No Country for Young Men

ABSTRACT

We review trends in the relative economic situation of young working-age men over time in the developed world, and we produce new estimates of changes in their relative incomes over the last few decades. We present evidence that, at least over the past two decades, there has been generalized deterioration in the relative economic conditions of young working-age males in developed countries. In the US, for example, men 25-34 years old with tertiary education who were employed full-time earned 11 percent less in real terms in 2000-2005 than they did in 1979-89. The economic conditions of these young working-age men are important because they are at the prime ages for finding employment, the establishment of long-run career paths and building an economic basis for founding a family. Men's incomes seem particularly important for couples' decisions to enter parenthood even in rich, egalitarian countries. Relatively low incomes among young men can have several consequences, including the 'scarring' effects on economic performance (lower wages throughout the working life) and depressed family outcomes (postponed and lowered fertility).

1. Introduction

While public attention has been focused on what appears to be critical matters with the well-being and income level of the seniors, it has largely ignored another equally important problem, the economic well-being of younger adults. If attempts are made to solve the labor market and fiscal problems of seniors at the expense of those in their twenties and thirties, we might well find that we have not solved those problems at all. True solutions to the economic problems associated with ageing must take into account the well-being of all members of society, not just the seniors.

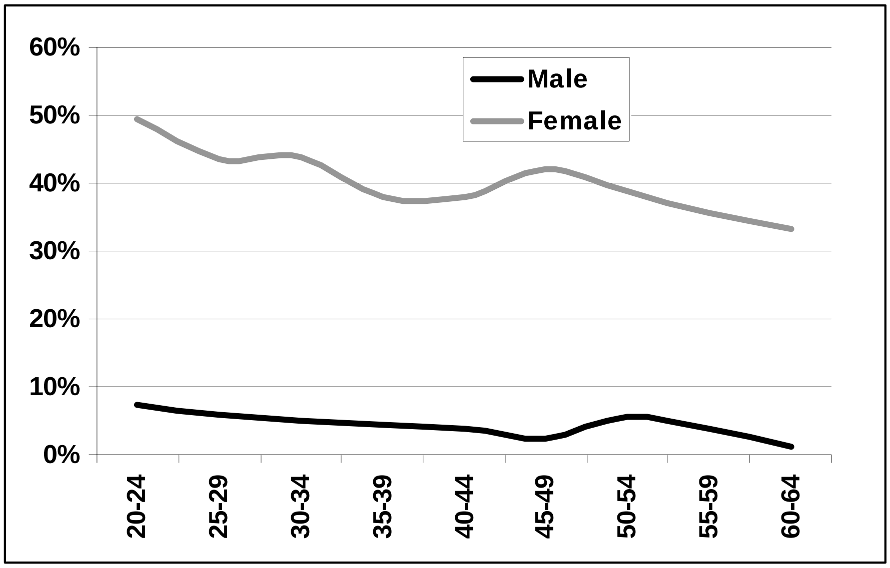
Young working age males (25-34) play a distinctive role in the economies and demographies of developed countries. These are the prime ages for the establishment of long-run career paths, union formation, and fertility. Young working age males are typically expected to provide most of the family's income during this life cycle phase, especially if their wives/partners reduce their hours of paid employment or leave the labor force entirely in favor of childcare. In this paper, we present evidence that, over the past two decades, there has been a significant deterioration in the relative economic conditions of these young working age men in many developed countries. Deteriorating relative economic conditions makes performing these functions more difficult.

The role of the economic conditions of young men has been emphasized in the Easterlin (1980) hypothesis, which has two parts. The first focuses on whether the fertility and family formation behavior of young couples, depends in part on the incomes of young men *relative* to the consumption aspirations (which is influenced by the income of the parental generation). In other related research, relative wages have been found to be strongly related to individuals' well-being, and to matter more than absolute income levels (Clark and Oswald 1996, Grund. and Sliwka 2003). Therefore, decreased relative wages for young men could imply a decreased feeling of success in life and a perceived decline in living standards. Lutz et al. (2006) argue that the gap between income aspirations and expected/actual income is a key determinant of several important lifetime outcomes, including establishing a family and having children, as many wait to have children until they have secured what they perceive to be an adequate economic level.

The second part of the Easterlin hypothesis is that the incomes of young men depend on their relative cohort size, where smaller cohorts are believed to do better than larger cohorts. Empirical testing has not favorable to this aspect of the hypothesis; relative cohort size is generally not found to be related to the economic conditions of young men (Jimeno and Rodriguez-Palenzuela 2002, Shimer 2001, Gottschalk 2001).

