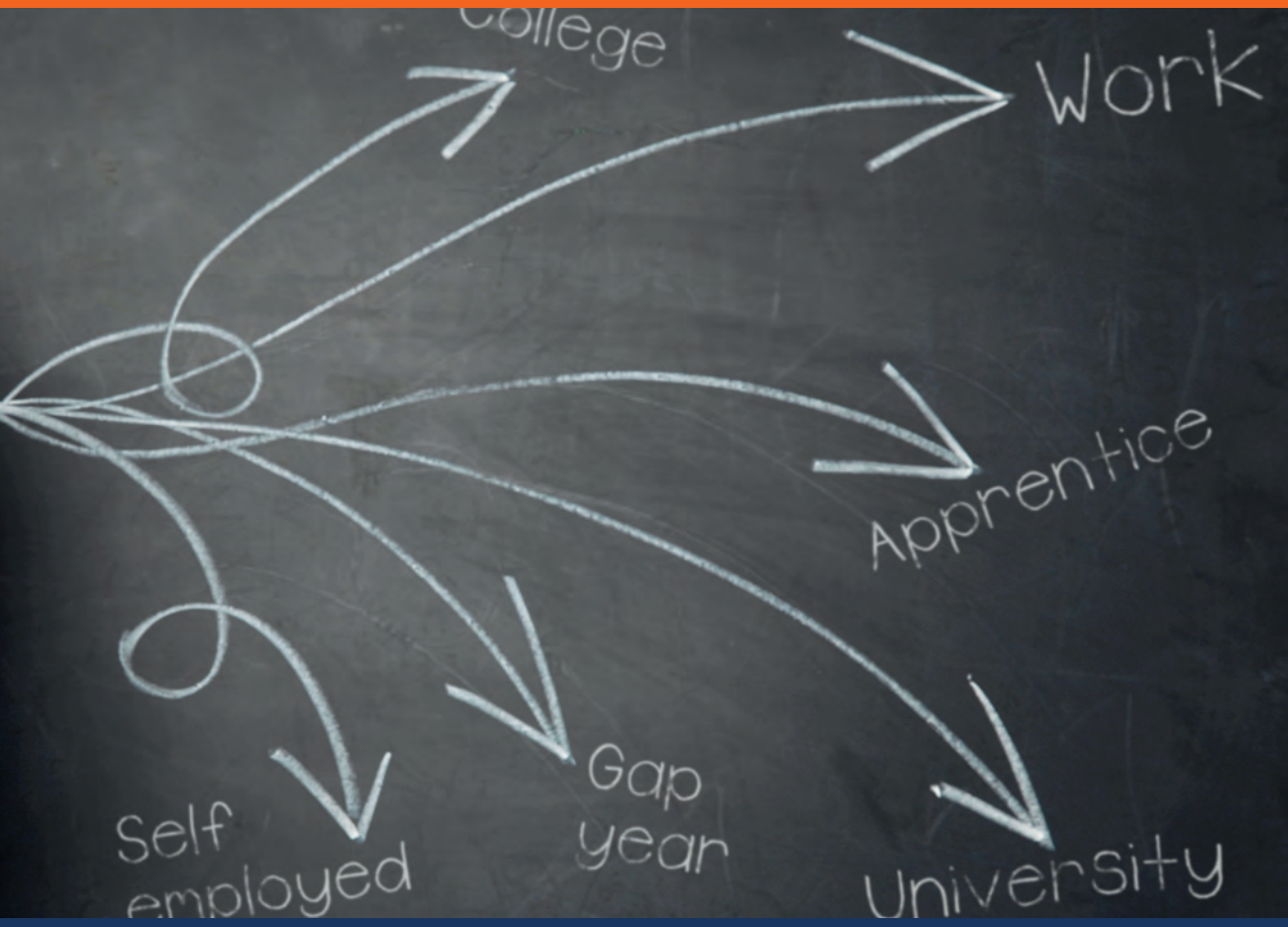
No Country for Young People?

Youth Labour Market Problems in Europe

Edited by Juan J Dolado



CEPR Press

A VoxEU.org Book

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ISBN: 978-1-907142-85-7

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Co-funded by the
Europe for Citizens Programme
of the European Union

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Foreword

Youth unemployment has been at the forefront of political and academic debate since the unfolding of the Great Recession in 2008, exploited to a greater or lesser extent by the contenders of most elections that have taken place across Europe since then. But the joblessness of young people is a far more endemic feature of modern economies. So why has the wide spectrum of policy tools used to combat this problem achieved limited success at best? How do government leaders adopt the right approach to effectively stem the rising tide of unemployed youth?

Edited by Juan Dolado of the European Uuniversity Institute, this eBook takes into account the relevance of policy lessons from recent experience to provide a clear analysis of the factors that affect the impact labour market policies have on youth unemployment. The contributors present a case-by-case analysis for a range of countries across Europe – spread both geographically and also by the divergent approaches taken. It covers countries with dual vocational training systems; dual labour markets; those where the ratio between youth and adult unemployment is notably high or low; and an overview of the recently launched Youth Guarantee programme.

CEPR is grateful to Juan Dolado for his excellent editorship of the eBook and his acute summation of the current debate, and to the contributing authors for their valuable insights. We also thank Anil Shamdasani and Shreya Sinha for their efforts in publishing and launching this eBook. The European Commission support for the production of this publication does not constitute an endorsement of the contents which reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein. CEPR, which takes no institutional positions on economic policy matters, is delighted to provide a platform for an exchange of views on this critical topic.

Tessa Ogden
Deputy Director, CEPR
January 2015

Introduction

Juan J Dolado
European University Institute and CEPR

The recent dramatic increase in youth unemployment has not been observed across all countries in the EU; some have fared much better than others. This new Vox eBook reviews the experiences of a number of countries in Europe and points to pertinent problems and the relevance of certain policies. One group of countries (including Austria, Germany and Switzerland) has been successful in keeping youth unemployment low mostly because of their efficient use of vocational training and programmes targeted at disadvantaged youth. A second group (including France, the UK and Sweden) has been less successful, mainly due to employment protection and minimum wages, plus a partly dysfunctional education system. A third group (Greece, Spain, Italy and Portugal) has been hit hardest by the crisis and have displayed the highest youth unemployment rates. Segmentation of the labour market, lack of aggregate demand, and poor vocational training are among the main reasons for this surge. Proposed programmes, such as the Youth Guarantee, should have a specific target population and should be supplemented by reforms targeting structural problems.

Introduction

The 2008 Oscar for the Best Motion Picture of the Year was awarded to the Coen brothers' *No Country for Old Men*. Inspired by this title, an increasing concern is whether Europe is becoming 'No Country for Young People'. Youth joblessness has been at the frontline of the academic and policy arena since the onset of the Great Recession in 2008, further aggravated by the sovereign debt crisis hitting the peripheral economies in the Eurozone.

A good starting point to address this issue is to acknowledge that the problem has been around in many countries for several decades, and has been subject to many different policy interventions. Nonetheless, the accumulated experience with these policies does not seem to have been useful enough to prevent a rapid surge in youth unemployment in recent times. Yet, this rise has not happened across the board, and youths in some EU countries have fared much better than in others. Hence, heterogeneity of experiences and policy actions is a key element in analysing how to straighten the current course of events and prevent any future recessions hitting youth as hard.

In this eBook we review the relevance of policy lessons from recent experience in order to (i) improve the transition from school to work, (ii) foster the creation of more jobs for young people and, (iii) increase the well-being of youths overall. To do so, we focus on specific country experiences, ranging from those that have done well in this respect to others that have performed much worse. We also look at the prospects of the recent proposal of a Youth Guarantee as the new 'Marshall Plan' of the European Commission regarding a global solution to youth joblessness.

Following the definition proposed by the International Labour Office (ILO), when discussing youths in labour market terms we are referring to those individuals above the compulsory school-leaving age (usually between 15 and 18) and under 25, since at that age most have completed education and have entered the labour force. Yet, given the increasing participation in higher education in most countries, we will also include in this group those aged under 30 in some instances, since they may also face problems when integrating into the labour market.

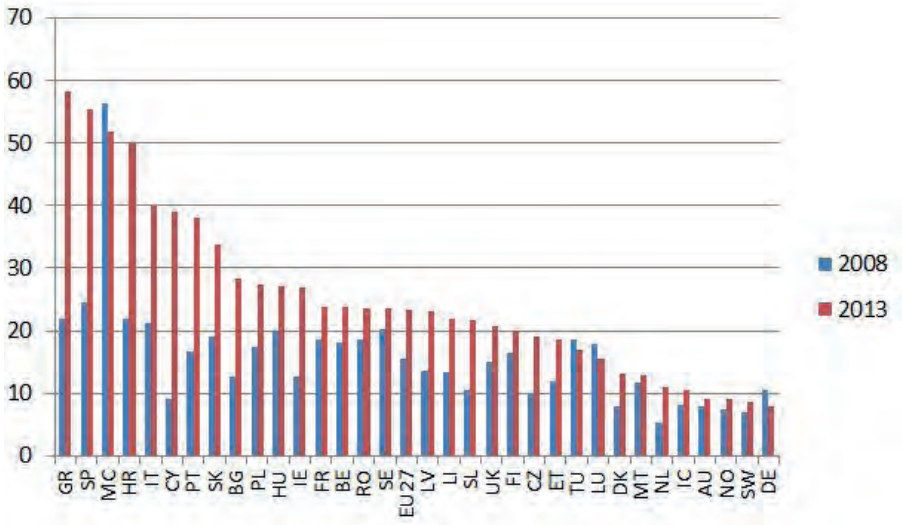
As pointed out by Blanchflower and Bell (2011), there are a number of reasons why youth unemployment rates tend to be higher than adult rates. Among those coming from the demand side, we find (i) the issue that young people have less specific human capital so firms in distress tend to dismiss them first, particularly where statutory redundancy payments depend heavily on seniority, and (ii) the fact that they may also find themselves in an experience trap, whereby employers require experienced workers

and as a result, young people are placed at the back of the queue and cannot increase their own experience. On the supply side, there is (i) the much higher worker turnover among youths because their initial job matches may not fit well with their preferences and skills, and (ii) the issue that youths often receive financial protection from their families, who may be willing to support them should they not find work. Whether the cause originates on the demand or the supply side, the outcome is that youths experience considerably higher rates of joblessness than adults.

Figure 1 shows EU27 youth (15-24) unemployment rates in 2008 and 2013. As can be observed, the EU average in 2013 was around 23%, approximately twice the adult unemployment rate. Countries can be divided into three groups. First, there is a group formed by central European and some Scandinavian countries, with youth unemployment rates below 20%. Then there is a second group, including France, Sweden, the UK and some eastern countries, with rates between 20% and 30%. Finally, there is the group of the worst performers, including Ireland and the southern European countries badly hit by the crisis, among which Greece and Spain stand out with youth unemployment close to or above 55%.

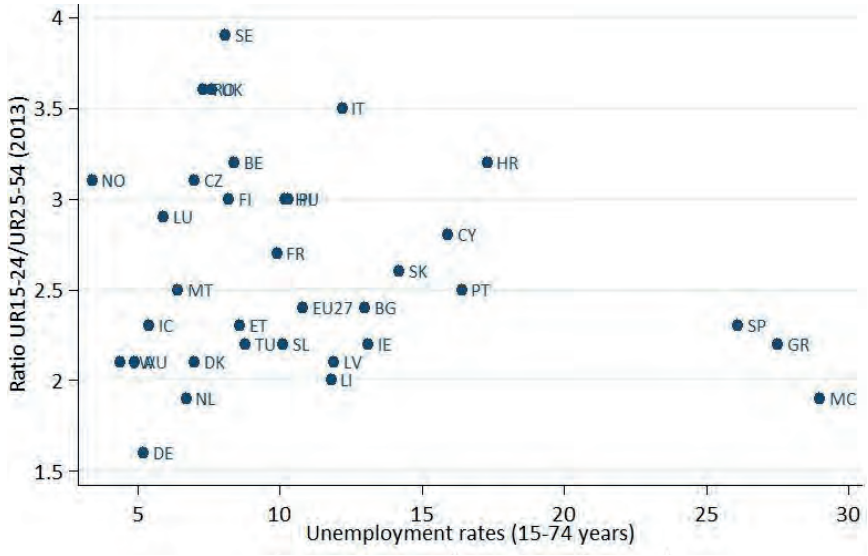
Next, Figure 2 presents the ratios between youth and adult unemployment rates as of 2013. Somewhat surprisingly, it can be seen that the reported ratios do not fit neatly into the previous classification of countries. For example, while Italy has a ratio above 3.5, Sweden has 4.2 hat of the UK is around 3.0. In contrast, Greece and Spain have ratios between 2.0 and 2.5, which are similar to the European average. However, in line with the previous groupings, central European countries like Austria, Germany and Switzerland exhibit the lowest ratios.

Figure 1 Youth (15-24) unemployment rates



Source: European Labour Force Survey (annual samples, 2013).

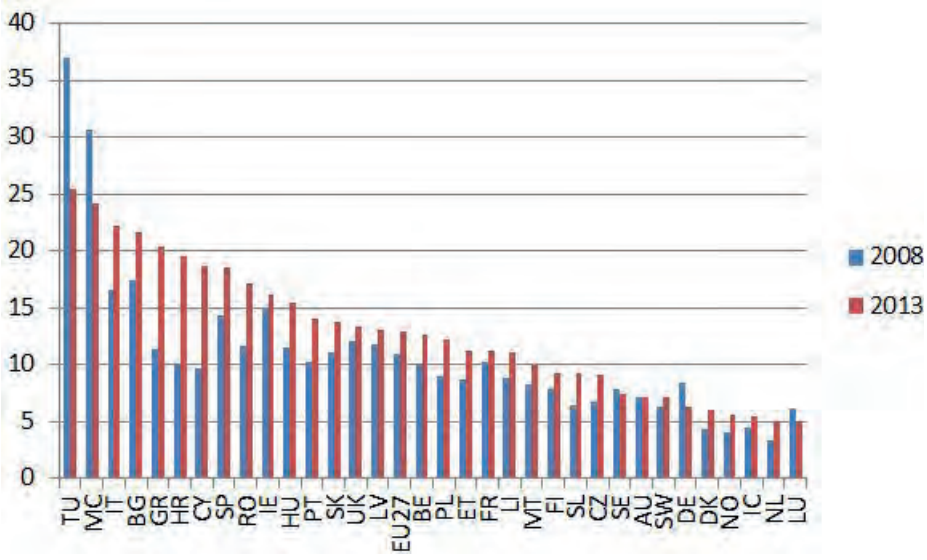
Figure 2 Ratio between youth (15-24) and adult (25-54) unemployment rates



Source: European Labour Force Survey (annual samples, 2013).

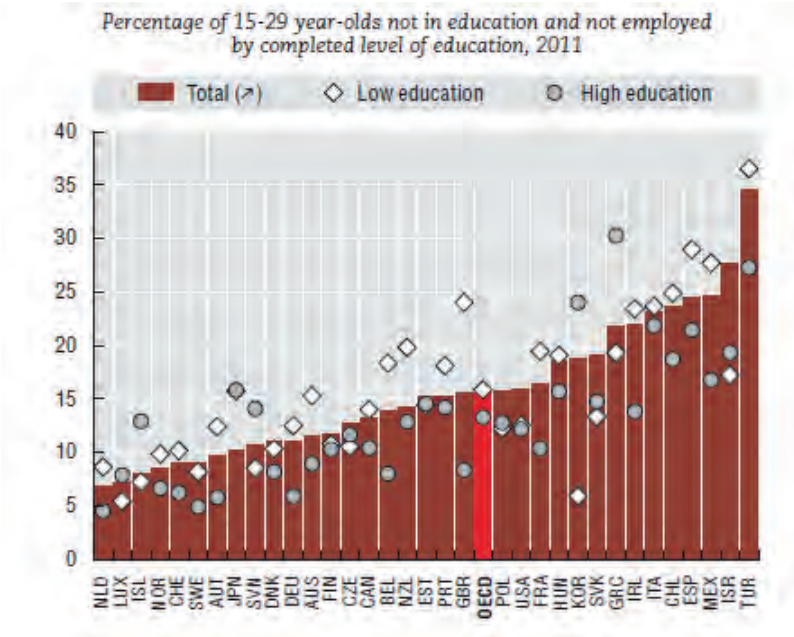
However, in general youth unemployment rates are not so dramatic, since a large proportion of young people are enrolled in the education system. For example, with an EU average labour force participation rate of about 40% (versus 61% in the US or around 55% in central European countries and the UK), a youth unemployment rate of 23% means that 'only' 10% of the (15-24) youth population are unemployed. For this reason, following the work of Quintini and Martin (2006), a more relevant statistic is the so-called NEET rate, an acronym devoted to those in the 15-24 population who are not in education, employment or training. This definition includes the unemployed, school dropouts and all those discouraged college graduates who still have not found a job. Figure 3 shows the NEET rates for the EU27 countries in 2013 and their changes since 2008. In this case, the breakdown by countries mimics that in Figure 1, with the central European and Scandinavian economies at the bottom and the southern Mediterranean economies at the top of the list.

Figure 3 NEET rates (15-24)



As discussed before, the NEET status also applies to individuals aged 25-29. As shown in Figure 4, which reports the 2011 rates for 15-29 year-olds in OECD countries, including the slightly older group adds between 2 (Italy) and 9 (Spain) percentage points to the NEET rates in Figure 3. Moreover, in some countries – such as Ireland, Italy, Portugal and Spain – more than 25% of young people who have completed higher education are classified as NEETs.

Figure 4 NEET rates (15-29) by completed level of education



What is the eBook about?

In view of the previous evidence, the chapters of this eBook are structured around detailed accounts of how specific countries in the above-mentioned three groups have dealt with youth labour market problems. In particular, the contributors to this volume focus on the following country studies (authors in parentheses):

- **Group I**: Austria (Josef Zweimüller), Germany (Regina Riphan) and Switzerland (Michele Pellizzari and Domenico Tabasso).

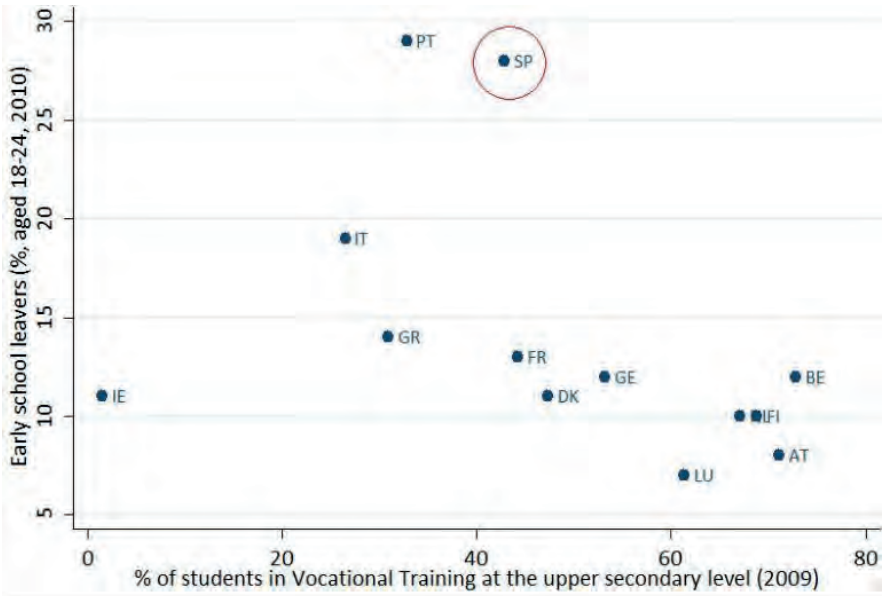
- **Group II**: France (Pierre Cahuc and Stéphane Carcillo), Sweden (Oskar Nordström Skans) and the UK (Paul Gregg).
- **Group III**: Greece (Manos Matsaganis), Italy (Marco Leonardi and Giovanni Pica), Portugal (Alvaro Novo) and Spain (J. Ignacio García Pérez and Judit Vall).
- Additionally, there is an evaluation of the **Youth Guarantee** (Florentino Felgueroso and Marcel Jansen).

Concluding remarks

There are many lessons to be drawn from theses reviews. Some are well known, but others are more novel. Here, we summarise their main conclusions.

1. The relative success of countries in Group I relies on the efficient use of vocational training (VT) and apprenticeship institutions. In particular, this relates to the so-called 'dual system' (on-the-job training combined with formal vocational schooling) and the strengthening of 'pre-apprenticeship' or 'third track' transition systems, targeted at potential school dropouts with limited competencies. In this latter programme, disengaged youths from school are prepared to access the more conventional apprenticeship tracks, without providing qualifications. Further, there has been an effort to establish 'bridges' from VT training to formal degrees, opening pathways to higher education. Figure 5 shows that, with the exception of Ireland, there seems to be a clear negative relationship between enrolment in VT and early school leavers. In addition, although some of these programmes have experienced vulnerabilities during the Great Recession and its aftermath, there have been particular events that have helped these countries to keep youth joblessness under control: (i) shrinking cohort sizes (in Germany), (ii) an abundance of (voluntary) part–time jobs (in Switzerland, but also in the Netherlands), and (iii) a strong consensus among policymakers and social partners in fighting youth joblessness (in Austria and also in the Netherlands).

Figure 5 Vocational training and school leavers (18-24)



2. Regarding the countries in Group II (i.e. the middle performers), the usual culprits for relatively high youth unemployment and NEET rates are employment protection and minimum wages (in France and Sweden), plus a partially dysfunctional education system (in France, Sweden and the UK). Yet, it is important to note that the high ratios between youth and adult unemployment rates in the first two countries may be an artefact of the very crude definition of unemployment in the LFS. In effect, people are classified as unemployed if they do not work, are available for work, and are actively searching or awaiting a job during the survey week. Thus, youths are counted as employed if they work in a store for one hour, and unemployed if they are looking for a part-time job while studying. Further, students frequently take 'gap years' before starting higher education. Since these are standard practices among many youths in Sweden or UK, the high ratios in both countries might not be very a good indication of social exclusion. Yet, both France and Sweden have high shares of temporary contracts as a result of the extremely dual nature of their employment protection legislation (EPL, see more on this below). However, whereas temporary

contracts play a screening role in Sweden, they often become dead ends in France. On top of that, minimum monthly wages are particularly high in France (€1,445 in 2014), even allowing for the lower minimums for youths (80% and 70% of the adult minimum for those aged 16-17 and 17-18, respectively). This, together with the lack of resources devoted to job-seeking support for the less qualified, aggravates the situation of youths in the country. Likewise, the lack of a well-developed VT system in the UK, combined with the fall in early retirement as a result of pension fund deficits and the dismantling of the Future Jobs Fund in 2010, hit young people hard. However, the introduction of the Work Programme in 2011 – operated by approved providers who receive a payment for sustained employment – and 'pre-apprenticeships' for youths with low school grades at the age of 16 have helped to progressively reduce youth unemployment to pre-recession levels as the UK economy has recovered.

3. The four countries in Group III are those that have been hit hardest by the crisis. Between 2008 and 2013, real GDP in Greece contracted by 29%, a fall about five greater than that experienced in the other three laggard economies (-4.7% in Italy, -6.5% in Portugal and -6.4% in Spain). Given how dramatic the collapse of living standards in Greece has been, as result of the 'internal devaluation' and the austerity packages, it is not surprising that it has become the leading country in youth unemployment with one of the highest NEET rates in the EU27. Yet, these rates were higher than in most other EU countries before the crisis, due to high youth sub-minimum wages, the perception that VT was of low quality, an excess supply of university degrees facilitating access to the public sector, and the difficulty of implementing an apprenticeship programme in an economy where very small firms make up a large share of employment.

   Italy is another country where there is a large divergence between youth and adult unemployment. Several explanations have been provided for this feature. First, as with other southern Mediterranean economies, Italy has a dual labour market as a result of the deregulation of temporary contracts in the late 1990s, which meant

a significant increase in the share of these contracts. This was useful in reducing youth unemployment in an otherwise rigid labour market, since the low employment protection in these contracts made them useful in creating (and destroying) jobs. Yet, the gap in EPL between indefinite and temporary contracts implied a lot of churning and poor training of temporary workers. Further, a specific institution of the Italian labour market – the *Cassa Intergrazione Guadagni* (CIG) – which provided income support to permanent workers who were laid-off, implied that they who were not counted as unemployed in the official statistics. This reduced the hiring of youths in the short run and may have helped explain in part the high ratio of youth to adult unemployment in the country. On top of that, a pension reform in 2012 increased the pensionable age, impeding the substitution of older workers with young ones in the short run. Finally, as in other countries in this group, there is a weak dual VT system leading to a high increase of NEETs, not only among those aged 15-24 but also among those in the 25-29 age group.

As mentioned earlier, segmentation is also a trait of the Portuguese labour market, in this case not due to large differences in severance pay under contracts, but because there is large judicial uncertainty (i.e. red-tape costs) in terminating open-ended contracts. This has pushed firms into the widespread use of fixed-term contracts, particularly for young workers. As in other countries, the Portuguese government's reaction to growing youth unemployment has not been well designed. For instance, active labour market policies (ALMP) implemented in 2011 lacked a well-defined target population, being devoted to subsidising workers younger than 31 with completed secondary education or college and thus leaving aside the most disadvantaged groups. As in Greece, youth unemployment and the rate of NEETs is primarily the outcome of a lack of aggregate demand, the immediate response to which has been a large outflow of emigrants. This reduction of labour force participation is likely to contribute to lower youth unemployment when the Portuguese economy improves.

Finally, there is the case of Spain, an economy that was subject to the bursting of a housing bubble but that has experienced a much lower fall in GDP than Greece. Yet, its dramatic performance in terms of the youth labour market indicators examined above is comparable to that of Greece, and this has also happened in the past during the recessions of the mid-1980s and the early 1990s. Spain is the epitome of a dual labour market, with a large EPL gap and high red-tape costs (Bentolila et al. 2012). Wage rigidity, excess worker turnover, and investment in low value-added sectors amenable to the use of temporary contracts (such as real estate and tourism), coupled with poor training and very low temporary-to-permanent conversion rates, have led these contracts to become dead ends – instead of stepping stones – for the careers of low-skilled workers (Cabrales et al. 2014). A recent labour market reform in 2012 has reduced the EPL gap, but not by much. However, it has been successful in decentralising collective bargaining, with a strong adjustment in term of real wages that arrived too late (after an increase in the unemployment rate of 17 percentage points since 2008), but which has been behind the gain in competitiveness and the recent export-driven recovery. The fact that the ratio between youth and adult rates is not particularly high points to the Spanish labour market being dysfunctional at the overall level rather than in relation to youths. A poorly designed VT system, a large share of small firms in employment hindering the use of apprenticeships, a lack of pre-apprenticeship tracks and the widespread use of ALMP based on subsidising permanent contracts – with limited effects due to large substitution effects – suggest that the scarring effects of the Great Recession for youths are bound to be long-lasting. Further, the recent signs of recovery in the Spanish economy have been mostly based on the creation of temporary and part-time jobs so that one cannot discard that, in a few years, we may observe a repetition of the housing bubble episode.

