-the-job training. When there is an economic downturn, they tend to be affected more, and employers remain reluctant to hire inexperienced people as growth resumes. From a purely economic perspective, it is also easier for employers to lay off young workers than more seasoned ones, because their dismissal costs are lower. These factors seem to have been particularly pronounced during the 2008 global economic crisis and its aftermath.

Youth unemployment has long-term consequences for economic growth because of the loss or degradation of human capital. But it also has many other consequences, both for the individuals affected and for society as a whole.

Among those consequences are

Increased costs to the economy: Youth unemployment results in higher unemployment insurance and other benefit payments, lost income tax revenues, and wasted productive capacity.

Brain drain: Youth unemployment often leads to increased emigration, which is clearly happening in Ireland and Iceland and has been a long-standing feature of many Middle Eastern countries. Many crisis-hit economies have a tradition of emigration when the economy undergoes a serious downturn.

Higher crime rates: Increased unemployment has been linked to higher crime rates.

Lower lifetime earnings: Youth unemployment leaves a "wage scar" in the form of lower earnings that can last into middle age. The longer the period of unemployment, the bigger the effect.

Lower life expectancy: Unemployment more generally has been linked to lower life expectancy, a higher incidence of heart attacks later in life, and even higher rates of suicide.

Lessons for the IMF

So what can be done? And what can the IMF do to help? At the seminar I mentioned earlier, one of the participants asked me whether the IMF really cares about unemployment and the young.

The IMF's mandate is to promote global macroeconomic stability, and there are in fact many aspects of economic stability that have important consequences for youth unemployment—and vice versa.

What happened during last year's Arab Spring, for instance, holds an important lesson for us here at the IMF. Before 2010, most Middle Eastern countries had respectable economic growth rates—countries like Tunisia and Egypt were growing 3 to 5 percent a year on average during the three years that preceded the revolutions. On the surface, these countries appeared to be quite successful. But once you looked beyond those numbers and took into account what was happening to inequality and to unemployment, it was quite clear that there were huge problems festering underneath.

So it is not enough to simply look at the aggregate numbers. We have to look at what is underpinning them. If a country is going to have a revolution as a result of those underpinnings, that is clearly bad for macroeconomic stability.

IMF work has not focused on employment issues in the past. That is why we work with others who have a specific mandate in this important area. We have a strong partnership with the International Labor Organization (ILO) and have been pooling our expertise to understand better which macroeconomic policies are good for creating jobs. At a more practical level, we have also worked with the ILO in a handful of countries to devise strategies that can help governments, unions, and the private sector foster job creation.

The IMF also has its own active dialogue with trade unions at the global, regional, and national levels. We liaise regularly with the International Trade Union Confederation and interact with the Trade Union Advisory Committee of the Organization for Economic Cooperation and Development. And some 80 percent of all IMF missions to member countries meet with trade union representatives to gain a better understanding of what is happening in the labor market.

But the biggest contribution the IMF can make to reducing youth unemployment is helping its member countries restore economic growth. It is only when the economy recovers that people will start to find jobs again.

Road map to jobs

To get the world economy back to where it creates rather than destroys jobs, a number of steps should be taken.

In advanced economies like the United States and Europe, there is a problem of inadequate demand. After the crisis in 2008, governments in those countries increased public spending to avert a depression. This worked, but worries about the future linger. Further support for demand will be essential, together with policies that foster confidence in the future. And in the meantime, scarce fiscal resources must be used to preserve and further strengthen young people's skills.

Many countries in Europe also face obstacles to hiring young people that are of a more long-standing structural nature. The structure of product and labor markets often protects insiders, whether workers or companies. In the end, such lack of domestic competition hampers an economy's ability to compete in international markets and hinders growth and job generation. As part of its policy dialogue with member countries, the IMF is recommending measures to reduce labor market segmentation, lower barriers to competition (especially in the service sector), implement growth-friendly tax reforms, and increase efforts in education and research and development. Such measures obviously need to be adapted to countries' specific circumstances, but it is essential that they be implemented as soon as possible.

Emerging economies are another story. They have been growing strongly, and some—at least until recently—were even at risk of overheating. Some of these countries—mainly those running large external surpluses—could contribute to solving the global and youth unemployment problem by boosting domestic demand and purchasing more goods produced elsewhere, including in advanced economies.

Low-income countries weathered the crisis pretty well after 2008, but in the process used a lot of their government resources. They now need to rebuild their fiscal buffers, so they can sustain employment and redirect spending toward high-priority areas such as health, education, and infrastructure, even if the global environment deteriorates.

Getting credit flowing again

Another important factor in job creation is access to credit. Right now, in the United States and Europe, the problem is that banks are not lending. In the United States, the continuing crisis in the housing market is putting a damper on credit growth. In Europe, banks have big exposures to sovereign debt. The answer has been to tighten lending conditions, and, not surprisingly, young entrepreneurs are among the first affected, with fewer loans going to start-ups, for example.

That is why it is important to recapitalize banks and more broadly restore confidence, so that financial institutions can get back to the business of lending and contributing to growth.

In developing economies, many banks are lending, but the loans do not reach large segments of the population, particularly young people and would-be entrepreneurs. For this reason, expanding the number of people who have access to credit is very important for employment.

Call to action

For millions of young people around the world, a lot is at stake in 2012. If we do not succeed in putting the world economy back on the path to recovery, futures will be blighted, and more dreams will be stolen. To solve the problems of youth unemployment, restoring global growth is crucial, as are policies to support job creation and credit. None of this can be achieved without global cooperation. ■