The likelihood and timing of marriage and childbearing depend on a large number of factors that vary from country to country. In most developed countries, we have observed postponement of family formation in recent decades. This can be due to a number of factors, such as the increase in educational attainment, increased housing prices, changing gender roles, individualization and secularization. Nevertheless, we believe that the economic situation of young working age men is an important component that has been largely missing from this discussion.

Figure 1. For marriage (or cohabitation): partner’s income level is important. Source: *Japanese National Survey on Work and Family 2007*



We choose to focus on men rather than women because even in relatively gender equal societies there is an asymmetry in the importance of male and female income in family decision-making. For example, a Japanese survey (see Figure 1) shows that for entering a union, the *partner's* income level is important for women (particularly younger ones), but not for men. Similar results are found in Norway, which has the highest female labor force participation rate in the world (OECD 2006). Even there, 7 out of 10 women prefer that the man is the main breadwinner of the family (Synovate 2008).

The popular media in various countries has commented on the worsening economic situation of the younger generation. For example, in Germany, the media refer to "Generation Praktikum"[1]. These are young people who go from one low paid internship to another without much chance of finding themselves on a satisfactory career track. The Japanese media talk about "freeters" and "neets"[2]. The word "freeter" is a combination of the English word "freelance" and the German word "Arbeiter" (worker). The word "neet" is an acronym that comes from the UK. It stands for "not in employment, education, or training". In Italy, a recent novel by Incorvaia and Rimasia entitled "Generazione Mille Euro" has given a name to a generation of young people with low incomes and high job insecurity.[3] In virtually all the media accounts, the economic conditions of the young are discussed as if they were specific to their country. We show here that relatively weak income growth for young working age males is a general phenomenon in developed countries.

We show in this paper that, in many developed countries, young men have generally not shared in the increase in economic output during the last few decades. In some countries, real incomes of young men have decreased. Even in the countries where the real incomes of young men did increase, they almost always increased less rapidly than the incomes of older men. In none of the developed countries for which we have data, has the growth of the median income of young working age males kept pace with the growth of GDP per worker. A low and worsening economic position of young men can have long term negative consequences and their positions in aging societies needs to be better understood.

Age and allocation of resources: Long term view

In hunter-gatherer societies a profound veneration of healthy seniors is likely to have coexisted with resentful behaviour towards the frail elderly. In societies with limited resources and strong mobility requirements dependent seniors demanding food, slowing down movement and not being able to provide work represented a burden (De Beauvoir 1973, Simmons 1945). Abandonment, neglect or geronticide of those in a poor physical and mental condition decreased the number of elderly dependents in the tribe (Barker 1990, De Beauvoir 1973, Levi-Strauss 1936, Brogden 2001).

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[1] Der Spiegel. 2008. „Generation Praktkum Arbeitsminister Scholz will ein bisschen helfen" 18.March 2008

[2] Japan Times 2004. "NO EDUCATION, NO EMPLOYMENT, NO TRAINING. Being NEET not so neat for nation's youth. 19. June. 2004.

[3] Antonio Incorvaia og Alessandro Rimassa. 2006. Generazione mille euro. *www.generazione1000.com*

The transition to agricultural societies may have raised the social and economic benefit of the older individuals, as mobility became less important, and many seniors could continue with simpler and lighter tasks when their capacities weakened. Evidence from Europe indicates that norm was to adjust job tasks with worsening health and declining strength (Bull 2006, Elu Terán 2006, Jacobs et al. 1991, Costa 1998).

Evidence from industrializing 19th century Great Britain suggest that maximum income for men was reached by age 30 before flattening and gradually declining (Burnette 2008). Johnson (2003) and Boot (1995) find that British male earnings in textiles, metals and mining peaked for ages 30-39 in 1833, while by 1880 and 1930 the top income plateau extended from age 30 to age 50. In study of workers in the US 1889-90 an earnings peak around age 30 was found (Haber and Gratton 1994). Evidence from Finland in 1900 show that wages reached their highest levels at ages 30-44 (Rahikainen 2001).

In the second half of the 20th century, earnings gradually increased among senior age groups. US census data show that top income levels for white men in 1959 were reached in age group 30 to 60 for those with 0-4 years of education and around ages 40 to 60 for those with 16 years or longer education (Willis 1986). Evidence from OECD countries from the 1970s and onwards suggest that highest wages now tended to be reached around age 50 (OECD 2006, Heyma et al. 2004, Walewski 2008).

In countries such as France, US, Italy and Sweden in the 1980s to 2000s, the age group 50-69 are found to have the highest wealth levels, and that their wealth relative to other age groups is increasing over time (Jappelli and Pistaferri 2000, Haffner 2004, Klevmarken 2006). Moreover, while poverty levels fell among individuals in their 50s and 60s in most OECD countries, poverty rates increased among individuals in their 20s and 30s from the 1980s to the 2000s (OECD 2008).