The concern that there may be a lost generation led the European Commission to launch the Youth Guarantee (YG) scheme in 2013 as a pledge by member states to ensure that youths under 25 (whether or not they are registered in the public employment

services) receive either an offer of employment, continued education, an apprenticeship or training within four months of becoming unemployed or leaving formal education. Relying on the successful experiences of some Nordic countries (Denmark, Finland and Norway), the YG aims to combine early intervention with activation policies, involving public authorities and all social partners, in order to improve school-to-work transition and the labour market outcomes of youths, especially in the crisis-ridden countries of Group III. Its target are the 7.5 million youth NEETs, of which almost a third are long-term unemployed and the costs of whom in terms of benefits and foregone income and taxes amount to €162 billion, i.e. almost 1.3% of GDP in Europe. In comparison, the estimated cost of implementing the YG is in the range of €21 billion per year. The EU will top up national spending on YG schemes through the European Social Fund and other financial sources, having put on the table an initial amount of €6 billion earmarked to help NEETs in regions with youth unemployment of above 25%. In comparison with the annual needs, this is clearly an insufficient amount. Yet, as in the case of the Junker Plan for investment in infrastructure, the hope is that the leverage multipliers will be large.

It is still too early to evaluate the effects of the YG, but past experience of similar schemes in Scandinavia and elsewhere (Card and Kuve 2010) indicates that the expected gains from its introduction are very small, at least in the short run and in the absence of an agenda to stimulate growth in Europe. Further, there is a risk that the introduction of the YG may delay the adoption of more politically sensitive reforms, such as measures to reduce labour market dualism in the peripheral countries.

Nevertheless, the YG contains elements that may improve the labour market outcomes of youths in Europe. The most important of these is having a specific target in the form of NEETs, rather than a blurred target. The lessons drawn from successful experiences in Group I countries should be applicable to the rest of Europe. Some will be easier to implement, like the introduction of pre-apprenticeship tracks in the education system or a fruitful collaboration between the PES and private agencies. In exchange for reasonable fees for each difficult NEET that receives one of the above-mentioned

offers, the latter could help PES (dealing with the easier cases) in achieving training and job sustainability, initially for disadvantaged young people but later also for older starters. What the YG should avoid is providing unlimited subsidies to firms that rarely translate into stable jobs and lead to a lot of churning due to their deadweight and substitution effects. It should also avoid handing control of training funds over to trade unions and employer associations without strict surveillance by public authorities. As proven in Spain, where there have been several big scandals relating to the mishandling of these funds, this is not a good strategy. Further, the difficulty in implementing apprenticeships and traineeships in small firms could be circumvented by encouraging large (and profitable) firms to support this type of action targeted at small firms.

Finally, a drastic reform of EPL in dual labour markets is paramount. Marginal reforms do not work, and the introduction of a single contract with severance pay smoothly increasing with job tenure (up to a cap), or the combination of this and a so-called 'Austrian capitalisation fund' (i.e. workers' notional accounts involving a few percentage points of payroll taxes, which can be used along the lifecycle and not necessarily when a dismissal takes place) should be prioritised before the YG funds reach the countries concerned. The recent approval in Italy in December 2014 of a draft law involving a single open-ended contract (SOEC), along the lines of that described above, shows that the usual excuses from other governments for blocking its introduction – under the claim that it is against their constitutions – are not justified. A few fixed-term contracts (e.g. replacement contracts) should be allowed to persist, since they may play a role in rapid job creation when the economy picks up speed (Lepage-Saucier et al. 2013). Even in those countries that signed Convention C158 of ILO – requiring a cause for termination of employment at the initiative of employers – there could be two different profiles of SOEC, one related to economic dismissals and another to unfair dismissals with minimal intervention by judges. Without the correction of these structural problems, the available funds of the YG will do little to support the provision of training and high-quality jobs for youths, making our slight twist on the Coen brothers' title a reality.

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Labour market integration of young workers and policies against youth unemployment: The case of Austria

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University of Zurich and CEPR

Compared with other OECD countries, the labour market performance of young workers in Austria has been relatively strong, both before and since the Great Recession. This chapter reviews recent Austrian experiences and discusses the role of the apprenticeship system and active labour market policies (ALMPs) in fighting youth unemployment. The author argues that a strong consensus among policymakers and social partners to take action against youth unemployment and the implementation of innovative policies targeted towards disadvantaged young were decisive in keeping youth joblessness at relatively low levels.

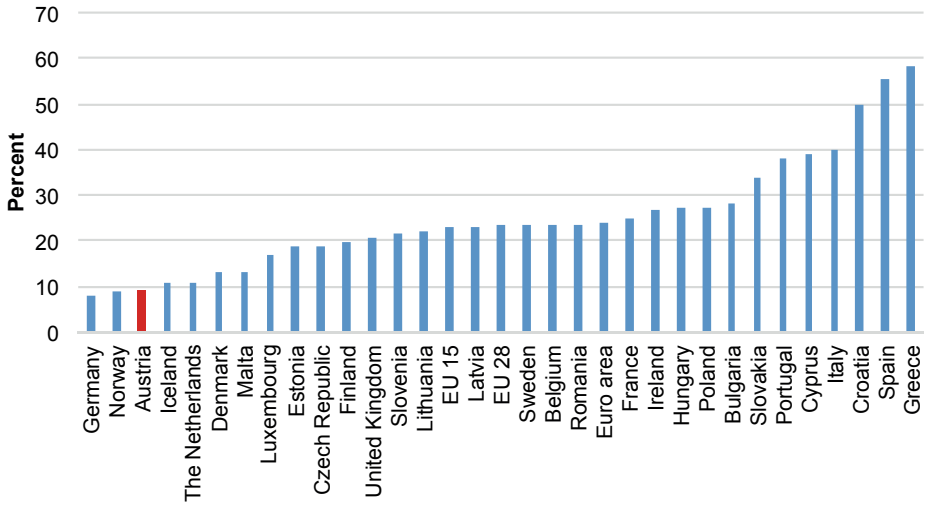
1 Youth employment in Austria and other OECD countries

In recent years, policymakers and labour market researchers alike have been worried by the weak performance of youth labour markets. Indeed, the average OECD country has experienced substantially lower youth employment since the eve of the Great Recession: by the year 2012, the employment-to-population ratio (ages 15-24) had fallen to below 40% from 43.1% in 2007, a 3.4 percentage-point (or 8%) reduction. This downward trend was particularly striking in southern Europe, where youth employment fell from 43.0% to 20.3% in Spain, from 24.7% to 20.5% in Italy, from 24.0% to 13.1% in Greece, and from 24.4% to 13.0% in Portugal (OECD 2014).

The Austrian youth labour market had a much more favourable experience. Not only did it start out with higher youth employment before the crisis, but it has also managed to keep youth employment high since then. In 2007, the Austrian employment-to-population ratio among 15-24 year old individuals stood at 55.5% and had fallen only slightly to 54.6% by 2012, a 0.9 percentage point (or 1.8%) reduction over this period. Moreover, Austria has managed to keep the youth unemployment rate (for ages 15-24) below 10%, a performance only achieved by three other European countries (Germany, Switzerland and Norway). In 2013, the risk of long-term unemployment (longer than 12 months) among the unemployed young was 16.3% (and of a similar magnitude to the years before), which is substantially lower than the OECD average of 21.1% (OECD 2014).

Employment and unemployment rates are not necessarily the most meaningful indicators to describe the performance of the youth labour market, as many individuals are still enrolled in full-time education. Better indicators are NEET rates, that is, the percentage neither in employment nor in education or training. Figure 1 shows NEET rates for the year 2013 for all 28 EU countries. For the average EU28 country, the NEET rate has increased from 10.9% in 2007 to 13% in 2013. NEET rates increased strongly not only in southern Europe, but also in the UK and Ireland. In contrast, Austria's rate of 7.1% is not only among the lowest in Europe, but has also remained stable since the Great Recession.

Figure 1 NEET rates in the EU, 2013



Note: Samples of individuals younger than 25.
Source: Eurostat.

Another interesting indicator refers to early school leavers. These are individuals aged 18-24 who are currently not in education or training and are without any formal qualification beyond compulsory schooling. In 2013, 7.3% of Austrian residents aged 18-24 were early school leavers, compared to 12.7% in the EU28. Note, however, that early school leaving in Austria is strongly concentrated among the foreign born, 17.7% of whom fall into this category (EU Commission 2014).

In sum, Austria's youth labour market performed quite well over the past decade and has turned out to be robust since the Great Recession. Not surprisingly, Austria's institutions and policies towards the young have attracted international attention and have been occasionally mentioned as a role model for other countries with weaker labour market performances of young workers.

In what follows, I will briefly discuss the role of the education system, in particular the apprenticeship system, which is crucial in understanding the performance of the Austrian youth labour market (Section 2). I will then describe recent attempts and

future strategies of the Austrian government to fight youth unemployment (Section 3). Finally, I will draw some policy conclusions (Section 4).

2 The education system and the youth labour market

In Austria, young individuals have to take nine years of compulsory schooling. After that, as in the other German-speaking countries, apprenticeship training plays an important role. At the age of 14, after the 8th grade, an individual has to decide whether to enrol in further education (the 'academic' track) or to enter the vocational track. The latter means one further year of formal schooling (the 'poly-technical' year), after which he or she is enrolled in apprenticeship training.

The typical apprenticeship is a combination of on-the-job training in a firm (80%) and formal schooling in a vocational school (20%). It typically lasts for three or four years and ends with a formal exam. Successful candidates are awarded an apprenticeship certificate, which is equivalent to a certificate of successful completion of a formal school.

Two indicators show how popular apprenticeship training has been (and continues to be). First, for a large proportion of young adults an apprenticeship certificate is the highest level of completed education. In 2011, this proportion was as large as 38.3% among individuals aged 25-29, and 41.2% among individuals aged 20-24. Second, the recent inflow into apprenticeship jobs continues to be high. In the year 2013, the population of 15-year olds consisted of slightly more than 87,000 individuals. In the same year, more than 35,500 were enrolled in the first year of an apprenticeship and 5,700 were looking for an apprenticeship job. In other words, almost 50% of 15-year olds were either enrolled in, or looking for, an apprenticeship.

The apprenticeship system is an institution that greatly facilitates the transition from school to work. For a young individual who does not want to continue full-time at school, an apprenticeship offers the possibility to acquire skills while working and earning an

(albeit low) income. The incentives for firms to open a vacancy for an apprentice are two-fold. First, the wage for an apprentice is low, so apprentices provide cheap labour. Second, an apprenticeship is a way to train the work force and tie productive workers to the firm.

Overall, the apprenticeship system has worked quite well, and was certainly the most important factor in keeping Austrian youth unemployment low. However there are signs that firms are becoming more reluctant to hire apprentices.

First, an increasing number of firms are complaining about difficulties of finding appropriate candidates for open apprenticeship slots.[1] Second, the probability of a young worker staying with the firm after an apprenticeship has fallen to a relatively low level. Two years after completion of their training, fewer than 40% of former apprentices are still employed with the same firm, and fewer than 60% are employed in the same industry (Dornmayr and Nowak 2014). Third, the relative wages of apprentices have risen. Figure 2 shows the evolution of earnings for apprentices and adult workers. Until the year 2006, the median wages of apprentices and adult white-collar workers grew *pari passu*. However, with the beginning of the crisis, wages of apprentices started to grow substantially faster. (In 2012, the median annual wage of an apprentice was €7,106, while the median annual wage of an adult male white-collar worker was €37,110.) Higher relative labour costs may induce firms to abstain from opening apprenticeship slots. Fourth, the number of plants actually employing apprentices has fallen substantially over the last few years. The number was more or less constant throughout the mid-1990s at around 40,000, but this fell to 33,600 between 2009 and 2013 (Dornmayr and Nowak 2014).

1 See, for example, http://derstandard.at/2000006771910/Studie-Zwei-Drittel-der-Firmen-finden-keine-Lehrlinge.

Figure 2 Median earnings of apprentices and adult (25-64) male white-collars

Notes: Median real yearly wage for apprentices is 4,933 in 2000 and 5,543 in 2012 (nominal 2012: 7,106). Median real yearly wage for white-collar men aged 20-65 is 27,573 in 2000 and 28,947 in 2012 (nominal 2012: 37,110). Wages are in 2000 euros, Index 2012 is 128.2.

Source: Own calculations, Austrian Social Security Database (ASSD).

There is a non-negligible group of individuals who end up with compulsory education (or below) as their highest level of completed schooling in their early 20s. Individuals of this education group are the losers on the Austrian labour market, with extremely high unemployment and disproportionately low employment-to-population ratios (see Table 1). Roughly a quarter are not registered as either employed or unemployed. The majority (perhaps more than 20%) of these youths who are neither employed nor unemployed are inactive, though some may still be enrolled in full-time education. Bacher et al. (2013) find high NEET rates among the least educated and among first- or second-generation immigrants. Note also the striking difference to those with an apprenticeship certificate or a secondary school-leaving qualification in Table 1. Among these individuals, the percentage employed is high, and the percentage unemployed and the percentage inactive are small (and some are still in full-time education). A large proportion of individuals with a higher education are still enrolled in tertiary education, explaining their comparably low employment rate.

Table 1 Education and labour market status of 20-24 year olds, 2011

	P	*E*	*U*	*U/P*	*E/P*
Compulsory education*	71.9	41.3	13.0	0.181	0.574
Apprenticeship	170.0	149.9	11.2	0.066	0.882
Secondary schooling*	54.7	48.1	2.2	0.040	0.879
Higher education*	213.9	118.1	3.7	0.017	0.552
Total population	**510.5**	**357.4**	**30.2**	**0.059**	**0.700**

Notes: *P*, *E* and *U* denote population, employment and unemployment (measured in '000). *U/P* is the unemployment-to-population ratio. Compulsory education includes dropouts (i.e. less than compulsory); Secondary schooling includes Berufsbildende mittlere Schule. Higher education includes AHS, BHS, and beyond.

Source: Data on population and employment are taken from Statistik Austria (2012). Data on unemployment are taken from BMASK (2014b), Table 3, p.52.

3 Austrian labour market policies for the young

There is a strong consensus among Austrian policymakers that active labour market policies should be extensively used to ensure an appropriate education and a high degree of labour market integration of the young. In 2011, total expenditure on ALMPs amounted to 0.75% of GDP, or 0.17% per percentage point of unemployment, substantially more than the OECD average of 0.07% of GDP per percentage point of unemployment (OECD 2013).

ALMP expenditure is strongly concentrated on the young. In 2011, €690 million (equivalent to 0.22% of GDP) was spent on active measures directed towards individuals aged 15-24 (BMASK 2014b). Table 2 shows the relative importance of the particular instruments. About 70% of this expenditure was on active measures offered by the public labour market office (AMS). The AMS offers a variety of programmes to unemployed workers (job search assistance, short- and medium-run training programmes, and public employment programmes).

Table 2 ALMP expenditure to foster labour market integration of young workers

	2011	2012	2013	2014*
ALMPs provided by the public employment service (AMS)	502.5	476.3	511.6	539.9
Apprenticeship guarantee	159.3	162.5	162.1	169.4
Other policy instruments	28.2	32.0	34.4	51.3
Total expenditure	**690.1**	**670.9**	**708.1**	**760.6**
As a percent of GDP	**0.22**	**0.21**	**0.22**	**0.23**

Note: * numbers for 2014 are planned expenditures.
Source: BMASK (2014b).

An important new policy instrument is the provision of apprenticeship slots by the government, on which more than 20% of the youth ALMP budget is spent. This policy was initiated in 1998 and initially provided 4,000 apprenticeship slots for school-leavers who could not find an apprenticeship slot on the regular labour market or who dropped out of a previous apprenticeship. In 2008, the government extended this policy instrument and introduced the "apprenticeship guarantee", whereby the government guarantees an apprenticeship for any school-leaver who could not find one on the regular labour market. In practice, this means that either public training units provide apprenticeship slots, or private firms are subsidised to provide one (or a combination of the two). In 2013-14, the government provided/subsidised more than 11,100 out of 120,000 apprenticeships, or 9.2% of all apprenticeship jobs (BMASK 2014a, p. 88). While this programme is quite costly – expenditure in 2013-14 amounted to €15,000 per subsidised apprentice – the apprenticeship guarantee is largely considered a successful programme that helps to integrate young workers into the labour market and inhibits social disintegration and marginalised employment at later ages.

The remaining part of the budget, roughly 5%, is spent on innovative new measures targeted at the disadvantaged young. These measures provide individual assistance in job search, education and training, and aim at preventing dropouts from school or training programmes and at achieving a minimum qualification. 'Youth coaching' programmes include short-term counselling, medium-term job search assistance, and supervision during training programmes for individuals with difficult parental backgrounds, with

language barriers, with a handicap or at high risk of leaving school. 'Production schools' are programmes that assist young disadvantaged individuals in choosing an occupation or choosing continued education and training. Further programmes, such as 'Education fit', are early-intervention measures targeted at young individuals with disadvantaged backgrounds, providing them with basic social skills and individual assistance in completing a school or a training programme.

4 Conclusions

Austria's youth labour market has proven quite robust since the Great Recession. The comparably strong performance is evident not only in employment and unemployment indicators, but also in low NEET rates and low rates of early school-leavers.

To a large extent, the Austrian success story is based on the apprenticeship system. Up to 50% of each cohort are enrolled in an apprenticeship, and for about 40% an apprenticeship certificate is the highest completed level of education. However, recent evidence suggests that the apprenticeship system is vulnerable. Firms complain about difficulties of finding appropriate candidates for apprenticeships and the number of plants offering apprenticeship slots is falling. As a result, the government acting as a complementary provider of apprenticeship positions has become increasingly important.

Despite these problems, the Austrian youth labour market performance has been quite strong. This success is also due to the commitment of the government to devote substantial resources to active labour market policies for the young. The government guarantees public apprenticeship training positions and subsidises a substantial number of apprenticeships in private firms. ALMP expenditures are high and substantial amounts are targeted at the disadvantaged young. Innovative new programmes have been implemented for those with problematic backgrounds. Perhaps the most important lesson is that a strong consensus among policymakers and social partners on fighting youth unemployment and a large variety of policy instruments targeted at the specific

problems of young individuals are necessary to successfully integrate them into the labour market.

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Patterns of youth unemployment: The German case

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Germany has enjoyed a relatively low youth unemployment rate, despite a temporary peak in 2005. This chapter describes recent developments in German youth unemployment and the mechanisms behind them. One important factor for the relatively low youth unemployment is the 'transition' track in vocational training that assists youths with lower competencies. Another factor is the shrinking of the cohort size and a shift to higher formal qualifications.

1 Introduction

Traditionally, Germany and its neighbouring countries such as Austria and Switzerland have enjoyed comparatively low youth unemployment rates: OECD statistics indicate unemployment rates for youth aged 15-24 of 8.2% (2012) and 7.9% (2013) for Germany, compared with an OECD average of about 16% and an EU average of around 23%, with only Japan reaching lower rates.[2] Germany scores similarly well using indicators that relate the number of active youth to the population as opposed to the labour force. The German rate of individuals not in education, training or employment (NEET) is below the OECD average (3.0% versus 7.2% for 15-19 age group and 11.2% versus 17.5% for the 20-24 age group in 2012 for Germany and the OECD on average, respectively).

1 I thank Claus Schnabel for helpful comments.

2 See OECD.StatExtracts (http://stats.oecd.org/index.aspx?queryid=36499, last accessed 16 January 2015).

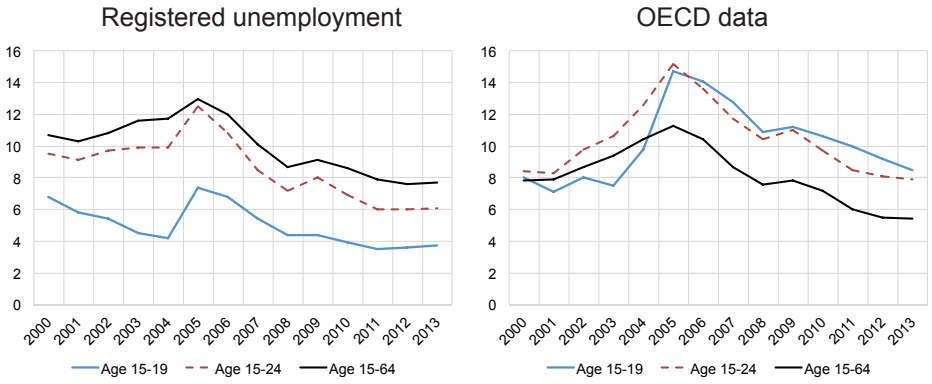
This chapter describes recent developments in German youth unemployment and looks at the mechanisms behind the low unemployment and NEET rates. In the next sections, I first describe the empirical evidence on German youth unemployment and then discuss some factors affecting youth unemployment and its measurement in Germany.

2 Empirical evidence on youth unemployment and its patterns

Two separate data sources are available to describe unemployment in Germany: survey-based evidence that is used for international comparability (for example, by the OECD), and register-based evidence that is compiled by the German unemployment insurance. Interestingly, the two data sources yield different results. Figure 1 depicts trends in overall and youth unemployment since 2000 based on both data sources, while Figure 2 shows the relative youth-to-adult unemployment rates. Youth unemployment rates clearly peaked in 2005 and have been declining since, just as the overall German unemployment rates have, irrespective of the data source.[3] The absolute number of unemployed youths (age 15-24) declined from 620,132 in 2005 to 276,278 in 2013, an impressive development (BA 2014). Based on data from the unemployment register, youth unemployment rates were consistently below the overall unemployment rates (see the left panel of Figure 2), whereas there are clear periods when the youth employment rate is above that of the overall population when we refer to OECD data (see the right panel of Figure 2). The NEET indicator provided by the OECD (Figure 3) confirms peaks in labour market problems in 2005 and an improved integration of youths in education or employment ever since for both age groups considered.

3 The early decline in unemployment after 2000 may be connected to 'JUMP', an active labour market programme addressing young unemployed individuals, which ran between 1999 and 2003 and reached up to 140,000 youths per year (Dornette and Jacob 2006, Caliendo et al. 2011).

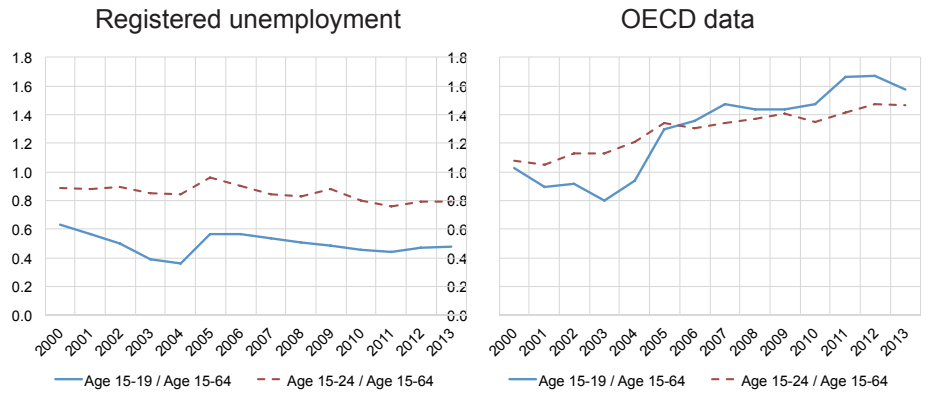
Figure 1 Unemployment rates by age group



Note: The registered unemployment rates provide the annual average of the number of registered unemployed individuals over the non-self-employed civilian labour force aged 15-64

Source: Federal Employment Agency (Arbeitsmarkt in Zahlen - Zeitreihen bis 2013) and OECD (stats.oecd.org/viewhtml.aspx?datasetcode=LFS_SEXAGE_I_R&lang=en#)

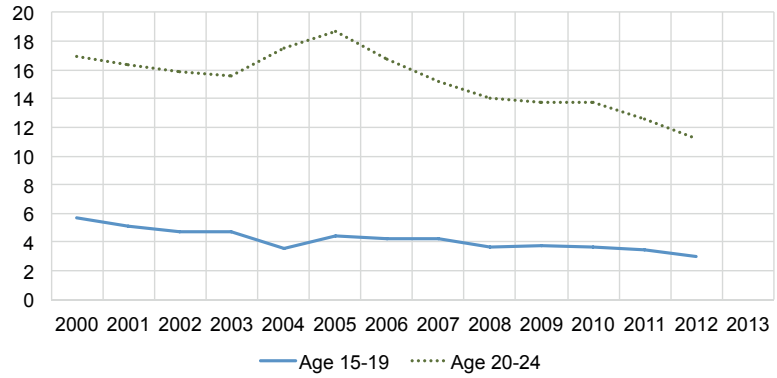
Figure 2 Relative youth over overall unemployment rates



Source: See Figure 1, and OECD (stats.oecd.org/viewhtml.aspx?datasetcode=LFS_SEXAGE_I_R&lang=en#).

An interesting feature of German youth unemployment is its relatively short average duration: SVR (2011) shows an average unemployment duration of 13.6 weeks for those aged under 25 compared to 34.6 and even 49.3 weeks for those aged 25-49 and 50-64, respectively, in 2010-11. The short average duration implies a high risk of entering unemployment. SVR (2011) additionally shows an entry risk of 23.4% for those below age 25 compared to 11.1% for adults (25-49) and 8.7% for older workers (based on 52 weeks per year).

Figure 3 NEET (not employed, nor in education or training) rates



Note: NEET reflects the share of young people not in employment, education or training as a percentage of the total number of young people in the corresponding age group. Employment is defined according to the ILO Guidelines and covers all those who have been in paid work for at least one hour in the reference week of the survey or were temporarily absent from such work.

Source: OECD "Youths not in education or employment (NEET)" indicator, http://data.oecd.org/youthinac/youth-not-in-education-or-employment-neet.htm (accessed 18 October 2014).

In recent decades, two shocks affected the German labour market, while one shock did not. The first and most important shock was unification, which expanded the German labour market by about a third. The breakdown of the East German economy resulted in a substantial excess supply of labour. Figure 4a shows the regional heterogeneity in youth unemployment between East and West Germany, which persists today. The difference in youth unemployment rates amounted to between two and nine percentage points. Interestingly, however, the relative youth-to-adult unemployment rates in the two regions hardly differ (see Figure 4b). This suggests that the structural differences between the two labour markets affect young and old workers in similar ways.

The second shock affecting the German labour market consisted of the structural reforms occurring between 2003 and 2005 and culminating in the so-called 'Hartz IV' reform, which modified the income support system. The increase in the unemployment rates in 2005 was due to the extension of the unemployment status to non-working prior welfare recipients. Before the reform, these individuals were not registered as unemployed and were not considered as unemployed (for details on the reforms see, for example, Eichhorst and Marx 2011, Riphahn and Wunder 2013).

