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BRUSSELS BEAT

Idling Older Workers to Help the Young—Or Not?

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BRUSSELS—In the search for solutions to Europe's youth unemployment crisis, governments are blowing the cobwebs off a decades-old idea that many economists had hoped would remain in the attic for good.



People wait in line at a government employment office in Madrid in June. *AFP/Getty Images*

Governments are considering using money from the European Union budget to fund early retirement for older workers. The idea is to free up positions for the millions of Europeans under 25 who can't find a job.

Youth unemployment rates have reached staggering levels in countries hardest hit by the crisis: 60% in Greece, 55% in Spain and 39% in Italy.

Although the percentages are high because of the relatively small numbers of young people actually looking for work—as opposed to staying in school—

economists agree that labor market conditions facing the young in these countries are truly dismal. That has sparked fears among euro-zone leaders that the situation could become socially explosive.

German Chancellor [Angela Merkel](#) will host a meeting of EU leaders and labor ministers on July 3 in Berlin to discuss how to defuse the youth unemployment problem. The early-retirement idea is likely to be discussed, officials say.

The idea appears to have a powerful ally in Ms. Merkel, who said this spring it should be considered across the region. Germany has used early retirement programs as far back as the Great Depression to help ease employment crises. Italy recently said it was considering programs that would encourage older people to work fewer hours, while mentoring younger hires.

"Wouldn't it be better to do what we did in Germany, and have an early retirement scheme for a few years?" Ms. Merkel said in April, according to Reuters.

Most economists say it would not be better.

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There is almost no evidence that early retirement does anything to open up jobs for young people, while some evidence suggests it may even make the unemployment problem worse.

A number of European countries adopted early-retirement plans to fight the unemployment crises of the 1970s and 1980s, yet the programs produced no discernible reduction in youth unemployment, said Kevin Milligan, an economics professor at the University of British Columbia, who has studied early retirement programs.

"The Europeans have gone down that path before and it would be a shame if they went down it again," Mr. Milligan said.

While getting a single older person to retire may open up a job for a young person, multiplying that

across the entire economy would only reduce overall spending. The reason is that when people retire, their incomes fall and they spend less, reducing overall demand.

"Indeed the evidence suggests that greater labor-force participation of older persons is associated with greater youth employment and with reduced youth unemployment," according to a paper co-written by Mr. Milligan.

Some countries such as Spain are still encouraging early retirement, but EU officials have been leaning on governments to phase the programs out.

Demographics are one reason. With Europe's population aging, officials believe that workers will need to stay on the job longer, not less, to prevent national pension systems from going bust.

Thus the European Commission and the European Central Bank have been pushing governments in recent years to raise retirement ages, arguing that their economies can't afford to have workers stop working at age 60 or younger.

"The idea of older people retiring early to create jobs for young people makes no sense and would be likely to worsen youth unemployment," said commission spokesman Jonathan Todd.

A senior euro-zone official said the idea "goes against everything we have been working on for the last 20 years."

So, what are some of Europe's other ideas to fight the youth unemployment crisis? Unfortunately, economists don't have high hopes for any of them.

Making it easier for unemployed young people in the euro-zone periphery to move to Germany and

other countries in the core might help. But language is a big barrier to, say, young Spaniards moving to take jobs in Germany.

European officials also want to boost training for unemployed workers. But many economists are skeptical that training can create jobs in the deeply depressed economies of southern Europe, where even better-trained workers may find that there is no demand for their new skills.

Better training and education "increases the productive capacity of your economy," Mr. Milligan said. "While it's a good thing to do, it's not a solution to the current problem."

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