In Sweden between 1980 and 2003, the share of 20-24 year olds who reported having health problems increased from 7 per cent to 10 per cent, while for the 60-64 year olds it decreased from 41 per cent to 36 per cent. Individuals in their 20s were less likely to have access to cars in 2003 than in 1980, and available living space has decreased for the young. Between 1980 and 2003, the number of individuals per 100 rooms increased from 59 to 65 for 20-24 year olds, while it decreased from 41 to 34 for the 60-64 year olds (Vogel and Råbäck 2004).

Rents/house prices go up relative to the earning power of the young because incomes of others bid them up making it more difficult for the young to find housing considered to be appropriate for starting a family. In most EU countries, housing prices have outstripped increases in average disposable income (ECB 2003). The impact of this development will probably be most detrimental to the young, who are less likely to own a home and have much lower wealth levels than the elderly – and hence to be more sensitive to price fluctuations (OECD 1998).

Recent economic busts prior to the worldwide recession that began in 2008 resulted in less hiring and staggering increases in unemployment – particularly among young men (EU 2009). Evidence from the 'Big 5 crises' – Spain, Sweden, Finland, Norway and Japan shows that unemployment problems for young men aged 15-24 may remain for years after the economy begins to grow again (Reinhart and Rogoff 2008, Verick 2009). For example, during the Swedish crisis around 1990, unemployment for prime-age men (aged 25-54 years) rose from 1.1% to 9.3%, while unemployment among 15-24 year old men rose from 3.9% to 26.1%. In the 1990s, Finland suffered the most severe depression of any Nordic country. GDP there collapsed by 14 per cent from 1990 to 1993, but started growing strongly from 1994 and onwards. While prime-age male unemployment rose from 2.5 to a peak of almost 16 per cent in 1993 before falling, unemployment grew from below 10 percent to a peak of 31.5 per cent in 1994 for the 15-25 year old Finnish men. Youth unemployment in Finland only slowly decreased even after one and a half decades of continued economic growth. In fact, even by 2008 youth unemployment had not reached the pre-crisis level, even though GDP per capita surpassed its pre-crisis level already by 1997 (Verick 2009).

Younger age groups have recently taken the brunt of welfare, pension and labor reforms, and are destined to repay current huge fiscal deficits being spent on current cohorts. The "last in, first out" principle, advocated by many unions, worsens the employment stability of younger workers (Oswald 1987). Ongoing pension reforms across a number of ageing economies, where one replaces a pay-as-you-go system with a funded system tend to put a double burden on younger cohorts, who both have to pay to finance current seniors in addition to save for their own pensions (Kohli 2005). Worsening relative economic conditions for the young may not reflect falling productivity among the young, but could hinge on political power: Elderly use their vote, organize better and gain much more political attention and support (AARP 2008, Fieldhouse et al. 2007, Wass 2007).

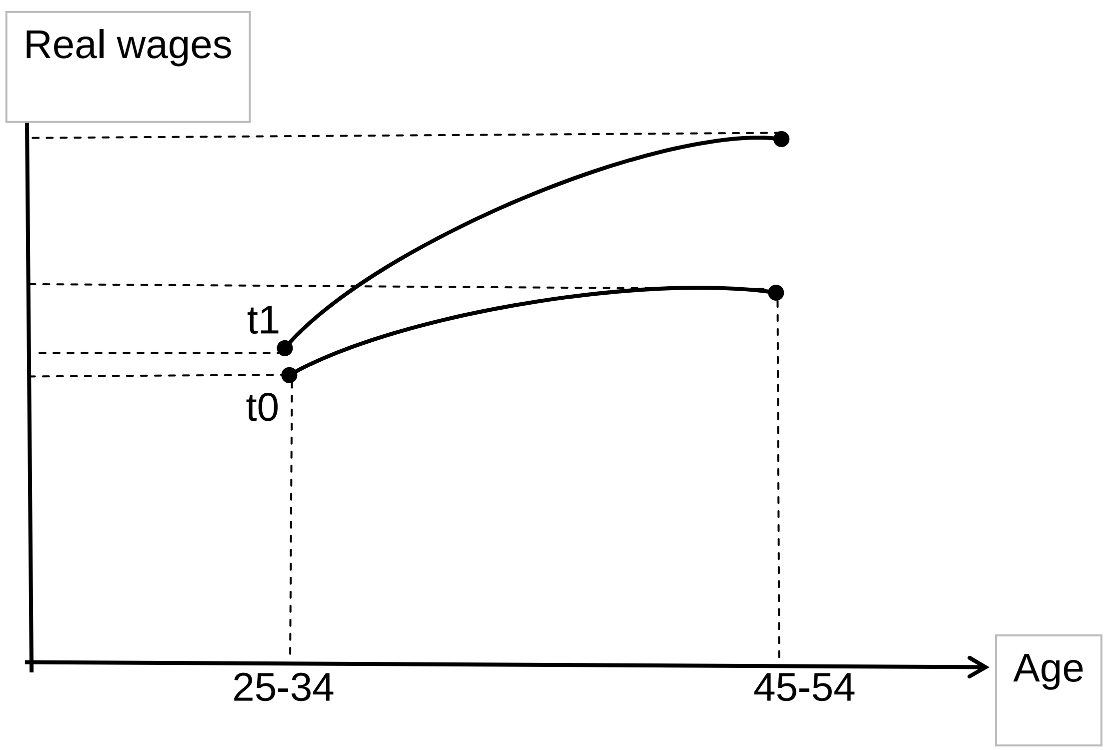
Both younger and older workers are particularly affected by dismissals associated with downsizing and plant closures, which would suggest that it is important to focus on employment opportunities for these groups (Schmähl 2003, Dorn and Souza-Poza 2005, Aaberge et al. 1997, Zwick 2008). However, employment uncertainty can have different long term effects for the young relative to seniors. Evidence from surveys reveals that key prerequisites for family formation and childbearing are a sufficiently high income, adequate housing and even more importantly: stable employment with longer term prospects (Andersson 2000, Koytcheva and Philipov 2008, Koskela and Uusitalo 2002). In Spain, the labor market reforms that lowered employment stability and income of the young are often seen as a key reason for why Spanish women have experienced significant fertility postponement (from already high ages) and depressed fertility 1990-2005, with ages at first birth rising faster than any other European economy (de la Rica and Iza 2005, Frejka and Sardon 2006).

