



Youth Unemployment in Europe Appraisal and Policy Options

Executive Summary

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Subject of the Study

The alarming rise of youth unemployment rates following the recent economic turmoil has challenged national as well as European labour market policies. With more than 5.5 million young people in the EU struggling to find jobs, there is an urgent need to develop strategies for combatting youth unemployment, in order to avoid a lost generation of European youths threatened by lasting disadvantages in terms of labour market and social position.

Against this background, the Robert Bosch Stiftung has commissioned the present study from the Centre for European Economic Research (ZEW) in Mannheim. Its aims are to survey the development of youth unemployment in Europe, to identify the relevant institutional and economic drivers and to discuss the necessary courses of action to achieve a better integration of young adults into the labour market.

While the study covers the perspective of the EU member states as a whole, it strongly focusses on southern European countries, which are especially suffering from the current youth unemployment crisis. Its core part is comprised of three country reports which detail the situation in Italy, Spain and Portugal, and review current and potential future policy initiatives that could help in reducing youth unemployment.

Trends in European Youth Unemployment

Following the financial and debt crisis, youth unemployment sharply increased in all EU member states except Germany and reached alarmingly high levels in the southern European countries. Nevertheless, youth unemployment is not a recent phenomenon that can be ascribed only to the Great Recession. Most European countries have faced difficulties in integrating youths in the labour market for many years, and youth unemployment rates are generally higher than adult unemployment rates.

A particularly alarming feature of some youth labour markets are the high rates of young people that are disconnected, as they are neither in education, employment or training. In Italy, the proportion of such disconnected youths has ranged between 15-20% since 2000, and Greece and Spain have reached this level in recent years, too. Another alarming feature is that in some countries, especially in Southern Europe, a huge proportion of young workers are employed on temporary contracts that are not related to apprenticeships and require very long periods to make the transition to permanent positions. Thus, youth are highly at risk to bear most of the adjustment to cyclical fluctuations and to be excluded from long-term investment into training.

Still, the ratio of youth and adult unemployment rates varies markedly across Europe, which indicates that national economic and policy structures play an important role in explaining the incidence of youth unemployment. Another indicator is the very different intensity of youth employment responses to the recession and subsequent economic recovery associated with the sovereign debt crisis. Spain and Greece were hit hardest by the Great Recession in terms of youth employment, whereas France, the United Kingdom and Germany were less affected.

EU Policies to Promote Youth Employment

The European Commission has been active in working against youth unemployment for several years, although responsibilities remain mainly at the member state level. In the Europe 2020 strategy, reducing youth unemployment and dropout rates from secondary education are featured as central goals. To achieve them, focus is put on developing dual vocational education and increasing the mobility of youths between member states. The EURES platform provides information on job and apprenticeship opportunities in all European countries. Moreover, a European Alliance for Apprenticeships was launched in 2013 to improve the quality and supply of apprenticeships.

In response to the recent crisis, the EU has launched a Youth Guarantee, which asks all member states to implement the necessary measures to ensure that all youths are in employment or in education within four months after leaving school or becoming unemployed. Although the Youth Guarantee is backed by financial means drawn from the EU, the resources assigned per capita of the young unemployed remain rather small. Youth guarantees may help connect young people to labour markets, but they are challenging and costly – hence, subjecting agents to wrong or poorly designed active measures can be worse than doing nothing. As a result, countries with limited financial means, less-developed public employment services and little experience with design of efficient active labour market measures should use more targeted approaches which focus on the most needy groups.

Structural Sources of Youth Unemployment

Several structural factors play an important role in ensuring the labour market integration of youths.

A first source of youth unemployment are deficits in the education and training system. At the individual level, higher and better education significantly reduces the probability of becoming unemployed. Secondary school dropouts and low-qualified youths are most at risk of becoming unemployed. Warranting that the educational system provides youths with a minimum level of qualification and skills before entering the labour market is therefore essential to tackle youth unemployment. In addition, it is important to ensure that the provided skills are in line with the demands of the labour market in order to avoid skills mismatch.

Besides the features of educational systems, labour market institutions also play a role in explaining the differences in youth unemployment across countries. The costs associated with the dismissal of permanent workers can be a constraint on job creation. If the legal setting makes dismissal for economic reasons too burdensome, firms will increase the use of either temporary contracts or service provision contracts. This contributes to the duality of labour markets, and makes it difficult for youths to obtain regular positions on the labour market. General or sector-specific minimum wages that do not take into account differences in productivity related to experience are a further constraint on the successful integration of youths into the labour market.