Figure 4a Youth unemployment rates in East and West Germany

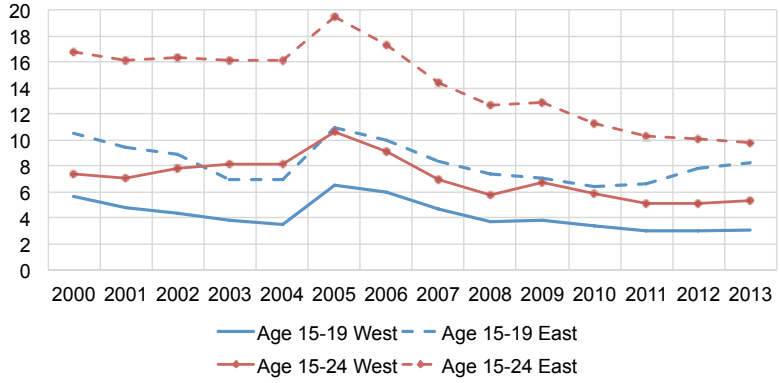
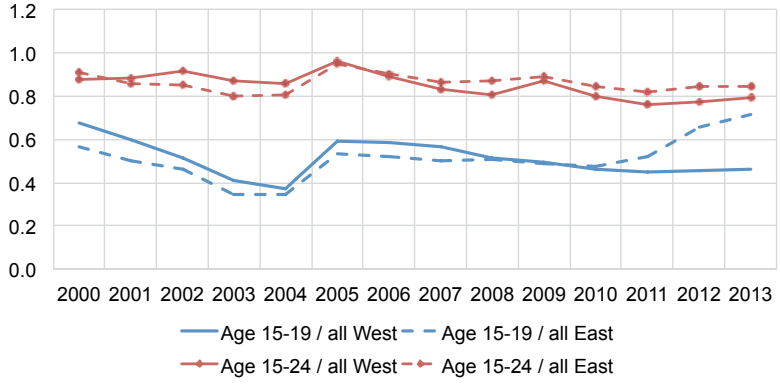


Figure 4b Relative youth/overall unemployment rates in East and West Germany



Note: Figure presents rates of registered unemployment (see Figure 1).

Source: Federal Employment Agency ("Arbeitsmarkt in Zahlen - Zeitreihen bis 2013" for rates on all unemployed by region; "Arbeitslosigkeit im Zeitverlauf 2014" for youth unemployment rates by region).

The shock that did not impact the German labour market was the Great Recession. While German GDP fell by about 5% in 2009, the labour market resisted the impact through a variety of measures so that unemployment was hardly affected (Figure 1). Burda and Hunt (2011) and Dustmann et al. (2014) discuss the relevant measures and their impact during the crisis.

3 Patterns and trends

Since the development of the overall German labour market during the crisis is described elsewhere, this section discusses two factors that are relevant to the interpretation of the employment situation in the German youth labour market: training institutions and demographics.

Germany is well known for its vocational training and apprenticeship institutions. These institutions build on a secondary education system that typically uses three ability-based tracks.[4] Recently, about 40% of each birth cohort completed upper secondary school, which provides immediate access to tertiary education, and about 60% completed lower or intermediate secondary school. Graduates from the latter two tracks typically move on to vocational training. The vocational training system itself also consists of three tracks: (a) apprenticeships combining firm-based on-the-job training with formal vocational schooling (a dual system); (b) full-time vocational schools training youths without a firm-based element; and (c) a third track providing training opportunities for those youths who were not able to find positions in the first two tracks (transition system). These are typically youths with lower level degrees, poor grades or limited competencies. The third track offers general schooling for those not yet qualified for apprenticeships; participants may learn occupation-specific skills that can allow them to shorten a subsequent apprenticeship, and 'special vocational schools' prepare students for apprenticeships without providing degrees. Most students who complete the third track continue their training with an apprenticeship (see Franz et al. 2000).

As the third track of the vocational training system takes care of youths without alternative options, it directly prevents unemployment. In the period since 2000, between 30% and 42% of the entrants in the vocational training system each year enrolled in track three activities of the 'transition system' (for details, see KB 2006, AB 2010 and AB 2012). In absolute numbers we observed between 549,568 and 294,294 entrants in the

4 The description in this section draws on Riphahn and Zibrowius (2014) and sources and figures cited therein.

transition system in 2003 and 2011, respectively. These figures compare to an average number of unemployed youths of 516,135 (aged 15-24) in 2003 and 279,102 in 2011 (BA 2014). This shows that without the transition system, the number of unemployed youths would have been much above that actually observed. On average, one in three graduates from low and intermediate secondary schools went through the third track and stayed there on average for 17 months (BIBB 2010).[5]

A separate factor responsible for low youth unemployment in Germany is connected to demographics. Due to the vast decline in East German fertility immediately after unification, the cohort sizes of youths leaving secondary school dropped substantially over a few years. While there were 2.8 million 17-19 year olds at the beginning of 2000, their numbers had fallen to 2.4 million (i.e. a fall of 15%) by the beginning of 2014.[6]

In addition to this demographic shift, we observe a shift in secondary education from lower and intermediate degrees to upper secondary school degrees: among 20-24 (25-29) year olds in 2004, 36.2% (38.1%) held an upper secondary degree (KB 2006). Eight years later in 2012, we observe that in the same age groups of 20-24 and 25-29, 44.1% and 45.5% held an upper secondary degree, respectively (AB 2014). Thus, not only did absolute cohort sizes shrink substantially in recent years, but the share of graduates from the secondary school system passing into vocational training or the youth labour market after low and intermediate secondary school has also been declining.

4 Conclusions

The German labour market, and particularly its labour market for young individuals, has received much attention in the period after the recent economic crisis, because

5 In addition to the above-described vocational training system, the Federal Employment Agency applied a number of ALMP instruments to support young individuals in unemployment. Caliendo et al. (2011) describe and evaluate these policy instruments.

6 The data are taken from an online tool of the Federal Statistical Office (Genesis Online Datenbank, https://www-genesis.destatis.de/genesis/online, last accessed 3 November 2014.

unemployment in Germany has been going down. We have shown that a large part of the comparatively positive labour market situation for young individuals is likely connected to three factors: the third 'transition system' track of the vocational training system, shrinking cohort sizes, and a shift in the composition of secondary school degrees away from degrees that prepare for vocational training and entry to the youth labour market towards higher formal degrees that open up pathways to higher tertiary education.

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Swiss youth unemployment during the Great Depression

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During the Global Crisis, youth unemployment in Switzerland did not increase as much as in other countries. This chapter argues that one reason for this is the fact that the country was hit by the Crisis almost exclusively through its exporting sector. Three other explanations have to do with important peculiarities of the Swiss labour market: the large number of workers who reside in a neighbouring country and who therefore do not show up in the official unemployment statistics; the large incidence of part-time employment that allowed some of the adjustment to take place on the intensive margin; and the tertiary tier of the dual educational system that provided a training alternative to many of those who lost their jobs.

1 Overall trends

During the recent global recession, Swiss GDP declined by 3.2% (peak in 2008-Q3, trough in 2009-Q2) compared to 5.7% for the EU as a whole (peak in 2008-Q1, trough in 2009-Q2). At the same time, unemployment rose from 3.1% to 3.9% in Switzerland, and from 7.1% and 8.9% in the EU. Focusing specifically on the youth, the unemployment rate of 15-24 year olds in Switzerland went from 7.0% to 8.5%, while in

1 We thank Vahan Garibian for excellent research assistance, Josef Zweimüller and Sandro Favre for providing some of the data, and Tobias Müller for his helpful comments. Michele Pellizzari and Domenico Tabasso are both also affiliated with LIVES and fRDB.

the EU it skyrocketed from 15.1% to 20.0% and actually continued to rise even after GDP started growing again (Scarpetta et al. 2010, Bell and Blanchflower 2011).[2]

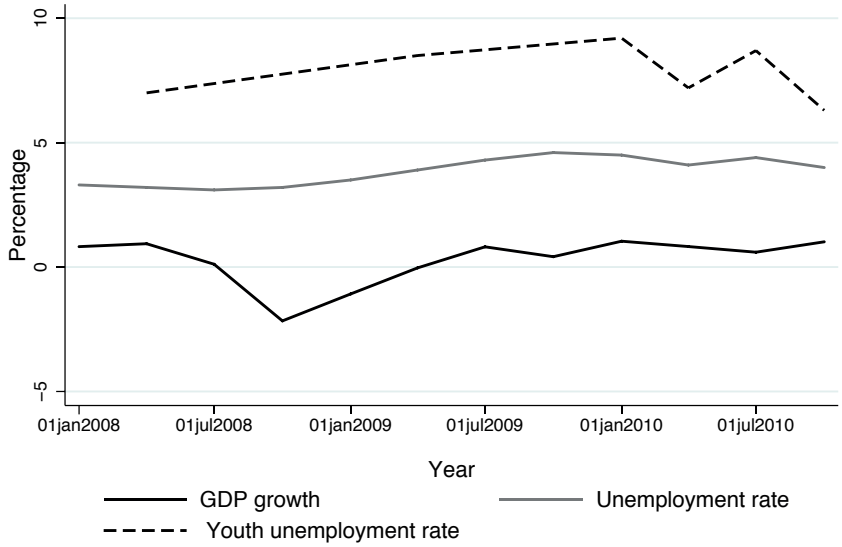
These statistics show that if one looks at the entire working-age population, the relatively strong performance of the Swiss labour market does not appear to be particularly exceptional. A fall in GDP by 1% was associated with an increase in overall unemployment of about one quarter of a percentage point, whereas in the EU this figure was one third of a percentage point – larger, but not exceptionally so. In other words, the first and foremost reason why unemployment in Switzerland did not increase as much as in other countries is quite simply that the Global Crisis did not hit the country as hard. Switzerland is a prototypical small open economy with exports of goods and services accounting for about 54.3% of its GDP at the onset of the crisis. Furthermore, over 70% of such exports are directed to the EU and North America, ie. the areas that the Crisis impacted most severely.[3] Hence, the fall in GDP of 3.2% suggests that it was mainly the exporting sector that was affected by the Crisis, while the rest of the Swiss economy remained largely insulated against the world decline in economic activity, and the shock to external trade propagated to other sectors only to a minor extent.

However, if one focuses more specifically on the youth labour market, one finds that the evolution of youth unemployment is much more peculiar. The youth unemployment rate increased by 0.47 of a percentage point for each 1% drop in Swiss GDP, whereas the same calculation for the EU as a whole yields a number that is almost double at around 0.86.

2 In order to allow for meaningful international comparisons, in this article we only consider the official ILO definition of unemployment. The Swiss Federal Statistical Office also adopts an alternative definition based on people registering for benefits with the unemployment insurance system.

3 OECD Main Economic Indicators database (http://dx.doi.org/10.1787/data-00052-en, accessed 5 December 2014) and DESA/UNSD, United Nations Comtrade database.

Figure 1 GDP growth and unemployment rates in Switzerland



Note: Harmonised unemployment rates.

Sources: Swiss Federal Statistics Office (Employment and workweek indicators; National Accounts) and OECD (Main Economic Indicators - complete database).

In the next sections, we discuss three important peculiarities of the Swiss labour market – the high incidence of temporary migration, the high incidence of part-time work and the dual educational system – which may help to explain the particularly positive performance of youth employment in Switzerland compared with neighbouring European countries.

2 Temporary and cross-border migration and youth unemployment over the crisis

Being a small country, a large proportion of the Swiss territory is near a border and, given the relatively stronger labour demand compared to its neighbouring countries, many foreigners have found jobs in Switzerland over the past years. As in most countries, foreign workers are required to hold a permit in order to be employed in

Switzerland and of the many types of such permits, there are at least two whose holders would not be counted as unemployed in the country if they lose their job.[4]

First, holders of temporary work permits ('permit L') are foreigners working in the country on fixed-term contracts lasting fewer than 12 months. They are normally allowed to reside and work in Switzerland for the duration of their contract, after which they are required to leave the country unless the contract is renewed. If their employment relationship comes to an end before their permit expires, then they can use the remaining time to search for a new job in Switzerland. However, termination of a temporary job before its natural term is relatively infrequent and when it does occur, the remaining time is likely to be very limited. As a consequence, the vast majority of temporary workers who lose their jobs are not counted among the unemployed in Switzerland.[5]

The second type are workers residing across the border in a neighbouring country and commuting daily to their place of work in Switzerland ('*frontaliers*'). These cross-border migrants are not necessarily temporary workers, as they can hold permanent jobs, but they are formally residents of another country and are not sampled in the usual labour force surveys. As such, they do not appear in the pool of unemployed in Switzerland when, for whatever reason, their employment contracts are terminated.

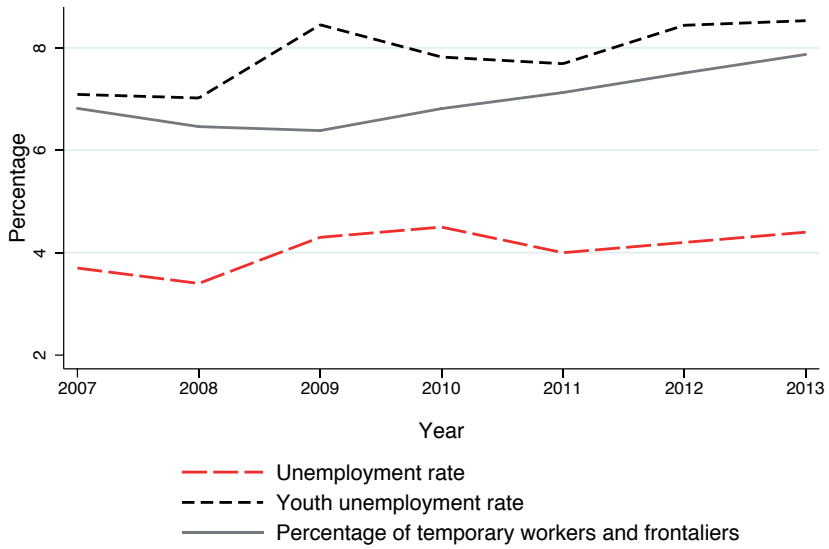
These two groups of foreign workers account for a sizeable share of employment, averaging around 7-8% over the Crisis. Moreover, temporary migrants and frontaliers are on average younger than the resident population. About 50% of them are below 40 years of age, compared with approximately 45% of Swiss residents in this age group. It is therefore reasonable to assume that some of the adjustment during the Crisis has taken place by reducing the employment of these workers.

4 Information about the work permit regulations in Switzerland can be found at www.bfm.admin.ch/bfm/en/home/themen/aufenthalt.html.

5 There is a partial exception to these rules. Under certain circumstances, temporary workers from the EU can claim unemployment benefits after losing their job in Switzerland if they remain in the country while looking for a new job.

Figure 2 supports this intuition by showing that the increase in the youth unemployment rate has been associated with a reduction of the incidence of temporary and frontalier workers as a proportion of the active population. In other words, part of the employment adjustment over the period of the Crisis does not show in the unemployment rate because foreign workers holding temporary and cross-border permits who were dismissed are simply not counted. In fact, they enter the pool of the unemployed in their countries of origin (or residence).

Figure 2 Youth unemployment rate and percentage of temporary migrants and *frontaliers* over labour force



Note: Temporary migrants are foreign workers who hold a short-term (less than 12 months) working permit 'L'. *Frontaliers* are cross-border commuters who reside outside Switzerland and hold a working permit 'G'. The labour force includes all active employed and unemployed workers.

Source: Swiss Federal Statistics Office, Migration et intégration – Indicateurs; STAT–TAB: la banque de données statistiques interactive – Activitée professionnelle et temps de travail.

Unfortunately, there are no publicly available official statistics on the number of such permits that are returned every year. However, we have data on both the stock and the new issuance of permits starting in 2010 and can approximate the withdrawals at any time t as the difference between the stocks at time t and t-1 further subtracting the number of new permits at time t. Based on such a calculation, we estimate that about

20% of temporary and cross-border permits are returned every year. Assuming that the workers holding these permits remain unemployed until the following year, if they were to be counted in the official Swiss labour force survey, the unemployment rate would increase by about one percentage point.

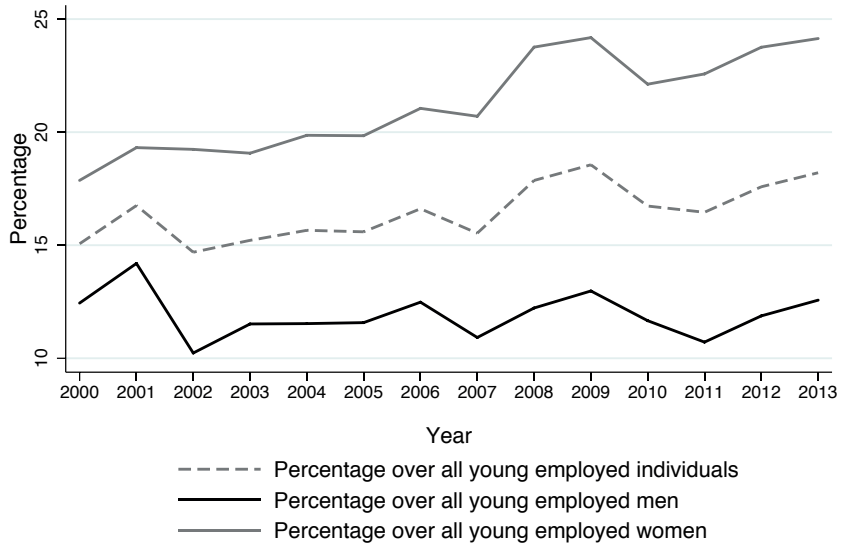
3 The role of part-time work in the Swiss labour market

Switzerland also stands out among European countries due to the widespread diffusion of part-time work. During the period year 2000-13, on average 25% of Swiss workers were employed under a part-time contract, well above the average of 16% recorded in Europe in the same years (Messenger 2011). Part-time work is also strongly concentrated among women and, although this is a common feature of all developed economies, the percentage of women working less than full-time in Switzerland was around 44% for the period 2000-13, while the corresponding average for the EU was 28% (Salladarré and Hlaimi 2014).

Figure 3 focuses on young workers and shows the evolution of the incidence of part-time employment over time. The data show a secular upward trend with spikes associated with major recession events, such as the early 2000s and the recent 2008-09 Crisis. This suggests that part of the adjustment took place on the extensive rather than the intensive margin, thus further contributing to containing the impact on the unemployment rate, especially for the youngest.

Interestingly, while the 2001 surge in the percentage of part-time workers was mainly driven by an expansion of the number of male part-timers, during the Great Recession part-time work has become relatively more common among women. The incidence of male part-time workers increased from 12% in 2007 to almost 13% in 2009; during the same two years, the percentage of female part-timers increased from slightly less than 21% to over 24%. Interestingly, similar variations cannot be found in the shares of older part-time workers.

Figure 3 Percentage of part-time workers over young employed individuals, total and by gender



Source: Labour Force Statistics in the OECD Countries Dataset.

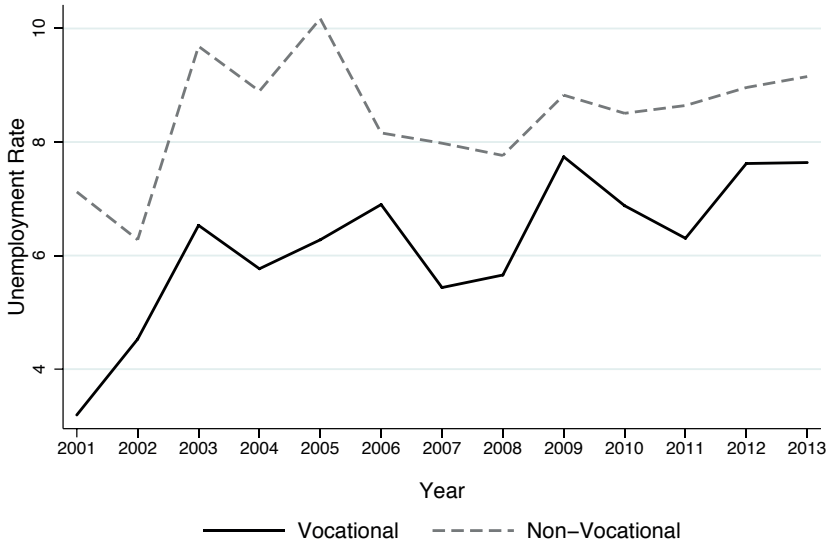
4 The Great Depression in the context of a dual education system

The Swiss educational system is characterised by two alternative tracks – one offering general academic courses and the other focusing on vocational training. The curriculums start to become differentiated during secondary schooling and, albeit with numerous possibilities to switch, they remain separated through tertiary education. Students who attended an academic-oriented secondary school typically enter university, while secondary vocational students who want to proceed with further education attend tertiary-level professional schools, leading to a federally recognised professional diploma.[6] Vocational education is very popular, especially among students whose

6 A description of the Swiss educational system can be found in Fuentes (2011). See Fazekas and Field (2013) for an assessment of post-secondary vocational education activities in Switzerland.

highest qualification is a secondary degree. On average over the 2000s, around 40% of the young workers in Switzerland had a professional qualification.[7]

Figure 4 Youth unemployment rate among vocational and non-vocational degree holders



Note: Vocational degree holders include individuals whose highest educational attainment corresponds to levels 3B, 3C, 4A, 4B and 5B of the ISCED Classification. Individuals holding any other type of degree are classified as non-vocational degree holders.

Sources: Swiss Federal Statistics Office, Swiss Labour Force Survey.

Given the pervasiveness of vocational education in the Swiss system, it is interesting to assess how students educated via the different tracks fared during the recession. Figure 4 displays the unemployment rates for youth according to the type of educational attainment.[8] We only focus on secondary qualifications and exclude workers with a tertiary education because in the 15-24 age group very few of them will have concluded their studies. Moreover, it must be noted that, for similar reasons, workers holding a general education qualification in the 15-24 age category might be very particular

7 Data from the Swiss Federal Office of Statistics, "Activité professionnelle et temps de travail – Données détaillées".

8 We distinguish between vocational and non-vocational students according to the ISCED classification of their highest educational attainment. Specifically, we code ISCED levels 3B, 3C, 4A, 4B and 5B as vocational.

types, as in most cases the normal outcome of non-vocational secondary school is further education in university.

The data show that in each of the last 13 years, the incidence of unemployment among active youth has been consistently higher for workers with a general education compared with those holding vocational degrees, the difference being in the order of 2.5 percentage points. The better labour market performance of young workers with a vocational qualification is in line with existing findings for a number of European and non-European countries (Bishop and Mane 2004; Hanushek et al. 2011; Polidano and Tabasso 2014).

Additionally, the figure also indicates that, during the Great Recession, the gap in the unemployment rates of vocational and non-vocational students reached its lowest level, dropping from over two percentage points in 2008 to around one percentage point in 2009. This convergence was mostly driven by a significant increase in the unemployment rate of the workers with a vocational qualification, which increased from 5.5% in 2008 to almost 8% in 2009. Overall, the figure suggests that the labour market experiences of workers with vocational qualifications are characterised by larger fluctuations than the trajectories normally observed for those with general educational qualifications. Moreover, the convergence of the unemployment rates for these two groups appears to continue even after the Crisis.

The availability of a vocational tertiary level of education may play an important role in explaining the strong resilience of unemployment among young people with vocational qualifications. In case of joblessness, enrolling in a vocational programme at the tertiary level is an appealing opportunity for these youth. The same holds for the adult programmes of adult education offered by various institutions in Switzerland. In fact, this seems to be an important factor in explaining the overall success of a dual educational system. To test this hypothesis, we study the relationship between the size of the vocational sector and the unemployment rate in 28 western countries over the period 2000-12. The results from the panel cross-country regressions indicate that the

percentage of workers with vocational education correlates significantly (and negatively) with the overall unemployment rate only when interacted with the percentage of adults attending adult education.

5 Conclusions

The global recession of 2008-09 affected the Swiss economy significantly less than other European economies. The aggregate data seem to be consistent with the intuition that only the exporting sector was directly hit and the effects propagated only mildly to the rest of the economy.

Consistent with this aggregate trend, the overall unemployment rate also increased less than in other countries. However, the youth labour market in Switzerland reacted to the Crisis in a way that is markedly different from neighbouring economies. In this chapter, we discuss three specificities of the Swiss labour market that may help to understand this difference.

First, a particularly high percentage of foreign workers are hired under particular contractual arrangements that make it unlikely that they would show up in the official unemployment statistics when they lose their jobs. A rough estimate suggests that this may account for the unemployment rate being one percentage point lower for the overall population. Unfortunately, we do not have enough information to look specifically at youth unemployment, but it is likely that a large part of this effect would be concentrated among younger persons, certainly those under 40.

The second factor that we consider is part-time work, which is very common in Switzerland, especially among women. The increase in the share of part-timers in close correspondence with the recession supports the view that some of the adjustment took place on the intensive margin, thus cushioning the effect of the recession on the unemployment rate.

Finally, the much discussed dual educational system that is characteristic of Switzerland (but also Germany and Austria) also played a role, particularly in favouring the return to school and the retraining of young unemployed workers holding vocational qualifications at the secondary level. The extensive availability of adult education programmes and the existence of a well developed system of formal post-secondary vocational schools clearly contributed to this process.

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Youth unemployment in France[1]

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In France, 17% of youths between the ages of 15 and 29 are not in education, employment or training. Many of them are unemployed or inactive, and are poorly qualified to integrate into the job market. This chapter discusses the main obstacles this group faces, as well as possible remedies. Programmes, vocational training, and support in the search for jobs could be wise long-term investments, but including young people in the minimum income scheme and reducing the cost of work are as important.

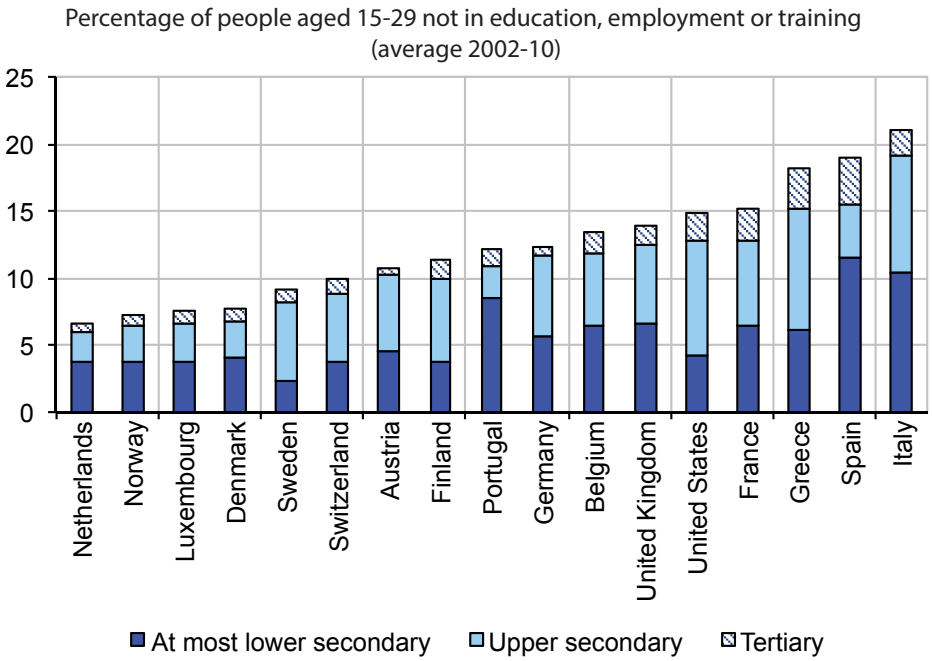
In France, close to 1.9 million young people between the ages of 15 and 29 are not in education, employment or training. These 'NEETs' represent almost 17% of this age group. The economic crisis has considerably worsened the situation of the young in terms of employment, and the proportion of NEETs among 15 to 29 year-olds in France has been, on average over the last decade, one of the highest in the OECD countries, after Italy, Spain and Greece (Figure 1). More serious still, around half of these young people, some 900,000, are not looking for employment. They are drifting.

This disastrous situation has prevailed for almost 30 years without any policies or employment plan being able to improve it. To understand the problem, it is useful to begin by analysing the overall situation of young people, between employment, education, unemployment and inactivity. It seems, however, that France has a specific problem with youth employment. At only 30%, the employment rate of 15-24 year-olds is only half that of Denmark and a third lower than that of UK , the US or Germany.