Decreasing income at younger ages are likely to have long term effects: Those who suffer relatively low wages at younger ages are likely to be "scarred" for life, implying that their risk of unemployment and their wage levels will be lower at higher ages than cohorts who experienced less difficult labor market conditions in their youth (Arulampalan et al. 2000, Gregg and Tominey 2005). Evidence from surveys reveals that key prerequisites for family formation and childbearing are a sufficiently high income, reasonable housing and even more importantly: stable employment with longer term prospects (Andersson 2000, Koytcheva and Philipov 2008, Kravdal 1999). The young may choose to postpone or not enter parenthood altogether if their income is too low. Age-earnings curves that peak late in life can make family formation difficult, and the slope of earnings curves are associated with postponed fertility (Van Bavel 2008).

The following sections focus on trends in age-variation in wages, though also other sources of economic well-being are much lower for the young. Both wealth and income from investments accrue mainly to older people. Evidence from France, US, Italy and Sweden show that wealth peaks for ages 50-69 - and their wealth relative to younger age groups increased from the 1980s to the early 2000s (Jappelli and Pistaferri 2000, Haffner 2004, Klevmarken 2006). Diagram 1 illustrates the case where the relative economic position of the young is weakened over time compared to the older age group in spite of some wage growth also among the young.

In Section 2, we provide data on the relative income of young men. In order to investigate trends in age-specific income, we focus on changes over time in age-specific wages for full-time younger male workers (ages 25-34) and full time older male workers (ages 45-54) in the period 1980-2000. We show there that young men's relative economic positions have generally worsened since the 1980s. We use data from two sources, the Luxembourg Income Survey (Smeeding et al. 1990) and the OECD (2009). Given the importance of the economic conditions of young working age males, comparable cross-national data is surprisingly scarce. In Section 3, we discuss some possible reasons why young men have seen deteriorating relative economic conditions. In the final section, we conjecture what this might mean for demographic developments in the future.

Diagram 1. Stylized diagram of real wages in period t(0) and period t(1), where the 25-34 year olds initial level and growth is lower than that of 45-54 year olds



2: **Deteriorating Relative Economic Conditions of Young Men**

Table 1 contains data obtained from the Luxembourg Income Survey for western countries (Belgium, Canada, Denmark, France, Italy, Netherlands, Norway, USA) and Taiwan, and two countries where the data are based on information from the OECD (Australia and Sweden). We report median incomes of men 25-34 and 45-54 by level of education, as well as real GDP per worker (average labor productivity). We include only countries for which we have surveys in the 1980's. The underlying data come from a variety of different sources and some refer to gross income and some to net income. We set the average observation in the 1980's equal to 100. We choose to include part-time workers, although most of the men who work in these age groups are in any case full-time (e.g, in the Netherlands at least 90 percent are full-time in the survey periods).

A striking feature of Table 1 is that in no country have the median incomes of the 25-34 year old kept pace with the growth of GDP per worker. In Italy, for example, the net income of college educated 25-34 year old men in the early 2000's was only around 92 percent of what it was in the late 1980's, while GDP per worker grew by around 18 percent. In the United States, the median incomes of 25-34 year old men with less than tertiary education fell by about 20 percent from the late 1980's to the early 2000's, while GDP per worker was rising by around 40 percent. Even in Taiwan, where the growth of GDP per worker and incomes were much faster than in the other countries in the table, the median incomes of young men rose considerably less rapidly than older men.

The number in square brackets shows the median incomes of 45-54 year old men in the 1980's relative to that of the 25-34 year old men in the same period. In the 1980s, the older age group is better paid than the young in all countries, ranging from 1.2% higher in Australia (although the seniors earned 3.1% less in the 1970s) to 30.1% in the United States. The development since the 1980s to the 2000s has been more favorable to the senior than to the younger men in all countries – allowing age-based inequality in earnings to widen over time.

Although the overall relative economic standing of young men has deteriorated, the development is differentiated by education. The trend is worst for the least educated, where 25-34 year old men with less than a tertiary education saw their wages decrease by up to 19.5% (the United States). Tertiary educated young men, on the other hand, saw a narrowing of the earnings gap to seniors in 6, and a widening in 3, out of the 9 countries, although the tertiary educated young men had very low relative wages in the initial period. Tertiary educated seniors earned up to 77.5% (Netherlands) more than the young men in the 1980s, while seniors with less than tertiary educated seniors earned only up to 26.5% (United States) more than the young.

Table 1. Median wages, total and by education for 25-34 year old and 45-54 year old men

*data from OECD. ***Net*** **-** Net wages and salaries - Cash wage and salary income (including employer bonuses, 13th month bonus, etc.), net of employer and employee social insurance contributions and taxes. Conscript's pay is also included here. ***Gross*** - Gross wages and salaries - Cash wage and salary income (including employer bonuses, 13th month bonus, etc.), gross of employee social insurance contributions/taxes but net of employer social insurance contributions/taxes. Conscript's pay is also included here. **OECD:** Australia – ***Gross*** - Gross weekly earnings in main job (all jobs prior to 1988) of full-time employees, Sweden – ***Gross*** - Gross annual earnings of full-year, full-time workers. GDP per worker data come from Heston et al. (2006)

3. Why Have the Incomes of Young Working Age Men Grown So Little?

In this section we investigate some key theories for why young men have become relatively worse off over time.

a. Labor Productivity Growth

The growth of average labor productivity (GDP per worker) has been positive in all countries investigated, although the rates of growth differ substantially (see Table 1). Wages have not kept pace with increases in average labor productivity. Particularly the young are relatively worse off over time, which suggests that increasing national wealth levels are increasingly redistributed away from young men to others.

b. Education

Wages are closely related to educational length, particularly at senior ages (Willis 1986). Nevertheless, seniors earn more than the young in spite of the general tendency for education to be higher among the young (see Table 2). There have been rising education levels for all age groups in the period we consider. Particularly the proportions with tertiary education have risen during the last decades.

Table 2. Average percentage of males with at least some tertiary education among the 25-34 and 45-54 year old men in the 2000s [%]. Source K.C. et al. (2008)

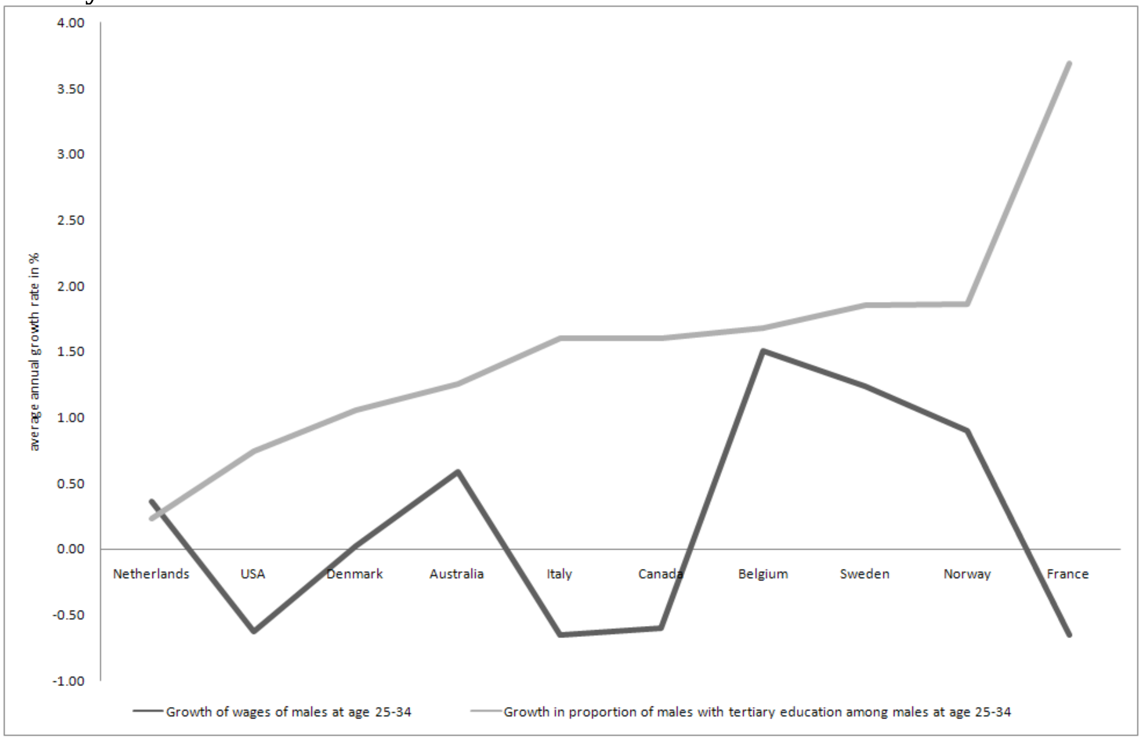
Country	Males at age	
	25-34	45-54
Australia	28.2	27.2
Belgium	34.4	24.4
Canada	54.0	39.7
Denmark	23.2	24.3
France	32.4	16.9
Italy	11.8	11.8
Netherlands	31.3	26.7
Norway	31.2	27.0
Sweden	23.3	20.7
USA	29.0	31.0