1 This chapter is based on a memorandum for the Economic Analysis Council of the French prime minister (Cahuc et al. 2013).

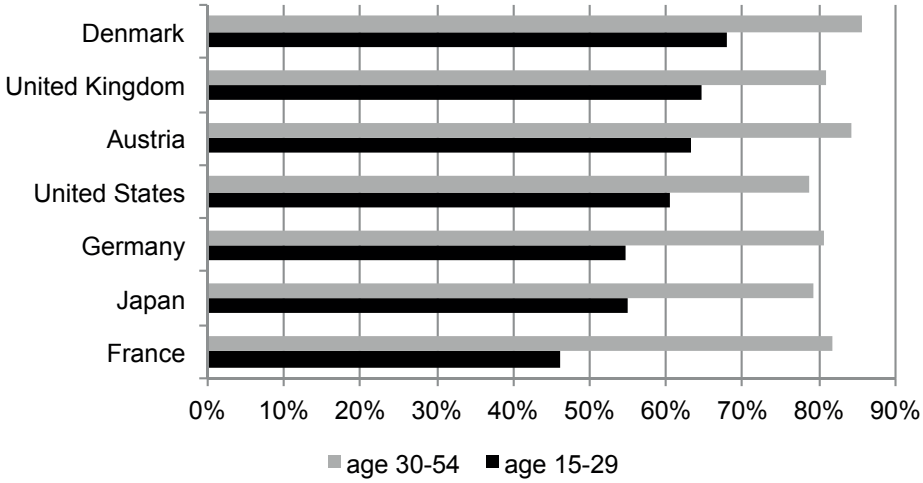
When including young people between the ages of 25 and 29, the comparison is not much better. This disengagement does not exist for people aged between 30 and 54, for whom France is positioned above the OECD average (Figure 2). The low employment rate for young people in France can be explained as much by a lower frequency of work among youth who are still studying as by a very large number of unoccupied youth. The young people who are not currently in employment are, unfortunately, not all in education or training; many are unemployed or even inactive. It is this population that is in a very precarious situation and that has the most difficultly integrating into the job market.

Figure 1 One in six young people is not in education, employment or training (NEET)



Source : OECD statistics.

Figure 2 Employment rate of people aged 30-54 and 15-29 (2001-11 average)



Source: OECD labour market statistics.

Education levels play a decisive role when looking at integration into employment. The employment rate of young people who have a higher level of education is more than 80% in the three years after leaving the education system, or practically the same level as that of 'adults', compared with 30% for those who have not gone beyond college. Mirroring this, 85% of inactive young people or unemployed young people (i.e. the NEETs) have not studied beyond secondary school and 42% have not gone beyond college (Figure 1). Since 2008, the economic crisis has of course reinforced these inequalities of access to employment among young graduates and non-graduates. It is these young non-graduates who have seen their employment prospects decline, with a fall in the employment rate upon leaving school of 10 percentage points.

The situation is all the more worrying in France as the school dropout rates are particularly high and are getting worse. More than 140,000 young people leave the school system each year without any qualifications, or 20% per year group. Cumulatively, there are 900,000 young people today without any qualifications. To really improve the situation of young people, the school dropout rate, which is particularly high in France compared with other developed countries, must eventually be reduced. This key issue is worthy

of specific development. We focus here on poorly qualified young people and study the means of addressing the two major obstacles they face in their professional integration: 1) their capacity to acquire skills and to adapt to companies' needs; 2) the lack of job offers from companies in their areas of interest and 3) the segmentation of work contracts, frequently limited to overly unstable jobs.

Placing poorly qualified young people in public or voluntary sector jobs does not improve their capacity to acquire skills or to adapt to the needs of companies. All studies show this to be inefficient in terms of return to regular employment (Card et al. 2010), and indeed it has a stigmatising effect. To give them a second chance, the following must be tackled head on: 1) the inadequacies of vocational education, which is too difficult to access for unqualified young people; and 2) the shortcomings of job-seeking support for the less-qualified youths. To find a job or a training programme, an unqualified young person must be funded, monitored and advised extensively. Many foreign countries devote considerable resources to this activity, but this is not the case in France.

In the short term, however, upscaling training and job-seeking support is not enough. To quickly improve the situation of poorly qualified young people, it is essential that job offers from companies increase to enable them to begin a professional career in their areas of interest. To achieve this, it is not effective to target policies towards all young people irrespective of their starting salary. To improve the situation of unqualified young people, it is important to address 1) the cost of labour on low salaries and the absence of a revenue policy for young people; and 2) the dualism of employment contracts, which draws too narrow a line between 'unstable' jobs and 'stable' jobs and which makes it particularly difficult for young people to access stable employment.

Vocational education and a second chance

Many studies, in France and abroad, show that learning increases opportunities during the transition from the education system to employment. This is not surprising, as skills

training – in conjunction with employment subsidies in the private sector – is the most efficient way to eventually ensure a return to sustainable, non-assisted employment. From this perspective, the French apprenticeship system can be improved. In particular, the support of the government involves not only developing vocational schools and training teachers, but also offering preparatory training for young people who are not yet ready to begin apprenticeships. This 'pre-apprenticeship' training is crucial, as it is aimed at bringing young people up to speed on the fundamentals . It helps them find a motivating path, as well as teaching them the necessary behaviour to acquire an apprenticeship with a prospective employer. Vocational training via apprenticeships is therefore widely recognised by young people and their parents as a solid alternative to more traditional pathways, and is not seen as a road to failure. The validation of vocational diplomas should also be addressed, limiting the focus on general subjects that hinders access to certain professions for students who are weak in such subjects. While reading and mathematics are essential skills for the future of any professional, the proportion of academic subjects should not be a hindrance to obtaining a diploma when the purpose of the diploma is not access to higher education.

For adolescents and young adults who have dropped out of school, only long and intensive programmes can help them get back into the saddle. This has been shown by an evaluation of the US Job Corps programme, which was founded in the 1960s and aims, in a very targeted and proactive way, to help young people who have not finished secondary education (Schochet et al. 2008). France has been developing this type of mechanism for several years with a network of 70 'second chance schools' (*Ecoles de la Deuxième Chance,* or E2C) and, since 2005, with the creation of *Établissement public d'insertion de la défense* (EPIDE), a state training organisation with 20 centres. These alternatives urgently need to be developed further and their results must be evaluated. These programmes are costly, but when used in a targeted way, they can offer sustainable opportunities to the most deprived young people, as well as being a profitable, long-term investment for society as a whole.

Support the pathway to employment for young people in difficulty

In France, unlike in other countries, no compulsory or specific system exists that forces the public employment services to support unqualified young people looking for employment and that could really encourage these individuals to resume their studies, apprenticeships or training courses. In principle, supporting young people aged 16 to 25 who experience difficulties in finding a job is entrusted to the *Missions Locales* as well as to *Permanence d'accueil, d'information et d'orientation* (PAIO). The public employment services urgently need to be given the means to take responsibility, in a targeted and intensive manner, for these young people so that a professional relationship that looks at all aspects of employment (accommodation, transport, self-confidence, training, employment research) is established.

This joining of forces must go hand-in-hand with a regular evaluation of these systems by independent experts. In fact, the support system for young people not only suffers from a lack of means, but also from a serious deficit in management. The state, and also local governments and the national employment agency, contribute to the financing of the *Missions Locales* which are mainly autonomous and in a de facto monopoly situation. The system for tracking performance implemented by the state has highlighted significant heterogeneity in performance of *Missions Locales* in the area that cannot be explained by local economic situations, but it does not have the capacity to address the resulting inequalities. Without effective management of performance, the new tools for supporting these young people will not have a chance of succeeding in improving the situation.

Creating a minimum income scheme for young people

To offer young people in difficulty real prospects, it is desirable to couple the reinforcement of support and the improvement of management with the possibility of entering the minimum income scheme (basic and cap), which would offer a real

opportunity to those with little means or those who have been rejected by the education system. By restricting the minimum income scheme to people aged 25 and older, France is an exception amongst most European countries. Almost everywhere in Europe, young people have access to a minimum income scheme before turning 25. In France, the fear of unoccupied youths emerging has hindered the consideration that young people under the age of 25 can benefit from the scheme. The consequence of this system is that half of the poorest 20% of the population are aged between 15 and 29.

The examples of other countries show that a minimum income assistance scheme can be used not only to facilitate the autonomy of young people, but also to aid their access to employment. The latter objective can be achieved by really 'activating' the minimum income scheme in France . The minimum income scheme should therefore be implemented from 18 years of age, but it should be made clear that there is a managed obligation to research employment, personalised support and, when necessary, qualified training. For a young person, entering into the minimum income scheme should be synonymous with a full-time activity, involving intensively researching a job or training to obtain the necessary qualifications for vocational training to the required levels with a certificate of vocational proficiency. This would provide a safety net for the more disadvantaged young people; young people who failed at school or who were unable to find a job would no longer be abandoned.

Labour cost: A handicap for the low-skilled looking for work

The cost of labour is a barrier for low-skilled young people looking for work. Numerous studies agree on this point and demonstrate the detrimental impact on the employment of young people of a minimum salary for which the cost is too high (Abowd et al. 1997, Kramarz and Philippon 2001, Neumark and Wascher 2008). The cost of labour for a 20 year-old at the level of the minimum salary in France is the highest amongst the OECD countries (followed by Luxembourg). However, a high legal minimum salary would not create a major difficulty if the people without qualifications or professional

experience were not so numerous. A significant number of young people in France are not sufficiently qualified to be able to cover their hourly rate, which limits their chances of finding a job. Other countries that face this difficulty allocate a reduced rate of salary for young people in comparison to adults. France has not chosen to do this, apart from in the case of a very few exceptions. It would therefore be desirable in the future to reduce the cost of work for low-skilled young people supported by employers, without upsetting the overall objective and maintaining purchasing power. This requires revising upwards the existing reductions in social contributions paid by employers at the minimum wage level, and upgrading the permanent in-work benefit for low-paid workers. This process has been in place for several years and should be continued.

The dichotomy of fixed-term and permanent contracts: A system that emphasises the inequalities

The French job market is structured in a dualistic manner. On the one hand, you have employees on open-ended contracts who are protected by too many rules. These contracts are often too codified, and do not fully protect the employee and are too uncertain for employers, leading to contentious litigation. On the other hand, you have fixed-term contracts where the terms and costs are known in advance. This dualism has increased since the early 1990s without lowering the unemployment rate. Currently, more than 90% of people are hired on fixed-term contracts.

The segmentation of the job market in France strongly affects young people. In 2009, the incidence of fixed-term employment was five times higher among young people than among adults. Only in Austria, Germany and Switzerland is this ratio likely to be higher than in France, but this can be explained by these three countries having a long tradition of mixing education with employment for young people.

There have been several attempts to improve the current situation. Unfortunately, progress has been minimal and a major reform of employment protection is now needed (Blanchard and Tirole 2003, Cahuc and Kramarz 2004, Camdessus 2004, Attali 2010).

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Swedish youth unemployment: Perhaps not as bad as it looks?

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Despite an overall unemployment rate well below the European average, Sweden currently has a youth unemployment rate of 23% and, as a result, one of the highest ratios of youth to prime-age unemployment in Europe. This chapter discusses possible explanations for this phenomenon. Suspects include the design of employment protection legislation, wage-setting institutions and the education system. However, none explains both the cross-sectional and time series patterns. As the chapter explains, the youth unemployment rate perhaps exaggerates the gravity of the situation, as the average duration of unemployment is short and to a large extent coincides with participation in education.

Despite an overall unemployment rate well below the European average, Sweden currently has a youth (15-24) unemployment rate of 23% according to Eurostat. As a consequence, the ratio of youth to prime aged (25-54) unemployment is one of the highest in Europe at 4.5. This fact has caused considerable concern among Swedish policymakers. It is also an apparently surprising fact to many outside observers, given Sweden's long tradition of providing active labour market policies for unemployed youths. In this text, I discuss some elements related to these numbers as well as my views on how they should be interpreted. I should, however, forewarn the reader that I will be unable to provide distinct conclusions on why the number is so high.

A first thing to note, however, is that youth unemployment as we typically measure it is a very crude measure of both the economic exclusion of youths and the successfulness

of the transition from school to work. In official statistics, people are defined as unemployed during a survey week if they (i) do not work, (ii) are available for work and (iii) are either actively searching or awaiting the start of a job. In contrast, being employed means working to some extent during the survey week. The unemployment rate is calculated as the number of unemployed divided by the sum of unemployed and employed. An important implication from these definitions is that youths who are enrolled in school are counted as employed if they worked in a store for an hour, and counted as unemployed if they are looking for a part-time job alongside their studies.

For the group of 15-24 year olds (the age span which typically defines youth unemployment), this is an issue of major quantitative importance, and in particular for the youngest half of this age group. In the case of Sweden, almost all 15-18 year olds are enrolled in high school (*gymnasium*). As a consequence, 75% of all unemployed 15-19 year olds are also *full-time* students, if excluding the summer months when they typically are on leave (Swedish Fiscal Policy Council 2014).[1] Similarly, 62% of all *employed* 15-19 year olds are also full-time students, if excluding the summer months. This means that almost all labour force participation, whether as employed or unemployed, in this age group refers to (low-intensity) part-time participation alongside full-time high school studies. Although there may certainly be a value to this type of employment, unemployment alongside high school education is clearly neither informative regarding social exclusion nor informative regarding the efficiency of school-to-work transitions. For 20-24 year olds, the numbers are more modest: 41% of the unemployed are students when excluding summer months. Among the employed in this age group, 18% are full-time students.

With this in mind, it is clear that standard youth unemployment numbers incorporate a mixture of high school students looking for a way to earn some extra cash and young

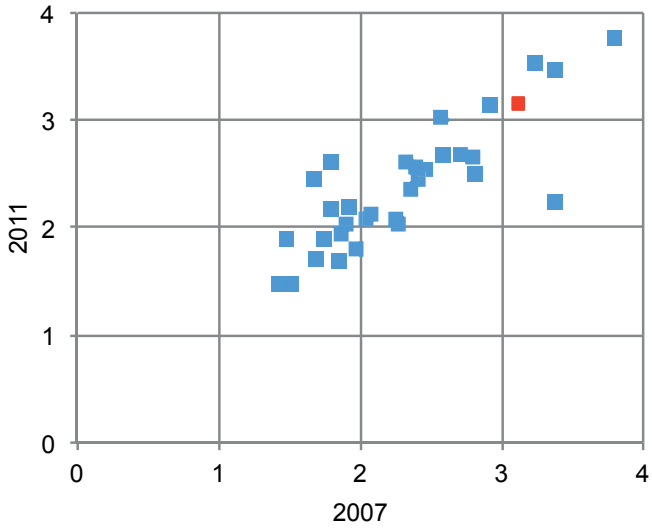
1 Since students are not counted as such during their summer holidays, yearly averages will underestimate the share of students at least to the extent that we really would like to consider (the search for) summer jobs as more similar to extra jobs during studies than to (the search for) 'real jobs'.

workers who are struggling to find employment after permanently leaving school. As these two groups are fundamentally different, we should be careful in relying too heavily on the 15-24 year old unemployment rate when interpreting youth labour market performance in different countries. Two other measures that are readily available are the unemployment rate for 20-24 year olds and the NEET share, capturing the share of youths who are not in employment, education or training. Using the first of these, it is evident that the Sweden still exhibits a very high ratio of youth (20-24) to prime-aged unemployment, although the numbers are less stark. On the other hand, using the NEET rates for 18-24 year olds, Sweden is instead one of the best ranked within the EU (e.g. Swedish Fiscal Policy Council 2014).

Two things are important to note regarding the evolution over time. The first is that the ratio of youth to prime-aged unemployment rose with a consistent trend during the decade up to the start of the Great Recession (e.g. Skans 2009). The second is that the ratio remained fairly stable once the recession actually hit. Figure 1 shows a scatterplot of the ratio of unemployment among 20-24 year olds to prime-aged unemployment during 2007 and 2011 for a number of European countries. Although Sweden (market in red) is on the high side, the numbers remained quite stable during this turbulent time period. But this is also true for most countries, suggesting that Sweden is not an outlier in this respect.[2] This implies that cross-country differences in relative youth unemployment are persistent over time, suggesting that the sources of the cross-sectional differences are to be found in the design of stable institutions rather than in time-varying aspects such as the type of fiscal policy pursued during the crisis.

2 Skans (2011a) shows similar numbers using the full group of youths.

Figure 1 Youth (20-24) to adult (25-54) unemployment ratio in European countries before and during the recession



Note: Red square represents Sweden.
Source: Eurostat.

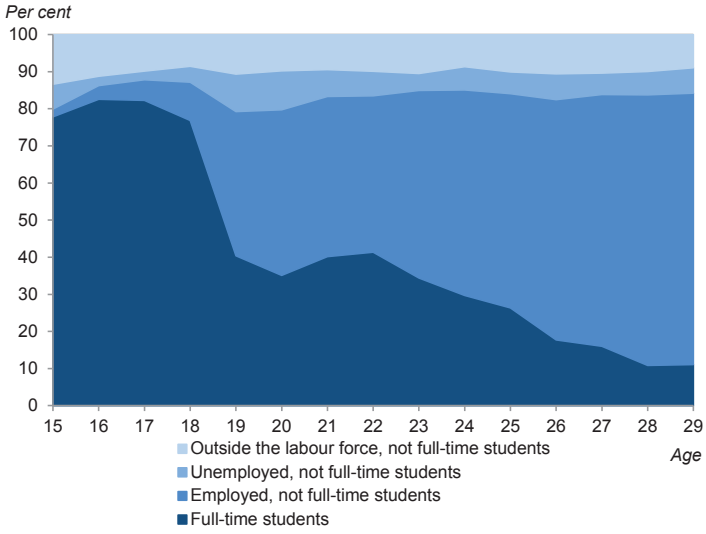
A key question is the extent to which unemployment among Swedish youths is transitory or persistent. This is a difficult question to answer, and the evidence that I am aware of is far from perfect. What we do know, however, is that the duration of youth unemployment is very low. During 2013, 35% of unemployed youths had been unemployed for less than one month (Swedish Fiscal Policy Council 2014). Thus, the relatively high rates of youth unemployment appear to be driven by high inflows, rather than long durations. Consistent with this view, the share of employed youths working on temporary contracts is very high in Sweden. This is also consistent with the design of employment protection legislation (EPL) in Sweden, which is strongly dual in nature.[3] Unfortunately, I am unaware of any studies that separate out the extent to which the high share of temporary jobs and short unemployment spells are driven by student employment (potentially as an effect of the design of EPL). In terms of the longer-

3 See Cahuc (2010) for a detailed discussion of Swedish EPL.

term effects, we know even less. An exception is Skans (2011b), who studied the long-term effects of youth unemployment on subsequent labour market performance among youths who became unemployed in the early 1990s, finding an impact that declined relatively rapidly, but with a small part remaining after five or ten years depending on the estimated model.

The usual culprits discussed as possible explanations for the high concentration of unemployment among the young in Sweden are employment protection, minimum wages and the education system. Unemployment insurance benefits seem like a less likely explanation, as few unemployed youths have access to these benefits since the eligibility criteria involve non-trivial work requirements. As discussed above, the anatomy of Swedish youth unemployment and employment is indeed consistent with the design of Swedish EPL, as firms are allowed a lot of (at least formal) flexibility as long as they employ staff on temporary contracts. However, it should also be noted that changes in EPL were fairly marginal during the period when relative youth unemployment did rise, and the share of temporary contracts has also remained fairly stable since the late 1990s (after a rapid increase). In terms of minimum wages, the conclusion is broadly similar. Evidence suggests that Swedish minimum wages are relatively high (Skedinger 2007), although it is less trivial to analyse this issue than one would think, since Sweden only relies on negotiated minimum wages and these vary considerably in design and level across sectors. Further, there is no clear evidence of a distinct secular rise in youth minimum wages during the decade when youth unemployment rose. In addition, a generous reduction in employer contributions during recent years for young workers does not seemed to have had a dramatic effect on the unemployment numbers (Egebark and Kaunitz 2014).

Figure 2 Female labour market status by age



Source: Swedish Fiscal Policy Council (2014).

Instead, the focus has increasingly been directed towards the education system. There are essentially three ways through which the education system may contribute to the level and evolution of relative youth unemployment. Two of these are illustrated by Figure 2, which shows the (cross-sectional) evolution of activities across ages among Swedish females aged between 15 and 29.[4] (Notably, the figures are yearly averages, which imply that the "inactive" groups include students on summer holidays.) The first important feature illustrated by the figure is the frequent use of 'gap years' among Swedish youths who eventually start higher education.[5] These gap years mean that the share of females enrolled in full-time education is higher among 22 year olds than among 20 year olds. As the employment status among youths who go back and forth between studies and work is likely to involve repeated periods of frictional unemployment, this may add to the overall unemployment statistics (OECD 2008).

4 Patterns are similar for males although less stark in terms of the gap years (Swedish Fiscal Policy Council 2014).

5 See Holmlund et al. (2008) for an in-depth analysis of the economic consequences of gap years.

A second important point to take away from the figure is that inactivity among the young is most pronounced in the years directly following completion of high school. This suggests that there may be inefficiencies related to the school-to-work transition. An institutional argument suggesting that this may indeed be the case is that Sweden, in contrast to neighbouring Denmark for example, lacks a developed apprenticeship system. This makes a large, somewhat mechanical difference, as apprentices are employed by definition. But it may also explain the existence of prolonged periods of job search after the school-based vocational training is completed, in particular since the Swedish system has very modest ambitions in terms of creating contacts with employers during the course of training.[6]

As a final point related to the education system, it could be argued (although this is fairly speculative) that the evolution over time coincides with falling overall scholastic performance of Swedish youths. Sweden has seen a very negative evolution of performance in international tests (such as PISA) during recent years, and this may well have resulted in a generation with an elevated number of poorly prepared youths entering the labour market. However, a caveat is that the labour market performance (as measured by the relative youth unemployment rate) in neighbouring Finland, where the schooling results are in contrast extraordinary, is only slightly better than in Sweden.

Overall, it is in my view fair to conclude that we lack a good understanding of why Swedish youth unemployment rates are so high relative to the unemployment rate of prime-aged workers. Reasonable suspects include the design of employment protection legislation, wage-setting institutions and the education system, but it is difficult to find one good story that explains both the cross-sectional and times series patterns. The good news is, however, that the very bleak picture presented by the relative youth unemployment rate is likely to exaggerate the gravity of the situation since much of the measured unemployment coincides with participation in education, the inactivity

6 The importance of employer contacts for the school-to-work transition is discussed on VoxEU.org by Kramarz and Skans (2013).

rates are fairly low and concentrated among those in their early 20s, and unemployment durations of the young remain short on average.

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Youth unemployment in the UK: Cyclical fluctuations and the struggle for structural reform

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The recent recession in the UK led to only a modest fall in employment, but unemployment was disproportionately concentrated among young people. This chapter discusses the three main policy responses to high youth unemployment. The first focused on raising educational participation in the 16-19 age group. Second, programmes were designed to provide work experience, including wage subsidies, especially for disadvantaged youths. Third, there has been a push to increase apprenticeships for young people, though with limited success.

Historically in the UK and elsewhere, and for many countries through the recent recession, employment has adjusted far more than wages or hours when an economy goes into recession. However, in the UK the aftermath of the financial crash saw only modest falls in employment of around 2.5%, but very large falls in the real value of earnings of over 10%. Furthermore, employment started to recover very early, in the latter half of 2009, and overall employment had reached pre-recession levels by the end of 2013, whilst real wages were still falling.

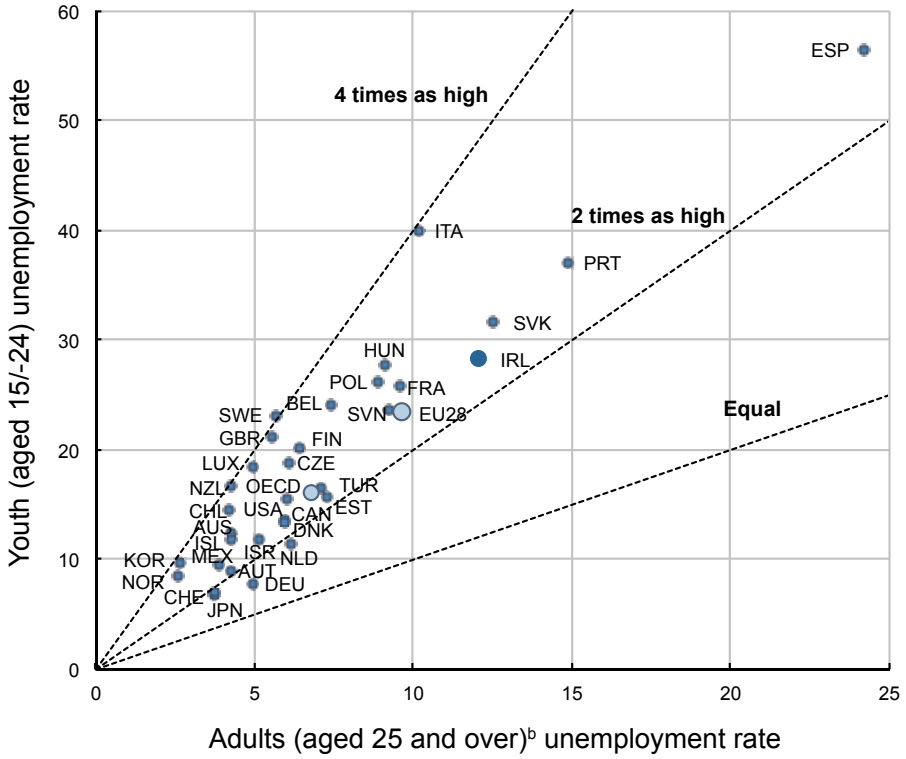
Recessions always hit young people hard. Firms' first response to declining orders is to stop hiring new recruits rather than sacking knowledgeable and experienced staff. Only when firms get into acute financial distress do they engage in large scale redundancies and through this recession firm profitability held up well outside the financial sector. As young people disproportionately rely on new hiring to secure employment as they

move from education into the world of work and seek to move to jobs closer to their career goals, they are very vulnerable to hiring freezes by firms. In addition, among job seekers there are three valuable assets that raise the chances of securing a new position. The first is directly relevant experience in a similar role. The second is a reference from an employer saying that you can do the job and are a conscientious employee; nothing counts as much as another employer vouching for you. The third is having the right qualifications, academic and vocational, for the job. Broadly speaking, this ordering reflects their relative importance in securing a job offer. Young people often lack the first two of these assets if they have not yet worked after leaving education – unless, that is, they have undertaken employer-based vocational training or an apprenticeship.

Even so, unemployment in the aftermath of the financial crisis in the UK was disproportionately focused on young people. The imbalance between changes in numbers leaving employment and job entries was unusually large. The proportion of those in work who leave in the next three months, both for reasons of involuntary job loss and withdrawal from the labour market, rose by only 1% at the height of the recession and quickly returning to pre-recession levels. This was in large part because (early) retirement fell sharply and employment among the over 50s rose steadily through the recession and has continued to grow strongly. By contrast, new hires for those not in work, which means most young people as well as other unemployed persons, collapsed by 25% and stayed low through to 2013, when a broader-based recovery in employment started. Young people are very sensitive to this hiring pattern, and as a result employment of young people fell by over 8% (compared to just under 2% among those 25+) and wages fell by 14% in real (adjusted for prices) terms (Gregg et al. 2014).