The relationship between annual wage growth and growth in share with tertiary education (for all countries where both these sources of information are available) is given in Figure 2. No clear relation emerges from the Figure, and educational growth does not seem to be related to income growth. For example France, the country with the fastest growth in tertiary education, experienced one of the most negative wage changes for the 25-34 year old men. On the other had, the Netherlands has the slowest educational growth but are among the few countries with positive wage growth.

Although identifying the causal relationship between wages for young adult men and tertiary education growth is difficult – for example there could be temporary short term effects), the finding suggests that at least in the longer term, no systematic relationship between wage growth and tertiary education levels exist.

The relationship between the growth of the proportion of workers with tertiary education and their wages is a complex one. A more educated labor force could be a more productive one and one with higher wages. But the wage rate depends on the balance between supply and demand and it is possible for the proportion of the labor force with tertiary education to grow so fast that wages are bid down.

Figure 2. Annual growth in proportion males with tertiary education and wages of 25-54 year old men

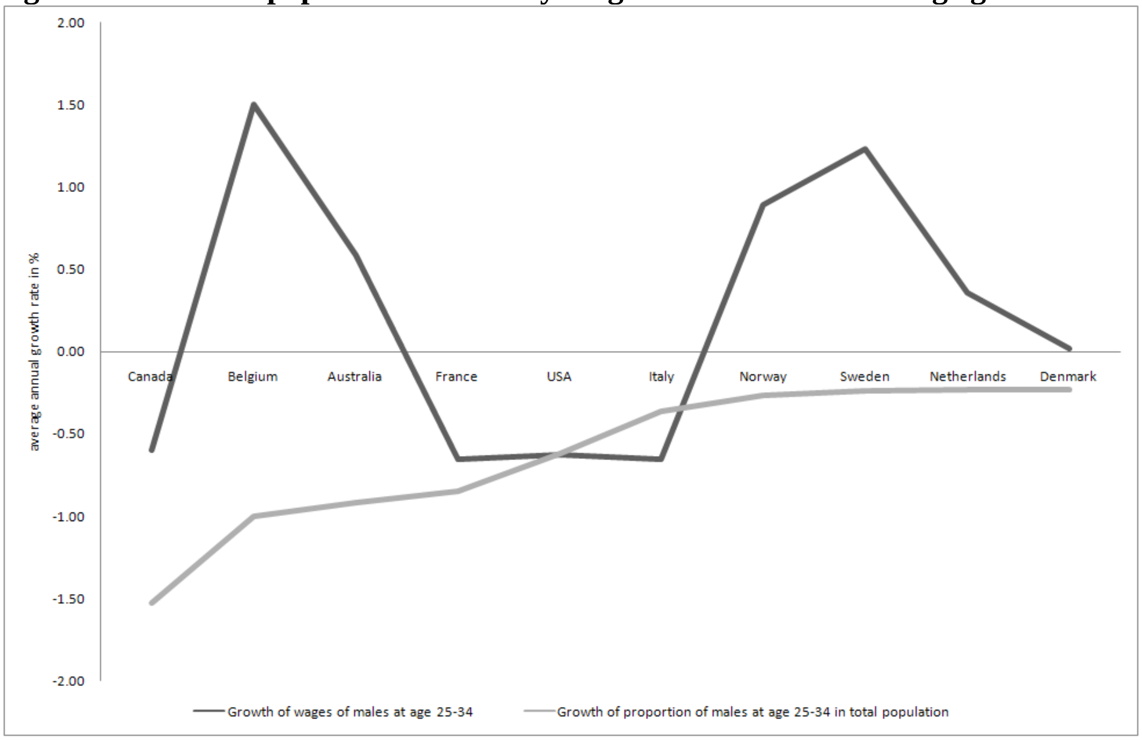


Source: Luxembourg Income Study Data and IIASA dataset. (KC et al. 2008) Changes in the population share with tertiary education and real wages of young men from the 1980s to the 2000s.

c. Cohort size, female labor force participation and migration

One of the possible explanations of relative decrease in wages for younger men is the *Easterlin effect*; that larger cohorts negatively affect wage levels in Europe. The size of male cohorts are partially driven by high net immigration (which is often young and male) in recent years both to North America and Europe (OECD 2003) and could lower the wages of natives with similar skills (Borjas 2003, Freeman et al. 1999). We compare changes in cohort size and earnings (Figure 3) and find virtually a zero correlation between change in the size of the cohorts and wage variation. Three countries had relatively high rates of wage growth, Netherlands, Belgium and Norway. There does not appear to be a clear connection between changes in cohort size and wage growth. Over the period considered, there has also been a strong increase in female labor force participation. This may have had a depressing effect on the wages of young men.

Figure 3 Growth in population share of young men and their real wage growth



Source: Luxembourg Income Study Data and IIASA dataset. (KC et al. 2008) Changes in the male share of the population aged 25-34 and real wages of young men from the 1980s to the 2000s.

d. Compositional demand shifts: Less demand for “young skills”?

In contrast to age-earnings profiles, individual work performance is often constant by age or decreases in the latter half of the working life. Age-variation in productivity can be due to the length of work experience, age-related decreases in health, strength, cognitive abilities and motivation (Skirbekk 2008, Warr 1996). Shaw and Lazear (2007) find that output is 53 percent higher after one year than what it was initially when hired, but with longer tenure, earnings rise faster than productivity, implying that seniors higher wages is not due to productivity. Firm level data where one compares age-variation in productivity and wages tends to find that wages increase faster than productivity (Flabbi and Inchino 2001, Dohmen 2004).

Productivity reductions at older ages are strongest for jobs where problem solving, learning and speed matter more, while productivity is higher for seniors engaged in work tasks where experience, verbal abilities and management skills are more important (Skirbekk 2008). A recent survey by Van Dalen, Henkens and Schippers (2009) find that both younger and older individuals tend to value “soft qualities” (social skills, reliability and commitment, accuracy and customer-oriented skills) as less important than “hard qualities” (creativity, mental and physical capacity to deal with workload, new technology skills, willingness to learn and flexibility). Evidence from research on age-variation in cognitive abilities suggests younger individuals generally perform better at the more valued “hard qualities” (Park et al. 1999, Verhaegen and Salthouse 1997, Maitland et al. 2000), suggesting that young are higher valued in the labor market.

Later generations of elderly cohorts are likely to be increasingly productive –for example due to rising educational qualifications (Lutz et al. 2008). They may also have better mental abilities. For example, Finkel et al (2007) study birth cohorts 1900-1948, using data spanning 16-years and find large gains for the later borns in speed, memory, verbal abilities and speed. However, Finkel et al. also found middle-aged individuals have achieved an equal cognitive ability growth. This could suggest an increase in cognitive performance for workers of all ages, where also the young and middle age benefit similarly from improvements in skills (Flynn 1987, Sundet, Barlaug and Torjussen 2004).

It is uncertain whether labor saving technologies would affect the young or the seniors more (Acemoglu, 2002). The net impact of recent decades higher demand for various cognitive abilities could well have been an increase in the relative work potential of the young, as younger have greater speed and learning abilities, relevant for rapidly changing labor market needs (Skirbekk 2008).

e. Does Labor Market Liberalization Hurt Young Men?

Table 1 contains data for four Nordic countries. Of these, Denmark stands out in two ways. First, Denmark has seen the greatest relative deterioration in the economic conditions of young men and second, Denmark has by the most liberalized labor market (Lawson and Bierhanzl 2004). The poor economic performance of young men in the

United States and Canada is also consistent with the view that more liberalized labor markets have produced less employment stability for young men.

The reforms to labor market in Spain lowered employment stability and income of the young – and this is often seen as a key reason for why the Spanish experienced rapid fertility postponement and depression 1990-2005, with ages at first birth rising faster than any other European economy (de la Rica and Iza 2005, Frejka and Sardon 2006).

f. Has the Political Power of Older Generations Increased?