Figure 1 Youth versus adult unemployment, 2013

Percentage of the labour force of the indicated group, Q3 2013[a]



Notes: a) Q2 2013 for Estonia, Greece, Hungary, Norway, Switzerland, Turkey and the United Kingdom; b) persons aged 25-74 for the European countries.

Source: OECD Short-Term Labour Market Statistics Database (2013).

This meant the age imbalance of unemployment was unusually strong in the UK, with around 40% of the unemployed being aged under-25 by 2013 and the unemployment rate of this age group four times that of the over 25s. As Figure 1 shows, the picture across developed (OECD) countries is that the youth unemployment rate runs typically at around three times that of the adult (25+) unemployment rate. This measure captures the extent to which unemployment in a country is disproportionately focused on the young. The UK, along with Italy and Sweden, had the highest youth to adult unemployment ratio. This picture is very much at odds with the UK narrative that with its flexible labour market in terms of jobs and wages, it should include marginal groups

better than countries with strong employment protection. Indeed, a quick scan of Figure 1 shows there is no correlation at the country level between levels of employment protection and the concentration of unemployment on the young. The level of youth unemployment in the UK was also surprisingly poor compared with other countries. Whilst southern European countries (Spain, Italy, Portugal) and Ireland have extremely high youth unemployment rates, making the UK look good by comparison, the UK was in the second tier of countries, with the youth unemployment rate of those aged 16-24 still standing at a little under 20% at the end of 2013. The countries that performed best in terms of the extent to which unemployment was less concentrated on the young and generally low were the northern European countries with strong apprenticeship systems, such as Germany, Austria and Holland (plus Japan).

The inequality in exposure to unemployment focused on the young worsened in the UK through the recession and the early phase of subsequent employment recovery. Over the two years up to the end of 2013, the UK economy added an impressive one million jobs, but just 40,000 of this increase was among the under 25s. The young made up 40% of the employed, but have gained just 4% of jobs created. However, over the last year this pattern has swung towards youths, with the young gaining nearly a quarter of the 650,000 jobs added in the last year and the youth unemployment rate falling from 19% to 14% (about 3.5 times the rate for those aged 25+). This fairly dramatic turnaround is driven by the combination of a strong employment recovery and increased educational participation of the young, which was in part a deliberate policy drive (which is discussed below). However, policymaking aimed at addressing youth employment in particular remains weak (although it could be argued that wider macroeconomic policy has been important).

The policy response to high youth unemployment

The policy response to high youth unemployment in this recession has been in three rather disjointed phases and what has emerged, whilst having a number of positive

elements, still lacks the coherence and comprehensiveness to offer a structure capable of preventing the same problems from re-emerging in the next economic downturn.

The early phase of policy innovation to address the dramatic rise in youth unemployment came in the second half of 2008. It involved three major elements, which together bear a strong resemblance to establishing a Youth Guarantee, the major EU policy drive, although it never reached universal coverage due to the rapidity of the rise of youth unemployment. The three substantive elements aimed at different objectives, and whilst these three objectives have remained the same across the phases of policy reform, the policy space has seen a number of iterations and so the policy discussion will be organised around these differing objectives.

Raising the participation age and tackling early NEEThood

The first element has been to increase educational participation in the 16-19 age group. In 2009 this involved having a September Guarantee, an offer of a place in continued education to every young person aged up to 19 who wanted one. This was extended more formally with the Raising of the Participation Age (RPA), that is, raising the school leaving age to age 17 in 2013 and 18 in 2015. However, participation in an apprenticeship or vocational training course also counts, hence the term participation age rather than school leaving age, although in practice almost all of the increase in participation has been in full-time education. Of course, young people were not blind to this downturn in their employment opportunities, and responded by extending their participation in education even before the RPA kicked in, which has been actively supported by both the current and previous government. Raising the participation age to 17 from autumn 2013, and the planned increase to 18 in 2015, places a duty on local authorities to make sure all young people are either still in full-time education, or in an apprenticeship or employment with training. This obviously delays entry into the labour market and hence reduces youth unemployment. It was hoped that improved education would also raise job entry on leaving school, but this did not materialise until

the recent strong upsurge in the labour market. This element of policy towards youth unemployment has been the most consistent through the downturn.

In addition to funding extra places in education, the contribution of central government has been to fund outreach programmes to bring those who disengage from education back into the fold. This was done by the government-run Connexions service, which also carried out some careers guidance work, before the financial crash. The new government halted funding for the Connexions service from 2010, though some local authorities (LAs) maintained the brand and some of its functions as part of their duty to deliver RPA. The careers advice part was rolled into the National Careers Service, although most careers advice went into schools and further education colleges. At the end of 2011 the government, in the face of further rises in youth unemployment, launched the Youth Contract, previously done by the then defunct Connexions service, though now mainly through charities. These new agencies were initially poorly integrated into existing networks, and have consequently struggled to add much value. They have performed best when embedded into wider city-led strategies to address youth unemployment and disengagement, including where they have been delivered by LAs under City Deals (devolution of powers from central government to city-level government). Thus, the welcome drop in young NEET numbers has primarily been driven by the efforts of schools, further education (FE) colleges and LAs, rather than by the Youth Contract. The overall effect has been positive, with very few young people classified as NEETs in the first year after the old compulsory school leaving age, with the strong likelihood that this will follow on to age 18 next year. It has thus delayed entry into unemployment and also raised educational achievement, but has had a much smaller effect on boosting transitions from school to work without any intervening unemployment.

Closing the gap between school leaving and job entry: The Future Jobs Fund and the Work Programme

As part of the first major response to the recession, the Future Jobs Fund (FJF) was introduced in October 2009 with the aim of preventing long-term 'scarring' of young people as a result of suffering long-term unemployment. The programme was designed to provide work experience and, to a lesser degree, skills for disadvantaged young jobseekers to assist them in securing long-term unsubsidised employment after completing their FJF-subsidised job. Time spent in an FJF job is therefore not regarded as an end in itself, but rather as a means of providing skills and experience to help participants to move into unsubsidised employment after the FJF job has ended. The programme was implemented by the Department for Work and Pensions (DWP), and any organisation from the public, private or third sector from across Great Britain was eligible to bid for funding for the creation of job placements on the condition that the posts met the following criteria:

- each placement had to be at least 25 hours per week;
- placements had to be paid at least at the minimum wage;
- the placements were required to be 'additional' posts, i.e. posts that would not exist without the FJF funding and that would not otherwise be filled by the employer as part of their core business (this was a major block on greater expansion of the number of places available);
- placements were required to last at least six months;
- the work had to benefit local communities; and
- providers were required to provide support for participants to move them into long-term, sustained employment.

The cost paid to each organisation was a maximum of £6,500 for each placement, and was offered on an on a voluntary basis to young people who had been claiming Jobseeker's Allowance (unemployment benefits) for at least six months. However, if young claimants were unwilling to take up one of the programme places, then

participation in the Community Task Force became mandatory with the possibility of sanctions for non-attendance. This then has strong parallels with the current EU push for a Youth Guarantee in high unemployment regions.

The programme was wound down after the new government came into office in 2010 before the formal evaluation was completed. The new government claimed it offered poor value for money, but a rigorous evaluation – which compared participants aged 18 to 24 with matched non-participants aged 25 to 29 (and hence ineligible for the programme) – of the unsubsidised employment impact and cost-benefit ratio of FJF estimated the impact of FJF was to reduce time on welfare support by 59 days and to increase unsubsidised employment by 90 days over the two years after starting a placement. The evaluation also estimated that there was a net cost to the Exchequer of approximately £3,100 per participant, and a net benefit to society of approximately £7,750 per participant. Hence it was estimated to have recouped roughly 50 pence for each pound that was spent on the programme. The potential beneficial impacts of the programme were tracked until 104 weeks after the start of placements, and positive effects on employment and welfare claims were still very apparent. The longer the positive effects continued after this tracking period, the greater the estimated net benefit to participants, the Exchequer and society would be. However, these impacts would had to have persisted at a sustained rate for more than four years for the programme to have resulted in an estimated net benefit to the Exchequer (see DWP 2012).

The new government did not replace this work experience programme, but focused instead on more conventional welfare to work support services, with a twist that they were to be provided by private companies and charities on a fee for outcomes basis. This was branded the Work Programme, and is delivered by approved providers (mostly profit-making companies) who receive a small attachment fee, and thereafter receive a payment for each claimant on their books that enters employment, with extra payments for sustained employment outcomes (following criticism by the ruling Conservative Party, when it was in opposition, that previous programmes did not focus enough on job sustainability). Providers are given two years to work with the claimant to secure

employment. The Work Programme got off to a slow start but outcomes have picked up progressively. The first cohorts to enter the Work Programme in 2011 have now come to the end their two years of support offered by a provider. DWP statistics, which cover all participant groups, show that job outcome payments had been made on behalf of 22% of these early starters. So at some point in the two years, they had been in work. According to the Centre for Economic and Social Inclusion (CESI, or 'Inclusion'), a not-for-profit company dedicated to tackling disadvantage and promoting social inclusion in the labour market and that provides the best information to gauge the degree of success for the Work Programme, among the young, this figure is higher at 28%. This figure, by definition, represents the early referrals to the Programme. Inclusion suggests that for the unemployed aged 25+, where the closest comparisons are possible, the Work Programme is performing at about the same level as the preceding Flexible New Deal, but a little better than Employment Zones (see CESI 2013, DWP 2013). The more recent evidence is that the programme is now working better, if for no other reason than the improvement in the labour market, especially for the young unemployed.

In addition, under the later Youth Contract, recruitment subsidies worth £2275 for a full-time post were offered to employers who recruited a young person from the Work Programme. This, then, was the closest successor to the FJF programme. To date, take-up of this incentive has been so limited as to render this element of the governments strategy an irrelevance. Again, the hiring subsidy was poorly integrated with other agencies trying to engage employers over young people and no-one led in marketing the subsidy to employers, leading to the extremely poor take-up. In face of this, the government has announced that this hiring subsidy will be replaced by a general abolition of employer social insurance contributions for youths aged under 21, at a cost of £500m per annum, which is a large ticket item.

Traineeships and apprenticeships

There has been a perennial push to increase apprenticeships for young people over the years in the UK, with renewed attempts since the financial crisis, again with limited success. Apprenticeships since 2008-09 saw the biggest increase among those aged over 25 rather than for youth. This group are in employment and are generally already doing the jobs for which they will gain the apprenticeship qualification; it is thus a formalisation of skills they already have. Whilst this may help them gain new opportunities, it is not the main objective behind the drive to raise apprenticeship numbers. There has been some clear increase in apprenticeship starts among 19 to 24 year olds, which is to be welcomed, but very little for those aged under 19, even when the overall reduction in the size of the 16-19 population is taken into account. The government is planning to offer further financial support for apprenticeships for young people and to reduce support for older starters, and local authorities are to be charged with creating a one-stop online apprenticeship and traineeship (see below) application process (akin to the university application process in the UK) for the 50% not going on to university, making training and apprenticeships options clearer.

The government is also introducing a new requirement that all young people who have not achieved a level 2 qualification in Maths and English at age 16 continue studying these subjects until age 19 under traineeships, which offer continued study alongside vocational training and work experience. These traineeships can also be considered pre-apprenticeships for those who don't achieve the necessary qualifications by age 18. Building on this, the government will pilot a new scheme for young Job Seekers Allowance (JSA) claimants, under which claimants without level 2 qualifications in Maths and English will be required to participate in up to 16 hours per week of education/training alongside their job search, or risk losing their benefit entitlement from day one of their claim.

Conclusion

The UK labour market has been very benign in terms of jobs both through the recession and into a strong jobs recovery, but with extraordinarily large falls in the value of earnings. This initially saw high employment retention for those in work, and employment for those aged 50+ rose right through the recession and recovery. However, new hiring took a large hit during the recession which damaged young peoples employment (and wages) severely. Even when new hiring re-started, young people were at the back of the queue owing to their lack of experience, despite being the most qualified generation ever. But over the last year we have seen a change of fortunes for young people and youth unemployment is now falling fast. This is driven by both the strong overall employment picture and growing shortage of the adult unemployed reducing the competition for jobs faced by youth, and increased educational participation among young people. The initial policy response during the recession was to start to build a guaranteed offer to young people of continued education or an apprenticeship through to 18, outreach programmes to re-engage youths who drop out of school without entering work, and a work experience placement after claiming unemployment benefits for six months. Much of this was dismantled by the new incoming government as part of its austerity strategy. As youth unemployment continued to rise, however, the new government re-started policy activity focused on young people. Many elements of this were initially poorly integrated with existing structures and as a result struggled to be effective, but some such as the Work Programme have since improved considerably. Further policy initiatives are in the pipeline and will come to fruition after the 2015 election. As youth unemployment falls, however, there is an opportunity to move from managing a crisis to developing a coherent structure to support young peoples' transitions from school to work and to try to stop any future recession hitting the young as hard. However, to date such a vision is partial at best, covering a broadly comprehensive programme of extended schooling and traineeships/apprenticeships for those aged up to 19, offering but little beyond then. The EU's Youth Guarantee remains firmly off of the table for the current government, who are generally hostile to EU initiatives.

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Youth unemployment and the Great Recession in Greece

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Youth unemployment in Greece is currently over 50%, second only to Spain. This chapter reviews recent developments in the country and policy options. The high rate of youth unemployment is partly due to adverse macroeconomic conditions affecting all age groups. The legacy of the recession and the austerity has been enormous loss in output and steep decline in real earnings, as well as mass unemployment. Internal devaluation, brought about via a sharp cut in minimum wages and sweeping deregulation of labour market institutions, has failed to engineer growth: employment continued to decline, while exports remained disappointing. But high youth unemployment is also due to a poorly functioning labour market, in particular skill mismatches, with joblessness being almost as high among university graduates aged 25-29 as among low-qualified youths. The challenge facing policymakers in Greece is to facilitate the transition from education to employment, and put in place institutions that will underpin a more competitive growth model.

The fallout from the Great Recession

In 2007-13, the Greek economy contracted by 23.6% in real terms. The loss in output was far greater than in other southern European economies (-6.8% in Portugal, -5.7% in Spain and -8.7% in Italy) and Ireland (-7.6%) over the same period. The decline in living standards was larger still: according to Bank of Greece estimates (2014), household disposable incomes fell by over 30% in 2009-13. Such a deep and drawn out

recession has little, if any, precedence in the peacetime economic history of advanced economies, and comes quite close to the US Great Depression (-30% in 1929-32).

The steep rise in joblessness is no doubt the most characteristic feature of the Great Recession. In 2008q2, the total employment rate (population aged 15-64) was 62.2%. Six years later, it had fallen to 49.4%. The unemployment rate had fluctuated around the 10% mark in 2000-05. It then began to fall until May 2008, when it reached its lowest level for over a decade (6.7% of the labour force). Thereafter it started to rise again, gathering pace as the recession deepened. Unemployment peaked at 28.7% in November 2013, and fell back somewhat to 26.8% in 2014q2, or 2.3 times as high as in the Eurozone as a whole (while five years earlier, it had been exactly equal to the Eurozone average).

Youth unemployment (aged 15-24) had been rather high by European standards before the crisis (21.0% in Greece, compared to 15.5% in the Eurozone as a whole in 2008q2). However, it climbed abruptly during the crisis to 60.8% in February 2013. The latest Labour Force Survey (LFS) data, for 2014q2, put the youth unemployment rate in Greece at 52.2%, second only to Spain (53.1%) and more than twice the Eurozone average of 23.5%.

Given that the Greek crisis has been protracted as well as deep, it is hardly surprising that by now most unemployed workers have been out of work for over 12 months. The long-term unemployment ratio (as a percentage of all unemployment) stood at 74% in 2014q2. It was 65% in the 20-24 age group, and rose further still with age.

The proportion of youths not in employment, education or training (NEETs) has also gone up, from 15.8% in 2008 to 31.3% in 2013 among those aged 20-24, compared to 18.5% in the EU27 as a whole.

Furthermore, those young persons who do have a job tend to be in low-paid and/or precarious employment. Involuntary part-time work, involuntary temporary work and bogus self-employment (such as when independent workers are contracted to provide

services to a single client or work provider in much the same way as if they were an employee) are all more extensive than elsewhere in Europe (Eurofound 2014a, 2014b).

The emigration of young Greeks, typically those with higher skills, is one response to poor employment prospects. Even though reliable data are hard to find, a rough indication of the willingness to seriously consider migration to another European country is the fact that the number of CVs completed and posted in the Europass website by persons resident in Greece has soared from 3,000 to 257,000 in 2007-2013 (CEDEFOP 2014). Reportedly, emigration to Canada, the US, Australia and even the Gulf states has also increased significantly.

Implications of the jobs crisis

The economic implications of all this, reviewed elsewhere in this eBook, are grim enough. A recent study (Eurofound 2014b) estimated the cost of youth disengagement from the labour market at nearly 4.3% of GDP in 2012 (almost one percentage point more than 2011), compared with 1.26% in Europe as a whole (up from 1.21% in the year before). At the individual level, a slow transition from education to employment raises the probability of higher unemployment and lower earnings in the future. The longer unemployment spells are, the faster human capital depreciates, and the starker the consequences in terms of employment prospects and future earnings. A recent study (Brandt and Hank 2014) confirmed that such 'scarring effects' of youth unemployment are significant and persist late in life.

On the other hand, emigration can be seen as a solution for the individuals concerned, discounting the various emotional costs. However, its effects on the home country are often ambivalent: brain gain if the young emigrants return with extra qualifications and skills, brain drain if they instead commit to a career abroad.

The social implications have also been dramatic. The social safety net had been patchy before the crisis, and has largely remained so ever since. Contributory unemployment

insurance, the main instrument of income support to jobless workers and their families, is by definition unavailable to new entrants to the labour market. Since the maximum duration is 12 months, the long-term unemployed are also ineligible. In 2011, conditions for entitlement to unemployment insurance benefit (UIB) were tightened further (Matsaganis 2013).

As a result of all this, just as the number of unemployed workers doubled in 2010-14, the number of UIB recipients over the same period was more than halved. So, in 2014q2, UIB recipients (of all ages) amounted to 11.2% of all unemployed workers registered with the Public Employment Service (PES), and to a mere 7.2% of the LFS unemployed. The figures for unemployed workers aged 15-29 were 8.7% and 4.7%, respectively.

High unemployment, low earnings, and lack of income support have all reinforced older tendencies of delayed youth autonomy. In 2011, the age by which half of all young (and not so young) Greeks have left the parental home was 31.5 for men and 26.3 for women, i.e. 5.2 and 3.0 years, respectively, above the EU27 average (Eurofound 2014b).

Nevertheless, the family safety net, imperfect at best in good times, has recently come under great pressure, as parents have also faced job losses and pay cuts. Unsurprisingly, the poverty rate is now highest among couples living with their grown-up children. Specifically, we have estimated that 27% of all persons aged 18-29 in 2013 lived in households with an income below the standard poverty line (at 60% of median equivalised disposable income), while as many as 52% were below the 'anchored' poverty line (at 60% of the 2009 median), adjusted for inflation (Matsaganis and Leventi 2014).

As for the political implications, these are there for all to see. Greece is unique in Europe – even among those countries hit hardest by the crisis – in featuring an avowedly neo-Nazi party winning seats in the national as well as the European Parliament, even though its leaders are in jail facing criminal charges. Mass discontent with austerity and

declining living standards culminated in the victory of the radical left, committed to putting an end to the bailout agreement, at the general election of January 2015.

Internal devaluation

In 2009, as the country's fiscal crisis rapidly turned into a sovereign debt crisis, Greece entered an era of *de facto* limited sovereignty. Under the terms of the May 2010 bailout agreement, the Greek government signed a Memorandum of Understanding (revised several times since) with the IMF, the European Commission and the ECB, known collectively as the 'Troika' of lenders. As in other so-called 'Programme Countries' (most importantly, Ireland and Portugal), access to credit has been dependent upon satisfactory progress on a detailed programme of fiscal consolidation and structural reforms. Unlike Ireland and Portugal, which had successfully exited their economic adjustment programmes by the end of 2014, Greece is not expected to do so anytime soon.

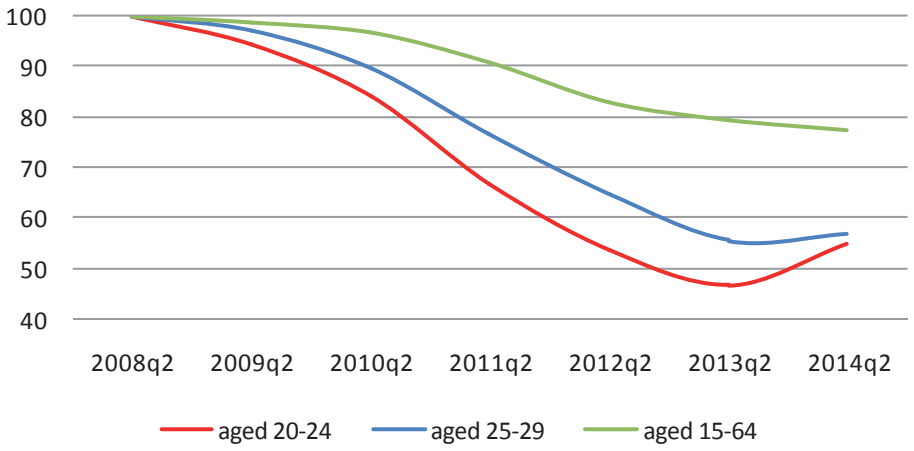
Labour market policy under austerity relied on 'internal devaluation' as a means to boost competitiveness, revive the economy and reverse the rise in unemployment. The strategy had two main features. On the one hand, in February 2012 there was a drastic cut in the minimum wage – by 32% in nominal terms for young workers, and by 22% for those aged over 25. Unemployment insurance benefit was also cut, from €454 to €360 a month (i.e. by 22%), for all workers irrespective of age. On the other hand, there was a sweeping deregulation of labour market institutions, from employment protection legislation and collective bargaining to working-time regulations and non-wage costs (Matsaganis 2013).

The fall in minimum wages and labour market deregulation had repercussions across the distribution. Average real gross earnings in non-banking firms declined at a faster rate in 2011-13 (-17.0%) than in 2009-11 (11.8%), and fell fastest (-10.6%) in 2012, the year of the minimum wage legislation. Overall, real gross earnings went down by over 25% in 2009-13 (Bank of Greece 2014).

Has internal devaluation worked? LFS data show that unemployment continued to rise in 2012 and 2013, and only fell back slightly in 2014. As for employment, it has kept falling, albeit less precipitously so in 2014.

Obviously, the fact that the minimum wage cut was more drastic for young workers constitutes a quasi-natural experiment. In theory, employment prospects for them should be improving – if not in absolute terms, at least relative to those for workers aged over 25. Are they? There is some evidence that this may actually be the case. Even though still below its 2012q1 level (when the minimum wage was cut), employment is rising for workers aged 20-29, while still falling for the general population. But workers aged 20-24 (whose minimum wage was cut to €511 a month) seem to be finding jobs faster than those in the 25-29 age group (where the minimum wage was cut to €568 a month).

Figure 1 Number of employed workers



Otherwise, in terms of a boost to export-led growth, internal devaluation has clearly *not* worked as intended: as the IMF (2014) has acknowledged, exports of goods and services excluding oil and tourism actually *fell* in 2012-14. As explained in another IMF report (IMF 2013), while "competitiveness improved somewhat on the back of falling wages, structural reforms stalled, [and] productivity gains proved elusive".

On the whole, as I have argued elsewhere (Matsaganis 2014), the 'Greek programme' pushed for labour market deregulation, but put too little emphasis on product market liberalisation where progress was scant. So it was successful in defeating the opposition of labour unions, but ran out of steam against resistance from professional associations and business interests in product markets, in connivance with domestic actors across the political spectrum.

This flies in the face of evidence that the potential benefits of structural reforms in Greece were (and to some extent, still are) not only greater than in other countries, but also greater in product markets than in the labour market. Barnes et al. (2011) estimated that moving to the OECD average in terms of labour market regulation could raise real GDP per person by 6%, but a similar move in terms of product market regulation could add as much as 22%.

Skills mismatches

As mentioned earlier, youth unemployment in Greece was higher than in most other EU countries even before the crisis. This was also the case for highly qualified persons in their late 20s. For instance, the unemployment rate of individuals aged 25-29 holding university degrees at bachelor, master or doctoral level (ISCED levels 5-8) in 2008q2 stood at 2.5 times the Eurozone average (15.4% versus 6.1%). Five years later it had gone up to 3.0 times as high (37.4% versus 12.6%). Plenty of other evidence confirms that the transition from education to employment has always been slower and more incomplete in Greece than in most other European countries, and has become even more so under the impact of the current crisis (Mitrakos et al. 2010, Eurofound 2014b).

Skills mismatches are a crucial factor here, caused by problems on the demand as well as the supply side. To start with, the skills mix produced by the education system at all levels seems poorly designed for the needs of a dynamic economy. Parents tend to hold manual labour in low esteem, so vocational education is eschewed by school children of average ability and above, who overwhelmingly opt for general education

leading to university. As a result, vocational schools are perceived – and often are – of inferior quality, so they end up catering to low performers, typically from low-income families, often with a foreign migrant background (CEDEFOP 2014, Ioannidou 2014). If initial vocational education and training (VET) is perceived to be of poor quality, so is continuing VET (following entry to the labour market). Vocational training, a key component of the active labour market policies promoted by the European Employment Strategy, to a large extent financed by the European Social Fund and other EU institutions, has grown exponentially over the last few decades, but seems to operate on the assumption that the absorption of available resources must be maximised at all costs. Usually that implies that the acquisition of skills is of secondary importance.

In such a context, it should not be surprising that VET providers have successfully resisted occasional attempts by the Ministry of Labour to force them to follow up former trainees in order to monitor how they are faring in the labour market, on the grounds that this would interfere with maximising the use of earmarked EU funding. As for universities, those in highest demand prepare graduates for careers in the so-called liberal professions of medicine, law and engineering or architecture, and the rest for jobs in the civil service and the broader public sector. As a result, employers find that young people applying for jobs lack the skills they value. As a recent McKinsey study found, the skills missing the most include 'hard skills' such as proficiency in English and 'hands-on experience', as well as softer skills like 'work ethic' and 'problem solving and analysis' (McKinsey 2014). The same study established that small firms faced greater difficulties in recruiting suitable new hires, and were less likely to work with education providers and with other employers to tackle their skills problems.

Again, Greece stands out not only in terms of the low degree of cooperation among firms and between firms and education providers, but also in terms of its exceptionally low firm size. A recent study analysing social security data (Kanellopoulos 2014) estimated that, in the non-banking private sector, very small firms (with fewer than ten workers) accounted for 86% of all firms, and 27% of all employment in that sector (an average of 2.3 employees per firm). If one takes into consideration that own-account workers are

twice as common in Greece as in the rest of Europe, one can easily see why there are so few job opportunities for highly skilled youths in the private economy. In fact, almost half of all jobs – a far higher proportion than in other European countries, including in the south – are in very small firms (employing 1-9 workers) and micro firms of self-employed workers. And even though, in theory, very small firms can actually be high-tech and export-oriented, in practice most such firms in Greece are low-tech and cater for the domestic market. It is in this sense that youth unemployment is associated with anaemic labour demand (and the outdated growth model that lies behind it) as much as with issues located on the supply side.

Future prospects

It may well be that the economy has entered a Keynesian range, in which recovery requires some sort of reflationary stimulus. However, the room for a domestic boost to investment and growth is severely limited by the requirements of the fiscal rules currently in place. As Crafts (2014) has recently pointed out, Greece will have to maintain a primary budget surplus of about 9% of GDP for every year from 2014 to 2023, according to OECD estimates. It is difficult to see how further fiscal consolidation on such a massive scale can be sustainable – economically, socially or politically.

So the stimulus must come from outside. A large investment programme in Europe – public and private – to kick-start the European economy; a more accommodating monetary policy coupled with stricter macroprudential regulations; somewhat higher inflation in the Eurozone (especially in the north); and a deal on debt restructuring – all these would help reduce unemployment (and in particular youth unemployment) in Greece and elsewhere in the south of Europe.

But the effect of a demand stimulus cannot be permanent, or significant enough, as long as domestic issues remain unresolved. Removing obstacles to structural reform (other than labour market deregulation), improving skills to facilitate the transition from education to employment, and putting in place the institutions that will underpin a

more competitive growth model – these are some of the challenges the Greek economy must deal with, whatever happens in the rest of the world.

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Youth unemployment in Italy

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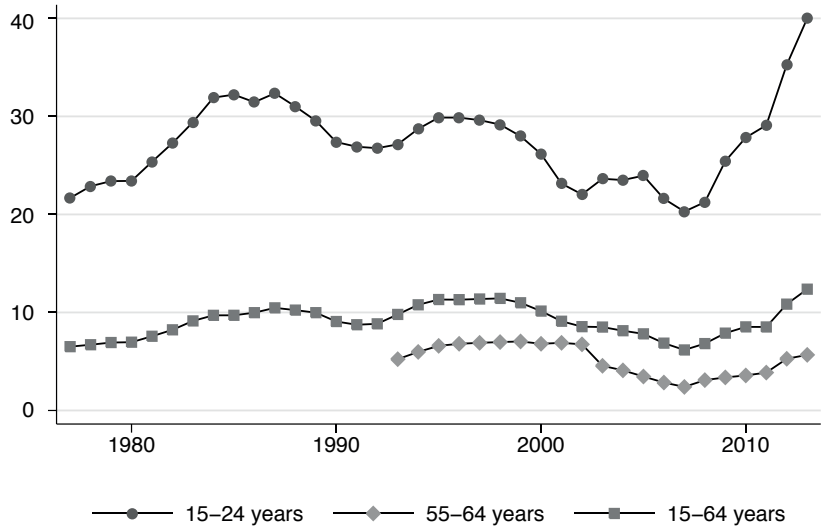
Italy has had a high rate of youth unemployment since the 1980s and it increased further during the Global Crisis, reaching as high as 40%. This chapter provides three potential explanations for this: the concentration of fixed-term contracts among the young and the short-term work scheme that protects insiders at the expense of young outsiders; more young people entering education during the recession, leading to lower participation rates and a higher rate of unemployment; and the slow transition from school to work.

One particularly worrisome characteristic of the Italian youth labour market is the high ratio of the unemployment rate of the young to the overall unemployment rate. Figure 1 shows that since the 1980s Italy has had a very high unemployment rate among workers aged 15-24 years. The rate reached or slightly exceeded 30% during both the 1980s and the 1990s and has further increased during the recent crisis, hitting an extremely high 40%. Two features of the Italian labour market call for an explanation: Why is youth unemployment structurally high, and why did it increase further during the crisis? This chapter attempts to answer to both questions without any pretence of being exhaustive. In particular, we will limit ourselves to mentioning the possible mechanisms at work and will speculate on their relative importance without trying to quantify the importance of each single mechanism.

The issue

The evolution of the overall Italian unemployment rate (Figure 1) highlights the double dip nature of the recent Italian crisis. Unemployment rose in 2008-09 after a prolonged period of decline during the 2000s. In the first months of 2010 there were signals of a recovery, but at the end of that year the second dip of the crisis hit and unemployment started to grow again, reaching a historical high of 12.4% in 2013.

Figure 1 Unemployment rates



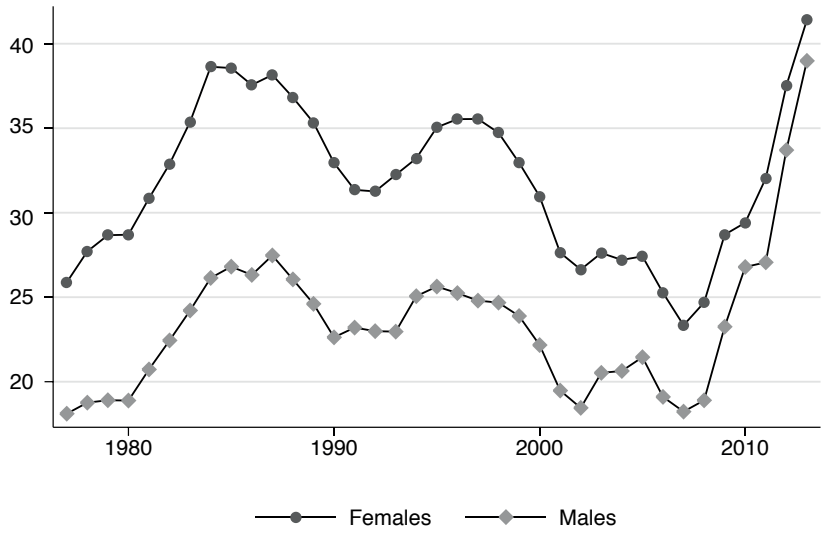
What is startling is the different behaviour of the youth unemployment rate. Figure 1 also presents the series for individuals aged 15-24, and shows that the youth unemployment rate doubled between 2008 and 2013 from 20% to 40%, one of the highest rates in Europe (lower only than Greece, Portugal and Spain). The unemployment rate of older workers did not rise as much or even declined, raising the question of whether the pension reform enacted recently – which kept many older workers at work for longer – had any short-term impact on youth unemployment (see Section 3). Overall, the figure shows that the ratio of the youth-to-adult unemployment rate is particularly high in Italy. This fact, together with the fact that the inactivity rate and the proportion of NEETs (not in education, employment, or training) among young workers are also very

high, as discussed below, signals the presence a youth-specific problem in the Italian labour market.

Facts about the Italian youth labour market

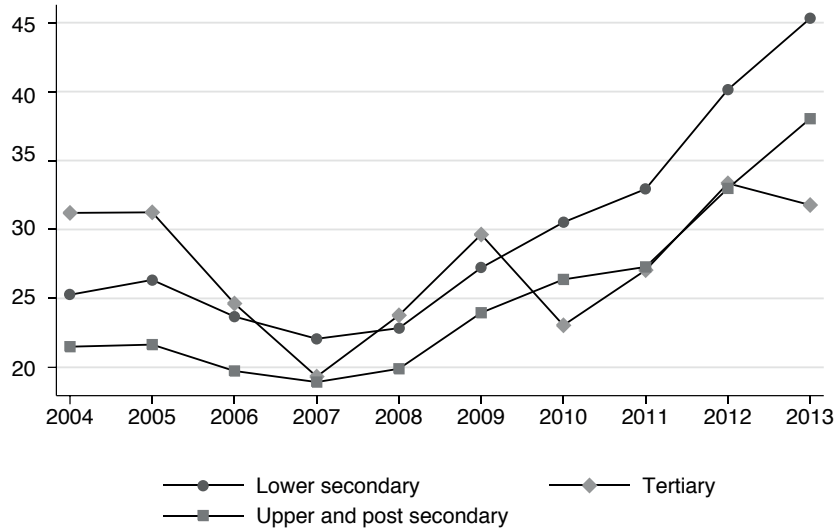
Figures 2, 3 and 4 below describe the main features of youth unemployment in Italy. Traditionally, the unemployment rate of young females has always been higher than the male unemployment rate. The two rates have been slowly converging over time and the crisis induced full convergence (Figure 2). This is probably due to the sectorial composition of male employment: the crisis hit mainly the manufacturing and construction sectors. The composition in terms of temporary contracts (most of which were not renewed during the crisis – see below) mitigated this effect, as the share of female temporary workers is (slightly) larger than that of men.

Figure 2 Youth unemployment rate by gender



The unemployment rate by education level (Figure 3) signals a higher increase for the low educated, although this group had also enjoyed a relatively sharp decrease in the years before the crisis (i.e. workers with the lowest levels of education are very sensitive to the business cycle). The unemployment rate also increased among the graduates; it is well known that graduates in Italy have trouble finding their first job, more so than their equivalents in other countries. In the section below, we speculate on both the role of temporary contracts and the role of university reforms in accounting for the increase of youth unemployment and the difficulties of individuals with a graduate degree.

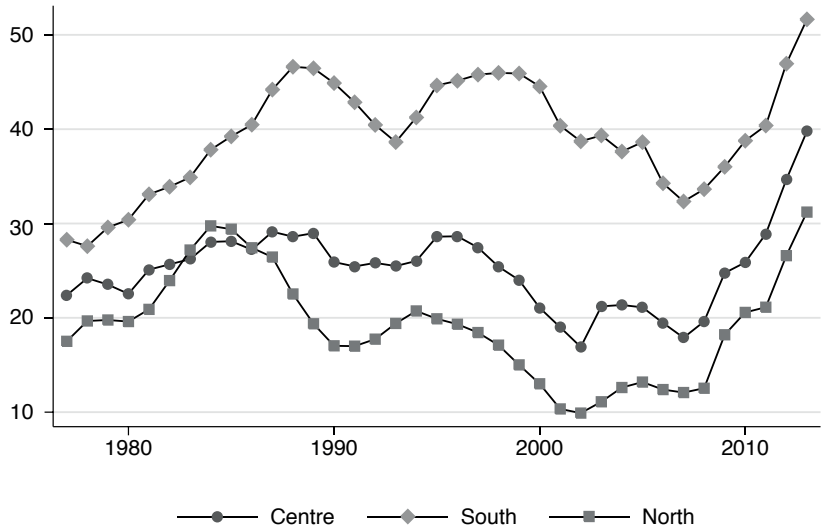
Figure 3 Youth unemployment rate by educational level



Finally, southern Italy is the geographical area that suffered the most during the crisis (Figure 4). The evolution of the unemployment rate in the south is more sensitive to the business cycle – the reduction of unemployment before the crisis was faster in the south than in the rest of Italy. However, the second dip of the crisis, after 2011, was particularly bad for the southern part of the country. The industrialised north also suffered because most jobs losses due to the crisis happened in the manufacturing sector. In contrast to the south, however, northern Italy could rely on exporting firms, which withstood the incoming crisis better. The south of Italy may also have suffered

from new bouts of emigration of young individuals with tertiary education, which may have caused a 'brain drain' phenomenon.

Figure 4 Youth unemployment rate by macro area



Unemployment is not the only dimension of interest in the youth labour market – the population of 15-29 year olds declined by 3.1% between 2008 and 2013, and the labour force by 12.7%. The evolution of employment among the young is also very worrying. In the last six years, one million jobs were lost among the under-30s, with a cumulated change of -27.5 percentage points. The losses were more intense in the south and among open-ended contracts and full-time jobs. The slight increase in part-time jobs is due to involuntary part-time jobs. As a result, starting from 2008 the employment rate of the under-30s declined by 10 percentage points from 39.9% to 29.4%.

Potential explanations

In the rest of the chapter, we will go over three potential non-mutually exclusive explanations of the divergence between youth and adult unemployment.

The first explanation of the relative increase of youth unemployment during the crisis has to do with labour market institutions. The concentration of fixed-term (FT) contracts among the young and the short-time work scheme in existence in Italy (*Cassa Integrazione Guadagni,* or CIG), which protects insiders at the expense of young outsiders, may have been factors contributing to the relative increase of youth unemployment during the crisis.

Second, as frequently happens during crisis periods, the number of full-time students increased; the decline in the participation rate of the young mechanically increases the measured youth unemployment rate. One marginal impact may be also due to the pension reform of 2012, which increased the pensionable age and in the very short term impeded the substitution of older workers with young workers.

Finally, a more 'structural' explanation has to do with the weak school-to-work transition of Italian youths. The difficulties of the low-educated are signalled by the high number of NEETs, but college graduates have also experienced long periods of unemployment and low entry wages recently. The difficulties of college graduates may be due to the excess supply of college graduates as a consequence of the university reform, which rapidly increased the number of college students (Bosio and Leonardi 2010).

Explanation 1: Fixed-term contracts and the short-term work scheme

In Figure 5 we plot the stock of temporary workers aged 15 to 24 since the mid-1990s. Vertical lines mark the two labour reforms of 1997 and 2003. In line with these reforms, one can see an increase in the stock of temporary contracts. As of 2010, temporary contracts have accounted for around 50% of the employed population aged 15-24. There is widespread consensus that the introduction of temporary contracts has favoured the reduction of youth unemployment and has contributed to the positive performance of total job creation in the past decades (Cappellari et al. 2012). However, policymakers are also worried about the low quality of many of these jobs and the uncertain prospects of those who happen to be trapped in them for a long time. Particularly worrying is

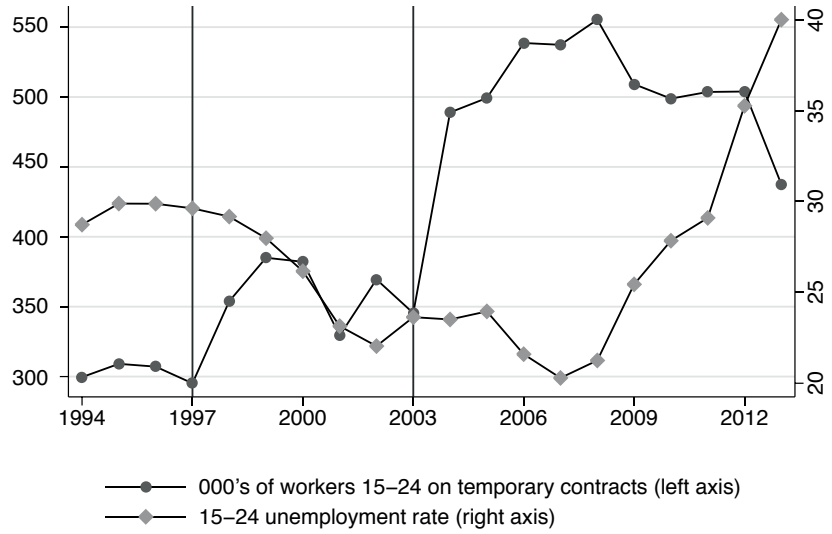
the phenomenon of the 'economically dependent' self-employed, the large number of which, if included in the range of temporary jobs, would increase the share of youths in temporary jobs to a very high level compared with most other European countries.[1]

Recent work on Spain (Bentolila et al. 2011) points to the possibility that the diffusion of temporary employment increases unemployment volatility because of the differential churning between employment and unemployment for workers on permanent and temporary contracts. The positive side of the coin is that temporary employment may act (better than permanent employment) as a bridge into employment for the unemployed. In fact, the destination of those youths leaving unemployment is twice as likely to be a temporary than a permanent contract. However, during a recession temporary workers are the first to lose their jobs, thus raising the unemployment rate among the young.

The diffusion of temporary contracts has contributed to rendering the Italian labour market very flexible. While official accounts tend to depict Italy as a rigid country, the indicators of turnover rates suggest a different view: gross turnover rates hovered around the extremely high level of 25% before the crisis and are now around 19%. The number of jobs that change holder in a year declined over the decade, and if we take these rates as evidence of the robustness of the employment relationship, we notice that when employment was growing, labour turnover was high (mostly due to high quit rates in small firms), but when employment started declining, workers became reluctant to abandon their jobs, with dismissals probably driving the reduction in employment.

1 The peculiarity of the Italian labour market concerns the possible inclusion of some formally self-employed workers (i.e. collaborators and external suppliers) in the group of temporary employees. In Italy, 10% of those aged 15 to 24 are self-employed, compared with an average of 4% in the EU (OECD 2010). Understanding how many of these are not really self-employed but are actually 'economically dependent' on a single firm is not an easy task and depends on the interpretation and the definition of 'economically dependent'.

Figure 5 Temporary contracts and the unemployment rate



The overall picture of the Italian labour market is therefore contradictory. On the one side, we observe a remarkable performance in terms of employment growth before the crisis (mostly due to the liberalisation of temporary contracts) followed by rapid job destruction over a few years. On the other side, geographical differences persist or even widen over the sample period; in addition, the gender differential declines all over the country. These are indications that the labour market reforms that occurred in recent decades were able to modify the dynamics of employment growth, without, however, being able to fully reverse the historical patterns. The reason may lie in the intrinsic nature of these reforms, which were able to increase flexibility only for the weakest segments of the Italian labour market, without affecting the bulk of the (employed) labour force.

Another typical feature of the Italian labour market, which may have contributed to the relative growth of youth unemployment, is the short-time work scheme known as *Cassa Integrazione Guadagni* (CIG). This institution was designed back in the 1970s to provide basic income support to temporarily displaced workers or workers displaced from firms in shrinking sectors. Historically, its coverage was limited to permanent

workers in firms with more than 15 employees in the manufacturing sector. Italy's response at the onset of the crisis was mainly based on the extension of CIG. Lacking the possibility to increase public expenditure due to the heavy burden of debt and the stringent European rules on the deficit, the approach has been 'defensive'. This implies higher relative unemployment rates for the young, since the CIG protects relatively older permanent workers. This reduces the measured unemployment rate of older workers because those covered by the CIG are not counted as unemployed in official statistics. Around 250,000 workers per year have been enrolled in the CIG scheme over the last years. Making the extreme (and in many cases, wrong) assumption that none of them is hired back into the firm, including these workers among the unemployed would raise the unemployment rate of adult workers by 1.5 percentage points.

Explanation 2: Labour force participation (and pension reform)

The second explanation we propose has to do with the higher number of people aged 15-24 in education in the crisis period. Both the labour force participation rate and the employment rate of the young have declined during the crisis. The reason is that young workers decide to go through more education or training before trying to find a full-time job. Lower participation in the labour force can of course mechanically translate into higher unemployment rates.

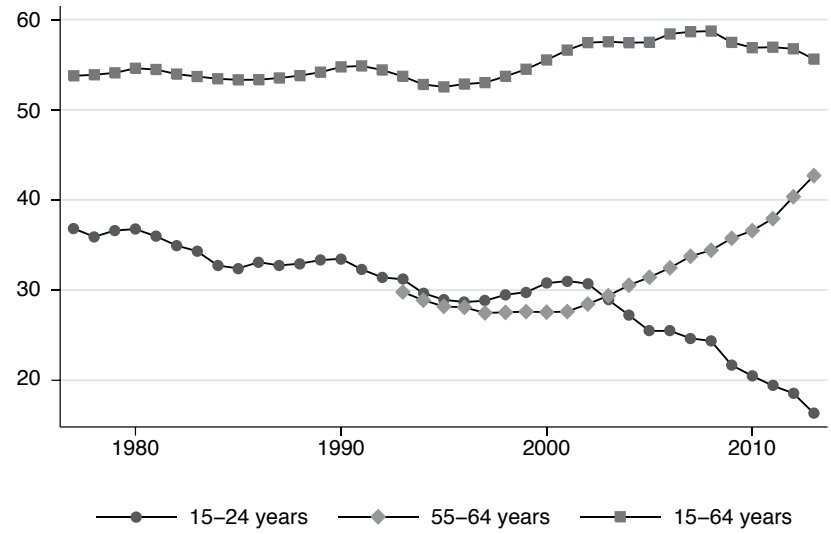
More education is in principle beneficial; however, there is evidence that the rapid increase in the number of college graduates after the university reform of the early 2000s not only increased the unemployment rate temporarily, but also contributed to rendering job search more competitive among college graduates. In a very short period of time there was a rapid increase in the supply of graduates, not entirely absorbed by a concurrent shift in the demand for labour towards intellectual jobs fit for workers with a tertiary education.

The unemployment increase between 2008 and 2013 has been modest among college graduates (10 percentage points), while high school graduates and high school drop-

outs suffered a 13.9 and 17 percentage point increase, respectively. However, it is also well known that in Italy the college premium is lower than in other European countries, and it is lowest among the 25 to 34 age group (around 16%). The college premium has declined further in recent years, probably due to the rapid increase in the number of college graduates after the university reform not being matched by an equivalent increase in the number of high-skilled jobs in the economy. As a consequence, entry wages in the labour market have declined over time. According to data from the Banca d'Italia biannual survey on household incomes and wealth (the main source of microdata data on incomes available in Italy), between 1986 and 2002 the ratio between the net monthly wage of male young workers (aged 15-29) and the corresponding wage of male adult workers (aged 45-65) declined from 80% to 70%. Corresponding figures for women indicate a decline from 86% to 77% (Rosolia and Torrini 2007). The implication is that the diffusion of fixed-term contracts reduced the wages of young workers relative to adult workers, but did not particularly improve their employment prospects.

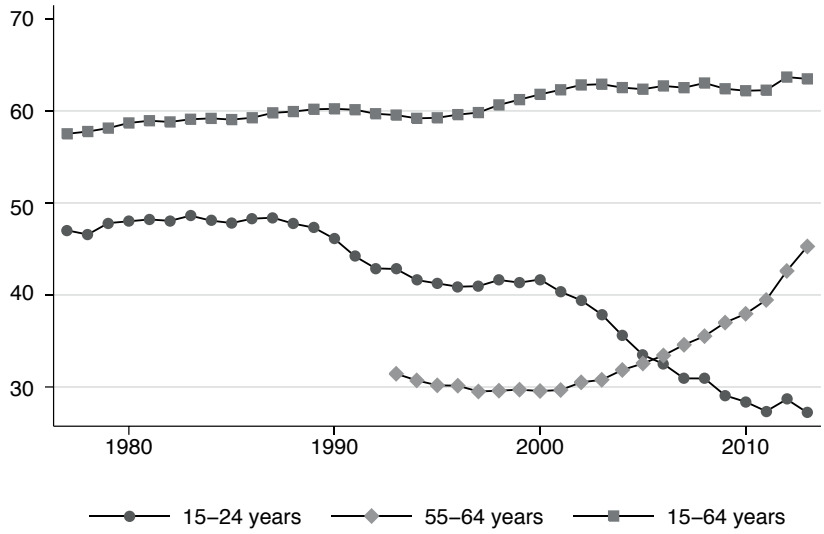
The employment rate among the young aged 15-24 declined dramatically over the last decade, and so did labour force participation (Figures 6 and 7). In particular, the employment rate of the young has declined much more than the overall employment rate (which hides big differences across gender though). The overall employment rate, which for males had been stable at 70% (in line with the European average), declined slightly in the last years due to the crisis. The female employment rate, which at 45% was been far below the European average (and the Lisbon target of 60%), has been stable at that level throughout the crisis. Concurrently, both figures show a rising employment and participation rate of older workers aged 55-64. The trend started in the early 2000s when the new pension system based on defined contributions started to be perceived as a good reason to stay in work, and culminated with the 'Fornero' pension reform of 2012, which raised the retirement age by three years.

Figure 6 Employment rates



The sequence of pension reforms is a possible explanation for the widening gulf between adult and youth unemployment. It increased employment and the participation rates of older workers. While it is very unlikely that in the long run there is substitution between workers of different ages (especially between those as far apart as the very young and older workers), some analysts have claimed that given the large impact of the pension reform on older workers' employment, this may have had a short-run negative effect on employment of the young, especially in big firms were programmes of job rotation between older workers and young apprentices are standard practice. Following the pension reform, these programmes have been frozen for three years as a consequence of the higher retirement age of older workers.

Figure 7 Activity rates



Explanation 3: School to work transition

The first part of this chapter focused on a 'cyclical' explanation of youth unemployment, in particular on fixed-term contracts and the recent and current reforms. However, Italy also suffers from a structural problem of school-to-work transition, which has been exacerbated by the crisis.

The weak school-to-work transition is traditionally a handicap for the low-educated young. The NEET phenomenon concerns mainly, but not only, the low educated. The phenomenon is more significant in southern Italy and also embraces the group of young workers aged 25-29 involved in the school-to-work transition (Figures 8 and 9).

Figure 8 NEETs (15-29 years) in Italy by region

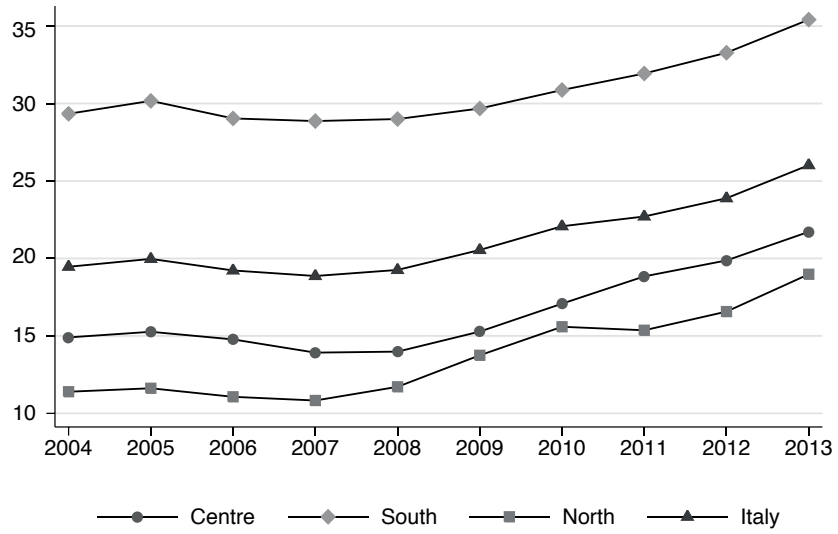
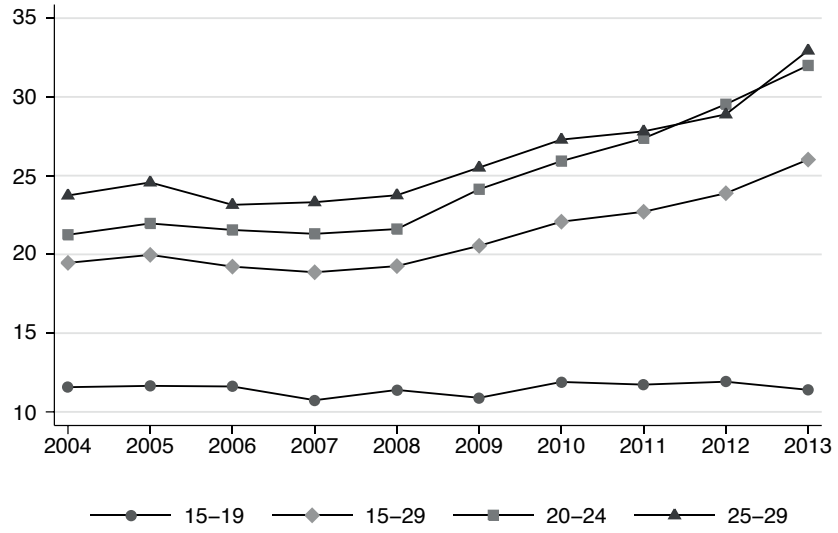


Figure 9 NEETs in Italy by age



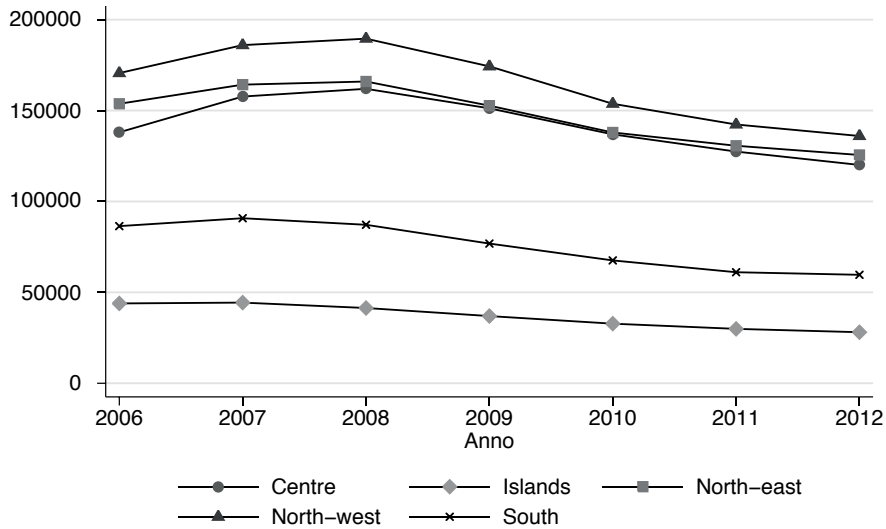
The number of NEETs aged 15-29 increased between 2008 and 2013 to reach 2.5 million individuals, or 27% of the population of this age group. It started from an already very high level (19.9% of the corresponding population in 2008), a sign of a structural problem in the school-to-work transition. As for the composition of NEETs (inactive

versus unemployed), the number of unemployed has risen more over time, signalling that the transition into work remains the main problem for the young unemployed in Italy.