Most positions of high power, high income and high influence are occupied by older individuals. Moreover, the older vote more often and are more organized. Unions also support them more than other age groups, particularly through the first in, last out principle during layoffs. The young are much less organized politically compared to the seniors (Dychtwald 1999, Hinrichs 2002, Mulligan and Sala-I-Martin 1999). Business cycle fluctuations may hit young men in particular, due to 'insider-outsider' labor markets, where those who are employed are secure, and downturns are primarily reflected in few hirings (primarily of young). The stronger political bargaining power of the elderly could provide one possible explanation for why they are able to earn increasingly more relative to younger age groups.

Deferred payment theories suggest that older workers are paid more than the value of their marginal products (Lazear 1979, Hutchens 1986). Such systems are meant to create bonding and to reduce the agency problem as workers fear shirking will keep them from being employed in the "reward phase" of the implicit contract. Deferred payment systems becomes costlier when the workforce grows older (Skirbekk 2004, Lazear and Moore 1984). However, such systems may persist when seniors constitute a growing pressure group which benefits from seniority based earnings systems.

The higher earnings of seniors are not likely to stem solely from free market outcomes. Surveys from Italy, Germany and the US – from both large, medium sized and small firms - reveal that employers see high costs as one of the most important problems for employing older adults (Munnell, Sass and Soto 2006, Bellmann 2007, Golini 2004, Kay et al. 2008).

4. Concluding Thoughts

The populations of today's developed countries are aging rapidly, entailing fiscal expenditures on healthcare for the elderly and pensions. These outlays have to be financed by someone and the great share of these costs is likely to be borne by the younger generations. These additional burdens do not come at a time when younger generations are flourishing. Relative to average labor productivity and to the wages of members of older generations, the wages of younger working age men have been deteriorating over the last two decades or so. This reduction in the relative economic well-being of young working age men is not limited to a few countries. We find it in all the developed countries for which we have data.

There are a number of possible causes of this widespread deterioration: (1) young men are suffering from the lower rates of economic growth, increased competition and decreased hiring, (2) labor market liberalization has differentially hurt the young, and (3) the political power of older generations has increased as electorates have aged. None of these three possible causes is likely to diminish in potency in the near-term future.

The popular media, in reporting on the economic conditions of both young men and women, emphasize something that we cannot measure with existing data sources. This is the economic insecurity of young. Many young adults not only have relatively low incomes, but they are delayed in getting on a regular career track, often bouncing from one short-term job to another, frequently not acquiring meaningful on-the-job training. The low relative income is only part of the story. The other part is that many young adults do not have confidence about where they will be working six months or a year in the future.

Aging poses fiscal problems to governments. They need to raise enough money to cover healthcare and pension costs. The economic problems of the young do not pose a fiscal problem and the seriousness of the problems of aging tend to push the problems of the young off the political agenda. Nevertheless, the economic uncertainties and low relative incomes are also real problems. The young respond to their economic conditions by forming households later, and delaying the onset of fertility. The households that are formed tend to be less stable. In several cases, such as in Italy, the result is likely to be reduced fertility.

When people are asked about how many children they would like to have, they respond (on average) with a higher number than they actual attain. One barrier to having the number of children that people desire may well be the relatively weak economic situations of the young.

Many developed countries are now spending large amounts of money in order to stimulate couples to have more children. Studies suggest that these efforts, thus far, have had some, although not much, effect (Gauthier 2007, Grant et al. 2004). The policies are usually of two types. The first kind lowers the cost of children to women by guaranteeing them a period of maternal leave and enabling them to return to a job with the same employer after the leave is over. The increasing availability of childcare also is designed to lower the cost of children to women. The second type of policy decreases the cost of children to couples through payments related to the number of children. But to the extent that an important impediment to childbearing is the difficulty of forming a partnership with enough financial resources and stability to support childbearing, then neither policy is likely to have a big effect.

Supporting an increasingly elderly population with more children rather than higher taxes, may require that we improve the economic conditions of young men, both in terms of their relative incomes and in terms of employment stability. Attempting to support an increasing elderly population by making the economic conditions of the young worse, could well result in the worst of both worlds – not enough support for the elderly, accelerated ageing and an unhappy and unproductive youth.

Rather than shielding older insiders through employment protection, labor market institutions should enable parents of young children to easily enter and remain in the labor market, and social assistance and in-work benefits could replace the passive income support (Bovenberg 2008). Also institutional changes that allow for more efficient schooling and an earlier graduation without lowering human capital levels can extend the length of the working life and provide more opportunities for childbearing (Lutz and Skirbekk 2005).

The economic problems of the young are as pressing as the economic problems of seniors. Good public policy must address the two of them together.

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