NEETs are the explicit target of the Youth Guarantee programme that started in May 2014 and, using European funds, promises to guarantee a job offer to every young applicant within four months. Alternatively, a training programme, an apprenticeship or experience in the non-profit sector is offered. The Youth Guarantee programme is encountering difficulties at present, mainly because the Italian Constitution requires its implementation to be decentralised at the regional level, and Italian regions differ markedly in their efficiency.

There have been frequent discussions in Italy about the opportunity to follow the German model of a dual education system. Nevertheless, no reform has been implemented in this direction and experiences of the labour market during the education period (both during high school and university) remain very rare. The popularity and quality of technical high schools have declined over time, while technical universities with an institutional link with firms and offering apprenticeships have never really taken off: hiring through apprenticeship contracts represents only around 4% of the total (Figure 10 shows the stock of apprenticeship contracts over time). The recent labour market reforms in 2012 and 2014 have both revolved around youth unemployment, but have mainly discussed entry contracts rather than structural reforms concerning schools and the university system, probably missing the main point: the fact that (irrespective of the type of employment contract) in Italy, there is a very slow transition from school to work.

Figure 10 Apprentices by age



Overall, the approach of the last decade to the youth unemployment problem has been two-sided. First, there was substantial liberalisation of fixed-term contracts, which have been proven in the past to increase the number (but not the quality) of accessions to the labour market. Second, there has been a promise to promote the substitution of fixed-term contracts with more stable open-ended contracts.[2] To this end, the current labour market reform makes the cost of firing certain (substituting the reintegration of the unjustly dismissed worker with a certain severance pay) and renders new accessions to open-ended contracts very favourable in 2015, with full exemption of social security contributions only for open-ended contracts signed next year and for the next three years.

Hopefully the next step will be to explicitly address the difficulties that young workers experience when transitioning from school to work.

2 To promote open-ended contracts, over time Italy has reduced employment protection legislation (EPL), relaxing the rules for individual dismissals (the famous article 18 of the Labour Code). The role of EPL in affecting wages and investment, as well as employment flows and levels, is discussed in Cingano et al. (2014) and Leonardi and Pica (2013).

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Youth (un)employment in Portugal

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One out of three people between the ages of 15 and 24 on the Portuguese labour market is unemployed. This chapter argues that this high number reflects the sensitivity of young workers to the business cycle, which affects both youth employment and participation rates. In Portugal, the Eurozone crisis led to a dramatic fall in job creation rather than job destruction. Youth employment has been hugely responsive to aggregate demand. Other contributing factors towards the low employment of young people are fixed-term contracts and the overall low level of education. Policies that promote the return to investment in human capital and protect income in periods of transition between employment and non-employment are essential.

Introduction

For every three people aged 15 to 24 who are active in the Portuguese labour market, one is unemployed; that is three times the usual youth unemployment rate observed in the 1990s. However alarming these numbers, they reflect the high sensitivity of young workers to the business cycle. And it is not only unemployment, but also youth employment and participation rates that are rather responsive to the economic cycle.

This alone suggests that part of the problem will go away as the economy improves. Policymakers must focus on job creation. In the meantime, active labour market policies

1 I would like to thank Mário Centeno for fruitful discussion. The opinion express here does not necessarily reflect that of the Banco de Portugal.

must concentrate on those truly disadvantaged in the labour market. However, that has not been the practice. Unfortunately, there are institutional features of the Portuguese economy that have more structural consequences. Segmentation in employment (between permanent and temporary contracts) and in unemployment (between those with income protection and those unprotected) penalises the wages and labour market integration of young workers. A coherent reform of contracts and income protection is proposed to equalise returns to investment in the labour market.

Before the Eurozone crisis

The crisis triggered in many European countries a dramatic increase in the rate of joblessness. However, in the case of Portugal, it is illustrative to consider the path that led to the crisis, as it diverged from that of many other Eurozone countries.

Economic growth had been paltry, averaging 1.1% over the period 2000 to 2008. Public deficits were accumulating debt at an average of 3.5% of GDP per year, resulting in an increase of public debt as a percentage of GDP of 20 percentage points (79% in 2008).

For most of the late 20th century, the Portuguese labour market was characterised by an extremely low unemployment rate, which reached an incredible low of 3.9% in 2000. However, from the turn of the century, the unemployment rate reversed this trend and, in the first seven years, doubled to 8%. Estimates of the natural unemployment rate suggest that this trend reversal had underlying factors that went beyond cyclical explanations (Centeno et al. 2009). Youth (15-24 years) unemployment followed a similar path, increasing from a low of 8.6% in 2000 to 16.5% in 2008.

However, one must be careful in interpreting youth unemployment. This is the demographic group with the lowest participation rate at 44% (2000-08 average), compared with 88% for prime-age (35-44 years) workers. For young individuals, there is a thin line between inactivity and the labour market . This instability in labour market status is explained by schooling decisions and job search learning, which

results in a trial-and-error job matching process. Another caveat in interpreting youth unemployment is the duration of unemployment spells. In part related to the volatility of inactivity versus participation, the average duration of youth unemployment is substantially below that of older workers (11 months versus 24 months). Long-term unemployment (more than 12 months) affects the two demographic groups differently: 29% of the young unemployed workers, but 52.4% of prime-age unemployed workers.

Similarly to other southern European countries, segmentation is a trait of the Portuguese labour market. Fixed-term contracts are used as a poor-man's form of circumventing the more stringent employment protection legislation of open-ended contracts. In particular, while severance payments do not differ much across contract types, the judicial uncertainty of terminating an open-ended contract has pushed many firms into using fixed-term contracts (Centeno and Novo 2012). Because temporary contracts do not have any judicial uncertainty upon termination, their share was 30% in 2008, after steadily increasing by 50% throughout the previous decade. The incidence of temporary contracts among young workers was three times that of older workers: in 2008, 54.2% of youth employment was temporary, while for prime-age workers that share was 17.2%. This trend is far from over – in 2008, fixed-term contracts represented 90% of transitions from unemployment to employment.

But the design of the unemployment insurance system extends segmentation to the period of unemployment. Worker rotation is concentrated among a fraction of workers, and these workers have difficulties accumulating the number of required contributions to access unemployment insurance. Again, the well-intended protection discriminates against workers on temporary employment.

Along with the economic environment and labour market institutions, demographic and educational factors, which are more structural, also changed the composition of the Portuguese labour market. With one of the lowest fertility rates in Europe, the share of youths in the population decreased from 14.5% to 11.5% in the reference period – a marked trend that was only temporarily mitigated by the influx of migrants

observed earlier in the century. Given the higher rates of youth unemployment, this fact is prone to contribute to an overall lower unemployment rate. Also contributing towards lower unemployment is a more educated population. The low education of the Portuguese workforce was overwhelming: in 2000, 78.2% of the labour force had only a basic education, while only 12.3% and 9.5% had a secondary and tertiary education, respectively. Efforts to improve skills have changed the educational structure substantially. By 2008, the share of workers with a tertiary education had already reached 15.1%.

In summary, Portugal entered 2008 with signs of an economic slowdown, reflected in increasing unemployment, a predominantly low-skilled labour force and a segmented labour market.

The economic cycle and youth labour market behaviour

Before we delve into the consequences of the Eurozone crisis, it is important to understand how the business cycle affects the labour market performance of youths. However, it is misleading to focus only on unemployment. An increase in unemployment may be due to either fewer available jobs or more workers deciding to search for a job. These two sources of unemployment have different social and economic implications; while job search activity is suggestive of a dynamic economy, fewer jobs are likely to be available during downturns. But, as discussed above, for the younger cohort, there is also a thin distinction between unemployment and inactivity. Therefore, one must examine the cyclical behaviour of employment, unemployment and participation.

The employment ratio of a demographic group (the ratio of employment, E, to its population size, N) can be decomposed into the product of the employment rate (employment divided by labor force size, L) times the participation rate (labour force size divided by population size). Formally, $E/N = E/L \times L/N$. And because the labour force is the sum of those employed and unemployed (U), then $E/N = (1 - U/L) \times L/N$.

This simple identity implies that variation in the employment ratio can be decomposed into variations in the unemployment rate and labour force participation decisions.

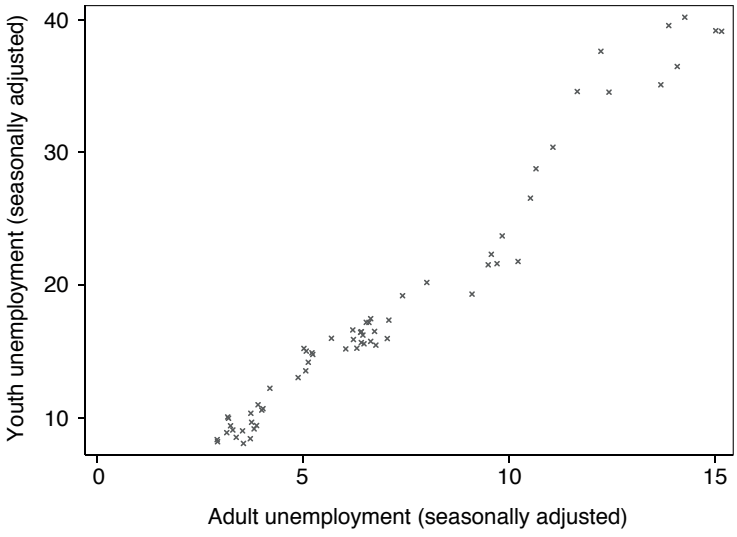
In the period 2000-08, the youth employment ratio decreased on average by 2.1% per year. This reduction can be decomposed into a decrease in both the participation rate (-1.1%) and the employment rate (-1%). For the prime-age demographic group, the variation in the employment rate is negligible at 0.1%. This came about with an increase in the participation rate (0.5%) due to increasing female labour market participation, but was almost compensated by a decrease of 0.4% in the employment rate. This demographic contrast illustrates the need to extend the analysis to participation in order to study youth labour markets. Also, in line with the blurriness of inactivity and participation for youths, the youth employment ratio and participation rate are five times more volatile (standard deviations) than those of older workers.

To study the responsiveness of the youth labour market to the business cycle, we use quarterly data for the pre-crisis period and postulate that the youth unemployment and participation rates are functions of aggregate demand. The unemployment rate of prime-age (35-44 years) individuals is a proxy for aggregate demand. Current and lagged values are used to measure job opportunities in the labour market. This is a standard choice in the literature due to the fact that these individuals have a high attachment to the labour market: they had the highest participation rate (88%) and the lowest unemployment rate (5%) among all age groups between 2000 and 2008.

Figure 1 shows a strong association between youth and adult unemployment rates. The estimated relationships pre-crisis indicate that for each percentage point decrease in the unemployment rate of prime-age individuals, the youth participation rate increases by three percentage points and youth unemployment decreases by two percentage points. Together, these estimates result in an increase of five percentage points in the youth employment ratio. The main message here is the huge responsiveness of youth employment to aggregate demand: about three-fifths of the response comes about from higher participation rates, and the remaining two-fifths from a lower unemployment

rate. These estimates are in the range found for other economies and time periods (Clark and Summers 1982, Scarpetta et al. 2010).

Figure 1 Quarterly youth (15-24 years) and adult (35-44 years) seasonally adjusted unemployment rates.



For policy, the message is clear: it is a shortage of jobs that characterises the youth labour market. Otherwise, there would not be such a strong relationship with aggregate demand. In the Portuguese case, the predominant influence of youth labour market participation (two-fifths) suggests further that the focus ought to be placed on promoting employment. In Portugal, the Eurozone crisis period has been characterised by a dramatic fall in hires (job creation) rather than being dominated by separations (job destruction). In the pre-crisis period, each quarter there were around 250,000 hires and a similar number of separations. After 2009, hires do not exceed 140,000, while separations fell to 190,000 per quarter.

The consequences of the Eurozone crisis

The ripples of the financial crisis in the US had noticeable consequences in Portugal. The real economy suffered with the international trade freeze. The financial system started having difficulties accessing credit in the market and, in November 2008, a small Portuguese bank was nationalised. This period set the stage for a particularly difficult economic environment, which culminated in mid-2011 with the Portuguese government requesting an economic and financial rescue programme from the European Commission, the ECB and the IMF.

With the exception of 2010, all of the remaining years from 2009 to 2013 were marked by recession. Output fell by, on average, 1.4% per year. The consequences in the labour market had never been experienced in Portugal. A double-digit unemployment rate became the rule, reaching a high of 17.7% in the first quarter of 2013. Not surprisingly given the evidence collected hitherto, youth unemployment also reached a high of 42.1% in the same quarter. Confirming the sensitiveness of youth employment to the business cycle, their participation rate fell by approximately six percentage points. The adjustment between 2008 and 2013 occurred while youth employment fell by 180,000 jobs and the youth population decreased by more than 10% (126,000). Prime-age workers were also significantly affected by the succession of years in recession: their unemployment rate hovered at around 15% from the fourth quarter of 2012 until the second quarter of 2013.

The average youth unemployment rate increased 16.4 percentage points between the pre-crisis and crisis periods. Similarly, the prime-age unemployment rate increased 6.4 percentage points. If we use the aggregate demand elasticity estimated above, youth unemployment was expected to increase, on average, by 14.1 percentage points, almost matching the observed increase. Despite its simplicity, the model shows rather successfully that the increase in youth unemployment was nothing but expected.

Despite more recent improvements in the labour market, youth unemployment rates remain above 35%. Mathematically, these rates are double those observed before the crisis. However, from an economic and social point of view, one could say that the associated problems have more than doubled. A deeper pool of unemployed results in non-linearities that place ever higher hurdles in the job search process. Employers may be tempted to favour fresh out-of-school workers, prolonging the job search duration of those already unemployed. The loss in human capital is accentuated, and the unemployment stigma affects a substantial fraction of youths. The overall number of workers without employment classified as discouraged (those wanting to work but who did not look for a job, also known as marginally attached) increased from 69,000 in 2008 to 279,000 in 2013.

In Portugal, where education has hardly been at the forefront of economic priorities, having a high unemployment rate affecting the country's most educated population ever heralds more problems. In the past with the huge increase in the supply of skills, the college premium of the younger cohort fell continuously, while that of older generations increased until around 2000 and stagnated thereafter (Centeno and Novo 2014). With labour market segmentation and unemployment, the value of education is mistakenly called into question.

The Eurozone crisis hit some sectors harder than others. With it came the notion that Portugal needed to promote its tradeable sector. In 2008, before the crisis, 50% of youth employment in the private sector was concentrated in three sectors, namely, construction, services to businesses, and retail. In 2012, these three sectors had lost a total of 310,000 jobs, corresponding to a drop of 24% in their salaried employment. In the same period and sectors, youth salaried employment decreased by 46%, a destruction of 76,000 jobs. The difficulties felt by traditional employers of youths are transmitted to the youth labour market; unemployment rises and labour market participation falls. The recovery path may take longer than in previous recessions; youths need to find jobs in sectors that traditionally have had lower rates of youth employment.

In response to growing unemployment, the Portuguese government introduced and reformulated active labour market policies. However, the policies were a smörgåsbord of public opinion panacea. The major criticism is the lack of a well-defined target population, which imposes an unjustified opportunity cost on disadvantaged populations. For instance, Estágios Profissionais were introduced in February 2011. This measure subsidised professional internships for nine months for workers younger than 31 who had completed secondary education or college, including those with master or doctoral degrees. If a college graduate is in need of employment policies, then it is the education system that needs to be reformulated. Instead, active labour market policies should have targeted those in most need: low-educated, long-term unemployed workers and short-term but disadvantaged unemployed workers.

Individuals responded to the lack of job creation in the Portuguese economy by making use of their productive characteristics in other markets. Migration was a route chosen by many young individuals. Exact data on migration flows for Portugal are difficult to obtain, nonetheless anecdotal evidence was recently matched with steady emigration indicators. In 2012, total outflows reached 122,000 persons (more than 1% of the population), 40% of which were aged 15-29 (OECD 2014). This response is optimal individually; it is conducive to an efficient resource allocation. However, for the Portuguese economy, in the short to medium run it reduces the pool of human capital. In itself this would be a problem for any economy, but it is especially problematic for Portugal, which is transitioning out of a low-skill economy.

Final remarks

Youth unemployment is primarily a problem of aggregate demand. Nonetheless, there is a set of labour market policy recommendations that can be issued to change the fabric of the market (Centeno and Novo 2013).

The future must walk a path of inclusive institutions that promote the creation of new and inclusive forms of production. Today's exclusive institutions are paid for with lower

wages and profits, but always more by those with low elasticity (temporary contracts and low-educated). To equalise the burden, labour market policies must be redefined to promote the return to investment in human capital and to protect income in periods of transition between employment and non-employment. This requires a coordinated intervention in two areas.

1. Create a single contract with a formulation closer to that of open-ended contracts but that promotes adaptability of workers and firms to economic conditions.
2. Simultaneously, create individual accounts that coherently integrate mandatory benefits (e.g. pensions, unemployment insurance, maternity leave).

This integrated reform would reduce segmentation, both in employment and non-employment. It would also contribute to aligning the incentives and costs of the welfare state.

Just as (youth) unemployment does not have a short-term solution and is not confined to the national theatre, neither is this agenda. Nonetheless, it is high time that we start working on it; this well-educated generation will not wait any longer. However, the labour market is no panacea for all of the troubles. Many of the inefficiencies rest on the huge tax burden, the inefficient justice system and the protected product market.

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Youth unemployment in Spain: More issues than just high unemployment

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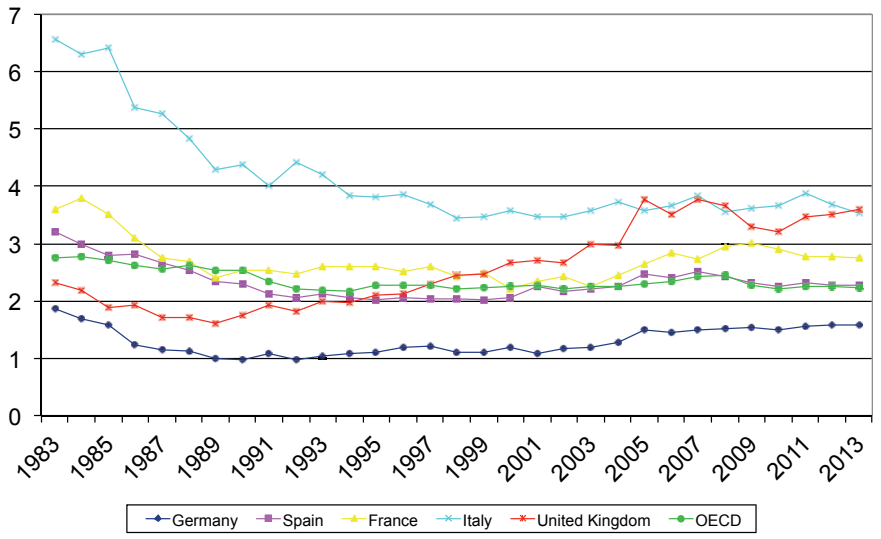
Of the five largest economies in the EU, Spain has the highest youth unemployment rate (reaching 55%) and those who are working mainly do so in unstable conditions. Temporary contracts are the norm in the Spanish economy, especially among young workers. This chapter outlines the negative long-term effects of such contracts on employment and earnings, in particular among low-qualified young workers. In addition, for those entering the labour market in a recessionary business cycle there have been strong negative long-term effects on wages and days of employment. Though some policies have been implemented to promote the employment of young workers, the cheapest and most effective way would be to replace temporary contracts with permanent ones with severance payments smoothly increasing with seniority.

Of the five largest economies in the EU, Spain has the highest youth unemployment rate, reaching 55%. Those who work mainly do so in unstable conditions. Temporary contracts are the norm in the Spanish economy, especially among young workers. This chapter outlines the negative long-term effects of temporary contracts on employment and earning, in particular among low-qualified young workers. In addition, for those entering the labour market in a recessionary business cycle there have been strong negative long-term effects on wages and days of employment. Though some policies have been implemented to promote the employment of young workers, the cheapest and

most effective way would be to replace temporary contracts with permanent ones with severance payments.

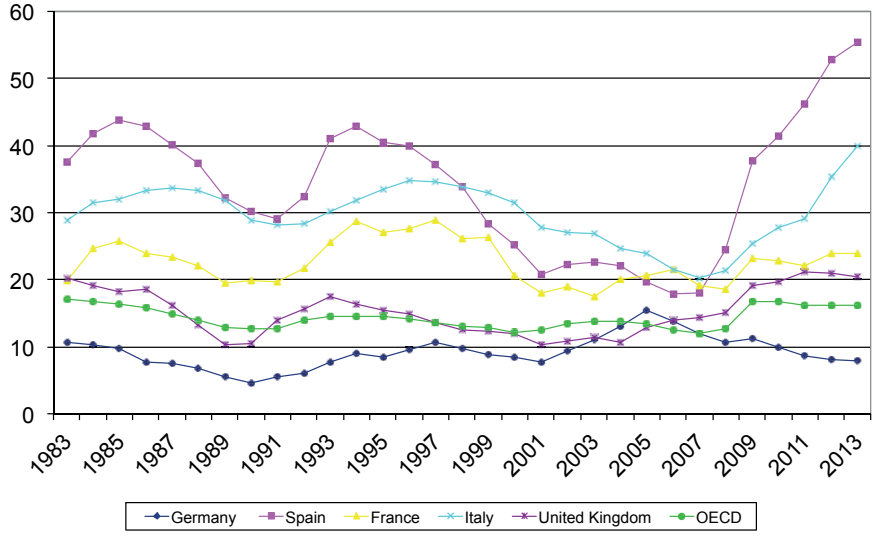
The risk of unemployment is much more significant among young workers all over Europe than it is among older workers. As Figure 1 shows, of the five largest economies in the EU, Spain has the highest unemployment rate for young workers (55% versus an average of 16% for all OECD countries). However, the problems that young workers in Spain suffer from are not only due to the Great Recession – their unemployment rate has been well above 15% for the last three decades.

Figure 1 Unemployment rates for workers aged 15-24



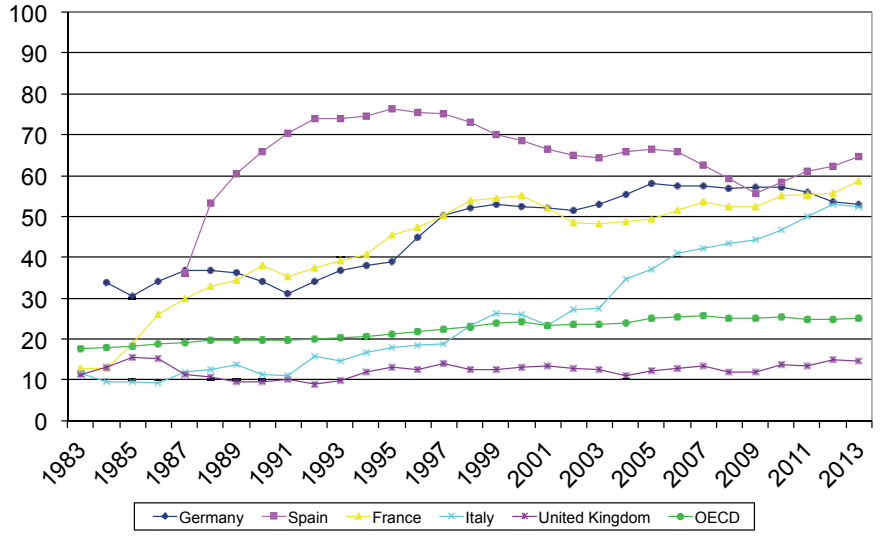
Of course, the problem of unemployment in Spain is not exclusively concentrated among young workers either. If we compute youth-to-adult unemployment ratios (Figure 2), we see that Spain is at almost the same level as the OECD average (with a ratio slightly above 2). This ratio is much higher in Italy and the UK, where the risk of being unemployed is almost four times higher among young workers than among prime-age workers.

Figure 2 Unemployment rates of workers aged 15-24 versus workers aged 24-54



As outlined above , unemployment is not the only labour market problem that young Spaniards suffer from. Those who work are mainly doing so under quite unstable conditions. Indeed, temporary contracts are the basic hiring norm in the Spanish economy and practically the only type of employment offered to the young over the last 25 years. For the whole group of OECD countries, the percentage of young workers hired under temporary contracts has averaged around 20% for the last 25 years; Spain is far above this rate. As Figure 3 shows, more than one out of every two young workers have consistently been hired under a temporary contract over the last 25 years, with an average rate of around 67% for the 15 years leading up to the beginning of the latest recession.

Figure 3 Share of temporary contracts among workers aged 15-24



The significant increase in the use of temporary contracts during the second half of the 1980s was due to the total liberalisation of these contracts implemented in the 1984 labour market reform, in which the Spanish government eliminated the requirement that activity associated with a temporary contract had to be of a temporary nature. As a result of this legislative change, the proportion of employees aged 15-24 under temporary contracts increased from less than 40% to almost 80% in under five years. Between 1985 and 1994, over 95% of all new hires were employed through temporary contracts, while the conversion rate from temporary into permanent contracts was only around 10% (Güell and Petrongolo 2007). Thus, ten years after the 1984 reform, the Spanish labour market was heavily segmented into unstable low-paying jobs and stable high-paying jobs, without any significant reduction in unemployment rates. Furthermore, temporary contracts have always shown almost no connection with training and have been quickly destroyed once any economic turbulence occurs. The latter has become evident during the latest recession: according to the Spanish Labour Force Survey, about 38% of temporary workers in Spain (and one out of every two young people employed in 2007) have lost their job during the last seven years, whereas only eight out of every 100 permanent employees have lost their jobs during the same

period. Given these concerns, several measures have been introduced over the past 20 years with one main objective: to reduce the use of temporary contracts. However, these reforms have not been very successful, resulting in only a ten percentage point decrease in the rate of temporary contracts among young workers (to 65% at the beginning of the 2000s). The new low of 55.7% observed in 2009 is essentially due to the huge concentration of job destruction among temporary workers during the first two years of the recession.

However, some arguments in favour of temporary contracts do exist. In theory, by decreasing firing costs these contracts can help workers with uncertain credentials to obtain employment. Moreover, they may help workers accumulate human capital as well as gain professional contacts that can allow them to obtain better jobs in the future. But even if they can help workers secure permanent jobs, the long-term effects of easily available temporary contracts remain unknown. Indeed, when workers whose first job was temporary lose a subsequent permanent job, they may end up back on a temporary contract and their return to stable employment, may be delayed (compared with workers who were first hired under a permanent contract), as exemplified by the current situation in Spain. The economic literature only addresses the impact of temporary work within a few months to a few years of the first temporary job, and the long-run impact remains unknown.

In (García Pérez et al. 2014), we use Spanish social security data to assess the long-term impact of temporary contracts on employment and earnings We track cohorts of workers who enter the labour market before and after the 1984 reform described above, and focus specifically on male high school dropouts, as they are most likely to be affected by the liberalisation of temporary contracts. Using a cohort regression discontinuity design and aggregate data with controls for experience and time fixed effects, we show that, compared with workers who entered the labour market just before the reform, workers who entered the labour market right after the reform experienced a larger probability of working before the age 20. However, workers who entered the labour market right after the reform also experienced both lower accumulated days of

work and lower accumulated earnings over their subsequent careers. We estimate the loss in terms of accumulated days of work to amount to 7% (i.e. 193 fewer days of employment), while the accumulated earnings loss is as high as 22%. Hence, greater availability of temporary contracts at the beginning of a worker's career has a negative impact on long-run career outcomes, essentially because workers are more likely to work under non-permanent contracts until well after entering the labour market. This situation further exposes workers to the well-known wage penalties associated with both unemployment and temporary work. Finally, we have also found that these penalties are concentrated in the first five to ten years of working careers, but can persist beyond this timeframe for some outcomes.

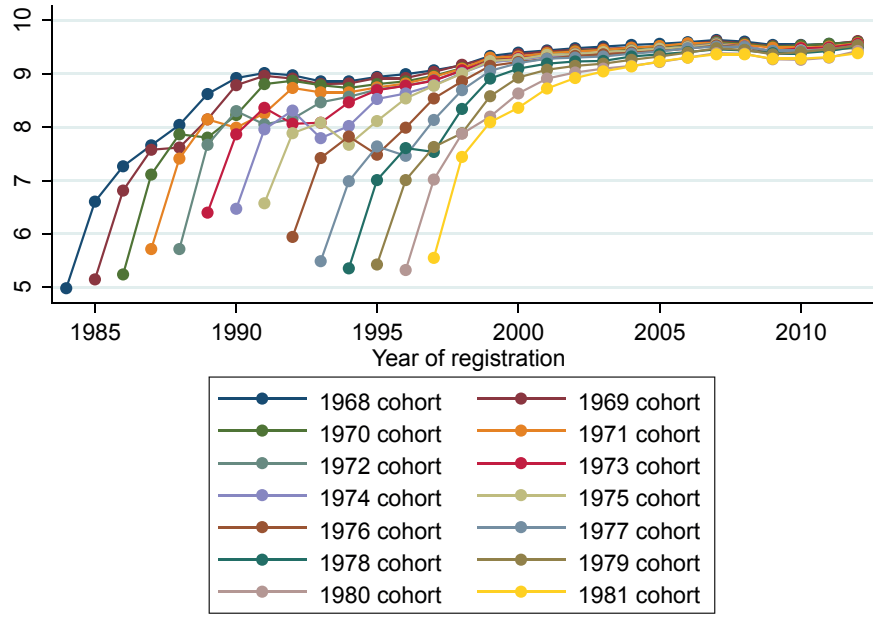
Another well-known factor that determines the success of workers› labour market participation over the long-term, and which is also unrelated to workers' personal characteristics, is the state of the economy when he/she first enters the labour market. Oreopoulus et al. (2012) was the first paper to investigate the cost of recessions for new graduates. Using data for Canada, they document large declines in long-term earnings associated with graduating from college during a recession. We have implemented a similar methodology for the case of Spain but, instead of focusing on college graduates, we centre our analysis on a sample of Spanish male high-school dropouts entering the labour market between 1984 and 1997. Figure 4 shows that, as in the case of Canada, young workers suffer much lower initial wages when entering the labour market in a recessionary period (1992-94 in our sample).

Our results point to some similarities as well as some differences in the estimated long-term effects of business cycle conditions on the labour market outcomes of young workers in Spain with respect to the Canadian case. Oreopoulus et al. report a 9% drop in annual wages in the first year after college for an increase in the unemployment rate of five percentage points. We also find a significant reduction in annual wages by 8.5% in the first three years of labour market participation for the same five percentage point increase in the unemployment rate. However, Oreopoulus et al. still find significantly lower wages after five and nine years in the labour market, while we do not find

significant differences after the first three years. This different result is probably due to the different samples that are being analysed: high school dropouts in our case (with lower wages) versus college graduates (with higher wages that may suffer from longer-term wage penalties). In contrast, unlike the paper by Oreopoulus et al., in which no persistent effects on employment are found from graduating in a recession, we do find important and persistent employment effects from local unemployment rates at the time of entering the labour market. More specifically, we report significant losses in terms of the number of days worked: for an increase in the unemployment rate of five percentage points, we estimate a loss of 7.2 days of employment each year during the first three years of labour market participation, and a loss of 8.4 days of employment after four and five years of labour market participation. After six years of labour market participation, there are no more losses in term of days worked. Furthermore, we find a strong selection effect in terms of the type of workers that are able to find a job when the economy deteriorates. In that sense, unlike the paper by Oreopoulus et al., we find a high proportion of individuals without a job if they enter the labour market in a recessionary period. Even though all individuals in our sample are high-school dropouts, we estimate that the age of finding a first job increases by 2.5 months for every five percentage point increase in the unemployment rate.

With these results, we can provide a projection of the potential long-term impact of the current economic crisis, and the variation in its incidence across the Spanish territory. For example, Andalusia, the region most affected by the recent crisis in Spain, has experienced an increase in the unemployment rate of almost 25 percentage points (from 12% in 2007 to 36% in 2013). This means that, according to our estimates, the generation of male high-school dropouts that entered the labour market during the current economic crisis in Andalusia will experience wages that are 42.5% lower and 36 fewer days of employment in the first three years of their labour market participation, and almost 42 fewer days of employment in the fourth and fifth years of labour market participation. These are extremely significant losses that will affect both professional as well as personal aspects of these workers' lives.

Figure 4 Log of annual wages by cohort



Furthermore, entering unemployment during bad times and with a low level of human capital means that the exit from unemployment is very difficult. This has been the case since the beginning of the recession in 2008. Unemployment among young workers, which was not very persistent before the crisis (precisely because of the high turnover due to temporary contracts),[1] became a much more serious as the crisis deepened: since 2011, more than 40% of young workers have spent more than 12 months unemployed (last September, this rate rose to more than 51%).

This situation of of high unemployment, highly unstable jobs and no training means that the Spanish rate of young people not in employment, education or training (as a percentage of the total population) is currently among the highest in Europe: about 18.6% of young workers in Spain are in this situation, only surpassed by a rate of 22.2% among Italian youngsters. However, this is not a direct result of the economic

1 See García Pérez and Muñoz Bullón (2011).

crisis; on average over the last 12 years, 15 out of every 100 young individuals in Spain have been not in employment, education or training. Given this high incidence of unemployment, it is clear that the employment rate is also quite low in the country (16.8% in 2013), which translates into more than 62% of young workers remaining inactive, with no connection to either the education system or the labour market. It is well known (e.g. Pissarides 1992) that non-cognitive abilities suffer from precarious work careers, which, in turn, may have long-term consequences. Villar (2014) offers evidence in this respect using PIACC data.

All these facts suggest that, on balance, making temporary contracts more readily available for young workers reduced their welfare, especially among low-qualified youngsters. Even though these contracts seem to allow low-skilled workers access more varied work experience by accumulating more employment spells in different firms, their long-run consequences are quite negative. By promoting less stable employment, temporary contracts ultimately reduce the long-run employment prospects of low-skilled workers. Far from being a stepping-stone, temporary contracts are a stumbling block for the careers of low-skilled workers. Additionally, entering the labour market in a recessionary business cycle environment has also strong negative long-term effects on wages and days of employment. Thus, the institutional setting at the point at which someone enters the labour market, which has no relation to his/her personal characteristics as a worker, has a strong influence on their long-term labour market outcomes.

Several policies have been designed and introduced in Spain during the last three decades to promote the labour market integration of young workers. The subsidisation of permanent contract hires has been the most significant measure implemented in recent years (more than €3 billion per year has been spent on wage subsidies over the last 15 years). However, the success of this measure has been quite limited because of the important implementation effects and side effects (i.e. substitution effects) that such subsidies have entailed (García-Pérez and Rebollo 2009). Vocational or in-work training is also traditionally advocated to be one of the best instruments to help young

workers gain stable employment. However, developing this in the Spanish economy is not an easy task. According to EUROSTAT, the average firm size in Spain is slightly below five workers, while 94% of the Spanish firms have fewer than ten workers (OECD 2014). This characteristic make it quite difficult to develop a similar system of vocational training to that in Germany or Switzerland, where the percentage of firms with fewer than ten workers is well below 90%. In these two countries, firms with fewer than ten workers account for only 18% of total employment, whereas in Spain they represent almost 42% of total employment. This is one of the factors that explains why the percentage of the labour force involved in training in Germany is almost that in Spain (2.4% versus 1.3%).

The most promising solution, as advocated by various international institutions (Jaumotte 2011, European Commission 2012, OECD 2013), seems to reducing the gap in severance payments between temporary and permanent contracts. In this sense, the last labour market reform in Spain represented a step forward that will likely reduce the temporary employment rate, as permanent jobs have become less costly. Indeed, García Pérez and Osuna (2014) show that this reform will reduce unemployment by 10.5% and job destruction during the first three years in employment by 20%. However, a cheaper and more effective way to decrease the duality in the labour market would be to eliminate temporary contracts and to replace them with a new permanent contract with severance payments smoothly increasing with seniority. According to García Pérez and Osuna (2014), unemployment and job destruction could be reduced by 31.5% and 35%, respectively, by implementing this alternative reform. Most interestingly, the tenure distribution could be even smoother than under the 2012 reform, as 22.5% more workers could have tenures of more than three years and there could be 38.5% fewer one-year contracts. This would create totally different incentives for training among both employers and employees. Ultimately, this would be tremendously important for young workers to escape the current dramatic situation of unemployment and precarious work.

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The Youth Guarantee: Theory or reality?

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The Youth Guarantee is a novel approach to tackling youth unemployment in EU countries. Though such a scheme could improve the school-to-work transition of young workers, this chapter argues that the expected gains in the peripheral countries are fairly small, at least in the short run. The high youth unemployment in the crisis-ridden southern countries is a result of structural problems and poor links between education and the labour market. The correction of these structural problems will take time and the available funds are insufficient to provide the necessary support for youths. The governments of these countries should tackle the duality problem, and the other member states should agree on an agenda to stimulate growth.

Introduction

The Youth Guarantee (YG) is a novel approach to tackling youth unemployment. Based on successful experiences in the Scandinavian countries,[1] the YG is a pledge by the EU countries "to ensure that that all young people under 25 – whether registered with public employment services or not – receive a good-quality offer of employment, continued education, apprenticeship or traineeship within four months of becoming unemployed or leaving formal education".

1 The first genuine youth guarantee was introduced in Sweden as early as 1984, followed by Norway in 1993 and Denmark and Finland in 1996. The UK and the Netherlands introduced similar schemes in 2009 as part of their response to the crisis, but both the Young Person's Guarantee and the *Wet Investeringen Jongeren* were abolished in 2011.

The experience with schemes like the YG shows that the combination of early intervention and activation may lead to substantial improvements in the school-to-work transition and the labour market outcomes of youth. Moreover, in periods of recession, the YG serves as a mechanism to support jobs for youths. Both issues are of paramount importance for the crisis-ridden countries in the south of Europe. Nonetheless, in this chapter we argue that the expected gains from the introduction of the YG are fairly small in the peripheral countries, at least in the short run. The available funds are insufficient to produce a strong stimulus of labour demand and it will take years to fully implement the scheme. In addition, there is a substantial risk that the introduction of the YG will delay the adoption of more politically sensitive reforms, such as measures to reduce labour market duality, which would highly benefit youths in the peripheral countries.

The rationale behind the youth guarantee

The crisis has led to unsustainably high levels of unemployment and inactivity among youths in many European countries. In total, there are over 7.5 million youths who are not in employment, education or training (NEETs). This prime target group of the YG corresponds to almost 13% of the youth population in Europe. Furthermore, roughly a third of the unemployed under the age 25 have been unemployed for more than 12 months, and a growing number of young people are not actively seeking employment. Policymakers are rightly concerned about the risk that these adverse outcomes may inflict permanent scars on the current generation of youths in the form of persistently lower wages and employment rates.

For Europe as a whole, the costs associated with the inaction of the NEETs – in terms of benefits and foregone income and taxes – are estimated to be €162 billion per year, i.e. 1.26% of GDP in Europe.[2] By contrast, the estimates for the costs of establishing a YG in the Eurozone are in the range of €21 billion per year, or 0.22% of GDP. If effective,

2 For details, see Eurofound (2014). The cost figures refer to data for 2012.

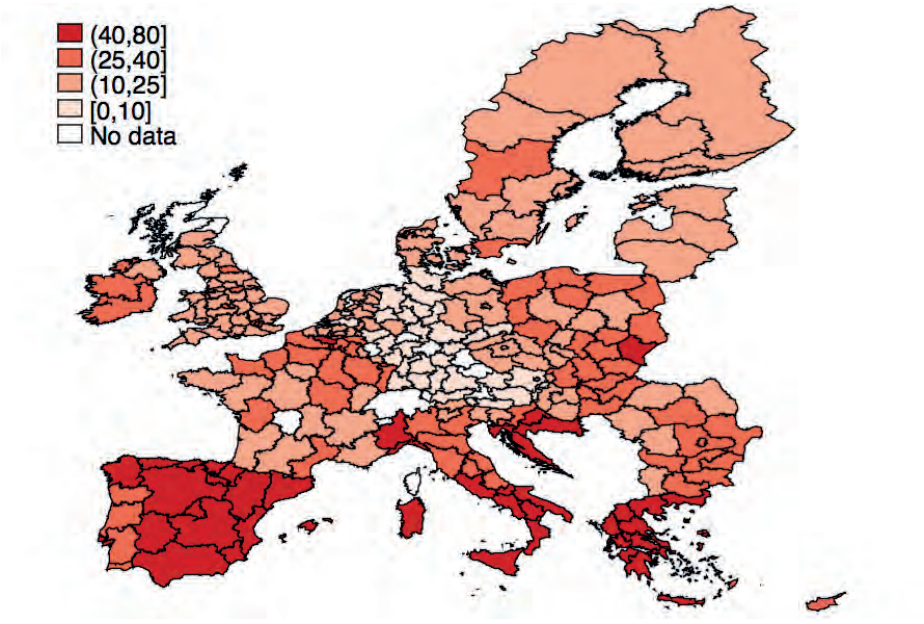
the YG would therefore be a valuable investment in the skills and the employability of youths.

The guidelines for the implementation of the YG are laid down in a Council Recommendation of April 2013. These guidelines stress the need for the creation of strong local partnerships between all the key stakeholders (public authorities, employment services, education and training institutions, employers, social partners, etc.) to guarantee early intervention and to offer personalised solutions. All young persons below 25 should have access to the services provided under the YG, but the member states are encouraged to give priority to the NEETs that are furthest away from the labour market. The experience in the Scandinavian countries shows that this is a serious challenge, especially in times of crisis when many of the regular entrants with adequate levels of education may also face temporary difficulties in finding employment. Finally, it is worth mentioning that the EU will top up national spending on YG schemes through the European Social Fund and the Youth Employment Initiative. The €6 billion package is earmarked to fund activities to help NEETs in depressed regions with a youth unemployment rate above 25%.

The different pathways to work: North versus south

Figure 1 shows a strong geographical concentration of the regions that qualify for funding under the Youth Employment Initiative. The majority of these regions are located in the peripheral countries. The youth unemployment rates rose dramatically in these countries during the crisis, but the poor performance of their youth labour markets is not new. Even before the crisis, these countries experienced high youth unemployment rates due to structural problems in the school-to-work-transitions of youths and rigidities in the labour market that disproportionately affect youths.

Figure 1 Unemployment rates among people aged 14-24 in European regions, 2013



Source: European Labour Force Survey - annual subsamples (Eurostat).

Table 1 summarises a number of these problems. Inspection of the data reveals that the peripheral countries have a number of features in common. The transition from school to work starts late in all of these countries, as very few students combine formal education and work. Moreover, it takes both early school leavers and university graduates a relatively long time before they find their first job, and youths in these countries are primarily employed on temporary contracts. The result is lengthy transitions from school to work that are frequently interrupted by spells of unemployment. The latter show up in persistently high NEET rates and low employment rates up to five years after entry, especially in countries with a high share of early school leavers.

Spain is a good example. Despite improvements in recent years, the share of early school leavers in the country is still almost double the EU average (23.6% versus 12.0%). Moreover, its system of vocational training is underdeveloped compared to the best-performing countries in Europe, while many university students opt for a degree in humanities with relatively poor employment prospects. This poor link between the

Table 1 Youth labour market in Europe

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
				L. Ed.	H. Ed.	L. Ed.	H. Ed.			
Age	18-24	25-29	18-24	15-34	15-34	15-34	15-34	15-24	15-24	15-24
Year	2013	2013	2013	2009	2009	2009	2009	2013	2013	2013
EU-28	17.0	20.9	12.0	9.9	5.1	65.3	84.2	42.6	11.6	13.2
Greece	28.2	42.1	10.1	15.1	12.2	61.1	74.0	26.4	13.0	1.6
Spain	24.0	28.7	23.6	10.2	7.0	48.0	73.4	64.7	20.6	4.1
Croatia	27.0	27.1	4.5					46.6	1.1	1.4
Italy	29.3	32.9	17.0	13.6	9.8	54.1	69.3	52.5	5.8	1.6
Cyprus	27.1	22.8	9.1	15.7	4.8	78.0	83.0	26.1	29.5	3.0
Portugal	18.8	20.8	18.9	6.7	4.7	73.1	88.0	61.5	13.2	3.6
Bulgaria	25.9	32.3	12.5	21.5	4.1	54.8	84.4	13.2	1.4	4.0
Czech Rep.	11.8	18.8	5.4	10.6	3.1	73.8	88.7	28.9	7.8	3.8
Estonia	14.5	18.9	9.7	8.1	2.8	52.9	79.8	12.3	6.2	12.1
Latvia	16.2	19.7	9.8	10.1	3.7	54.5	81.3	10.0	3.6	8.6
Lithuania	15.2	19.4	6.3	8.9	3.0	53.2	86.4	8.0	7.5	7.5
Hungary	20.1	24.5	11.8	10.9	4.0	61.8	83.4	24.6	2.8	1.4
Malta	10.1	13.8	20.8	7.5	2.6	71.8	93.7	20.1	7.1	9.6
Poland	16.4	22.7	5.6	17.0	3.6	65.6	88.9	68.6	2.0	7.7
Romania	21.2	23.4	17.3	12.5	7.3	56.5	85.7	6.4	1.7	1.7
Slovenia	11.5	18.7	3.9	14.9	4.6	74.9	87.9	73.6	9.7	15.3
Slovakia	17.8	27.8	6.4	24.3	3.5	65.7	81.9	21.3	1.2	1.3
Belgium	16.0	19.2	11.0	7.6	5.3	68.2	91.8	32.8	2.4	3.2
France	14.6	18.8	9.7	9.8	4.6	59.5	83.3	58.4	23.8	9.2
Luxembourg	6.7	11.0	6.1	8.5	4.2	77.1	87.8	30.9	7.0	7.1
Netherlands	6.7	11.1	9.2	6.4	3.0	82.9	94.7	53.1	4.1	42.2
Austria	8.7	10.4	7.3	12.0	3.7	81.8	91.6	34.8	13.0	23.0
Germany	8.8	13.0	9.9			75.7	90.6	52.8	2.9	25.4
Denmark	8.1	10.8	8.0	8.5	3.7	78.9	88.5	20.9	31.9	36.1
Finland	12.6	13.8	9.3	7.6	3.5	68.3	85.9	43.0	11.6	19.9
Sweden	9.9	8.7	7.1	5.6	3.5	68.0	90.8	55.8	31.7	13.8
Ireland	20.5	22.7	8.4	5.4	3.9	56.3	83.9	33.1	4.0	9.8
UK	17.3	17.1	12.4	6.4	3.0	67.6	84.8	14.7	22.6	14.7

Notes: (1) and (2) NEET rares (young people not in employment, education or training, %); (3) early leavers from education and training by sex and labour status (%); (4) and (5) average time between leaving formal education and starting the first job level for persons who left within the last five years (months); (6) & (7) employment rates for persons who left within the last 5 years (%); (8) temporary employment rates (%); (9) participation in non-formal education and training (%); (10) young people, in employment and in formal education (%). L.Ed. : lower secondary education attaiment or less; H. Ed: tertiary education attainment.

Source: European Labour Force Survey (Eurostat).

educational attainments of entrants and the demand of firms, plus the overwhelming share of temporary jobs, helps in understanding why, even before the crisis, more than 40% of school leavers were still waiting for their first regular job after a period of one to two years in the labour market (Dolado et al. 2013).

This contrasts with the secure transitions from education to work in countries like Germany, Austria and the Netherlands, or the relatively fast but somewhat less secure transitions in the UK. The good performance of the youth labour markets in these countries is commonly attributed to factors like the dual apprenticeship system in Germany and Austria, the high share of students who combine education and work in the Netherlands, or the low regulation of the UK labour market (Quintini and Manfredi 2009, Dolado et al. 2013, Eurofound 2014). Furthermore, dropout rates are traditionally low in Germany and Austria, while the UK and the Netherlands managed to reduce their dropout rates by raising the mandatory schooling age from 16 to 18.[3] Finally, the case of the Scandinavian countries shows (Table 1, column 9) that well-designed active labour market policies may contribute to favourable labour market outcomes for youths, especially if they are combined with dual training, as is the case in Denmark.

The peripheral countries should learn from these experiences and implement reforms to secure the school-to-work transitions of youths and to reduce the number of early school leavers. However, these structural reforms are hard to implement and it may take years before their effects show up in the data. Moreover, designing an efficient YG scheme is a difficult task.

3 In the UK, all persons born later than 1 September 1997 must remain in some form education or training until the age of 18. Similarly, in the Netherlands youths cannot abandon the education system before the age of 18 without at least completing two years of upper-secondary education. This educational attainment is considered to be the minimum level (*startkwalificatie*) needed for successful entry in the labour market.

Early activation and the role of the public employment service

The concept of a youth guarantee fits well within the traditions of the Scandinavian countries. These countries have a long tradition with activation policies. The same is true for countries like the UK, Germany or the Netherlands, who have profoundly modernised their systems of labour market intermediation in the last decade or so.

The public employment services (PES) of the peripheral countries also need to undergo such profound reforms before they can offer a similar level of service. The adoption of a comprehensive activation strategy for youths requires the development of professional profiling tools to assess the skills of youths and to measure their distance from the labour market. Moreover, the PES will have to build strong partnerships with all local stakeholders to secure a sufficient number of job offers and traineeships and to offer relevant training or further education to those youths who do not have the sufficient credentials for successful labour market entry. Once again, we are talking about a process that may take several years.

Let us return to the example of Spain. The Spanish PES only intermediate in 3% of the contracts that are signed each month. The legal basis for public-private partnerships between the PES and private intermediaries was created in 2010. These partnerships may be a useful instrument to improve both the capacity and the quality of the intermediation services of the PES, but four years later, the first referrals to private agents still need to receive final approval.

The available information on the introduction of the Spanish youth guarantee scheme is not very encouraging either. Until last month, only 4.4% of the almost 800,000 NEETs had successfully registered for the youth guarantee using the special online registration system. The rest are excluded from the youth guarantee until they register online. Furthermore, follow-up interviews are optional and the catalogue of services – previously defined in a national plan to stimulate entrepreneurship and youth

employment[4] – contains a large number of conventional employment subsidies that entail heavy deadweight and substitution effects. The programme also includes further subsidies for training and apprenticeship contracts, but despite various attempts to foster this form of firm-sponsored training, they represent only 2% and 6% of the contracts held by low-educated youths and university graduates, respectively. What is missing is a binding commitment to offer second-chance education or access to training to the over 550,000 NEETs with no more than a lower-secondary education. In practice, most of the funds may therefore end up financing short-term fixes for the NEETs that are closest to the labour market, while there are no signs that the youth guarantee scheme is helping to improve the employment prospects of the most vulnerable groups. This situation may change in the next few years, but by then it may be too late for many of them.

Concluding remarks

The youth guarantee contains many elements that may improve the labour market position of youths in Europe. But we have argued that these schemes will hardly provide immediate relief to unemployed youths in the crisis-ridden countries in the south of Europe. The unsustainably high levels of youth unemployment in these countries are a reflection of structural problems in the labour markets and a poor link between education and the labour market. The correction of these structural problems will take time and, in the meantime, the available funds are insufficient to provide the necessary support to jobs for youths. Indeed, given the pressure to spend most of the available funds over the next two years, we expect that a major share of the funds will be used for emergency measures that do little to improve the employment prospects of youths.

In the near future, the governments of the peripheral governments must therefore be pressured to implement reforms in their labour markets that facilitate the insertion of

4 This Estrategia de Emprendimiento y Empleo Joven was introduced in February 2013.

youths. The main priority is to tackle the problem of duality. In return, the rest of the member states must agree on an agenda to stimulate growth in Europe, because growth is the best guarantee for youths throughout the EU.

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Youth unemployment has been Europe's most sensationalised symptom of the Global Recession. It has left the economy with no place for the restless young. But the problem is endemic in Europe – it goes back much further than 2008. Policymakers have prescribed many solutions, none of which has made systemic corrections, not least because of the heterogeneity of the characteristics and policy choices of European economies.

This eBook reviews the policy lessons from recent experiences with the aim of (i) improving the transition from school to work; (ii) fostering the creation of more jobs for young people; and (iii) increasing the wellbeing of youths overall. To do so, it focuses on specific country experiences, ranging from those that have been successful in respect to the above aims to others that have performed much worse. The eBook also looks at the prospects for the recently proposed Youth Guarantee as a new 'Marshall Plan' from the European Commission regarding a global solution to youth joblessness.

Based on these analyses, policymakers are advised to address the structural problems of labour markets and education systems in some EU economies, as both are key to the Youth Guarantee effectively providing training and good quality jobs for young people where they are most acutely needed. Otherwise, the slight twist on the Coen brothers' creation in the title of the eBook may become a reality.

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ISBN 978-1-907142-85-7

CEPR Press