Ineffective active labour market policies are a further source of youth unemployment. Empirical evidence shows that individual job search assistance is the most effective form of support for unemployed youths. In practice, the most common form of support are training measures. However, only high-quality training, preferably within firms, can improve the employment probabilities in the medium run. Financial incentives to the private sector for hiring youths are also commonly used but prove effective only for the duration of the subsidies.

Spain: Continuing the Reform Agenda

Before the Great Recession, the Spanish economy grew at an annual rate of more than 3 % and youth unemployment rates were in line with the average in European countries. However, the Spanish labour market was heavily affected by the Great Recession. In 2012, the youth unemployment rate reached 53 %, a much higher rate than the ones reached in Portugal or Italy.

One important explanation behind the particularly strong employment losses among youths starting with the Great Recession in Spain is the high proportion of temporary contracts among youths. Of all countries considered, the incidence of temporary employment among 25- to 29-year-olds is the highest in Spain together with Portugal. Moreover, the transition rate into permanent jobs is very low. This is the result of high employment protection of permanent workers and the liberalisation

of the use of temporary contracts in the nineties. Working with temporary contracts makes youths very vulnerable to job loss in the case of a recession. This process is reinforced by the lack of representation of temporary and unemployed workers in trade unions. Moreover, the bust of a construction and real estate bubble during the financial crisis reinforced job loss in the construction sector.

An ambitious labour market reform was implemented in 2012. Besides providing generous financial incentives to small- and medium-sized firms to hire young workers, the reform has decentralised wage-setting from the sectoral to the firm level and reduced firing costs. Economic reasons for dismissal were redefined in favour of firms and maximum severance payments for unfair dismissal were reduced. The reform should contribute to increasing the hiring rate. However, further measures should be taken to reduce the employment protection gap between permanent and temporary contracts. For instance, a maximum cumulated duration of temporary contracts in the same firm should be imposed and severance payments in the case of dismissal for economic reasons could be further reduced.

The Spanish educational system is strongly academic-oriented and higher education graduation rates are above the EU average. In the vocational secondary school track, education is mostly school-based as only 25% of the time is spent in the firm doing on-the-job training. Moreover, there is no legal framework for the content and quality of training provided in firms. As a result, there is a relatively high proportion of overqualification and employers complain about the lack of practical skills of youths. Of all countries considered, dropout rates from secondary school are the highest in Spain together with Portugal. It would make sense to expand the vocational educational system in a way that it provides an attractive alternative to the academic track. The Spanish government is effectively pushing the development of dual vocational training centres in cooperation with Spanish and international firms. The Basque Country in particular has been very active in promoting the implementation of certified dual vocational training.

A necessary further step would be the development of a legal framework for the content and quality of the training provided by firms for each occupation. Existing subsidies for youth employment could be made conditional on participation in such a certified apprenticeship scheme. This would give firms an incentive to contribute to increasing the quality of vocational training.

Italy: Coordinating Policy Measures

Italy faced weak annual growth rates during the last ten years before being hit strongly by the Great Recession. It has also had the worst youth-to-adult unemployment ratio as well as the highest proportion of youths not in employment, education or training since 2000. Moreover, it lags behind in terms of labour market policy as well as educational policies to fight youth unemployment. Italian youths face structural difficulties in entering the labour market across all regions, regardless of the large regional economic differences. These structural problems largely originate in the low quality of education and the absence of alternatives to the academic track. But the conflict-prone relations between insider unions and employers as well as the lack of adequate policy initiatives and structural reforms contribute to the burden of unemployment for youths.

Italy is the only country that has not increased its spending per student in primary and secondary education since 1995. The educational system has a vocational secondary school track, but the programme is very similar to the general track and the only on-the-job experience that pupils generally obtain is an internship of less than one month. Vocational training agencies and schools (Istruzione e Formazione Professionale - IFP) coordinated at a regional level, which provide more practice-oriented secondary vocational education with a stronger connection to firms, are recently gaining importance. However, these centres mostly address early school-leavers and their quality of education is generally low and very heterogeneous across regions. Apprenticeship contracts are also available but there is no legal framework for the quality and content of the training that firms must provide. As a result, the average quality of training is low and apprenticeship contracts are not attractive for youths.

The proportion of higher education graduates (15%) among 25- to 64-year-olds is half the OECD average and dropout rates from tertiary education are higher than in other European countries as well. Moreover, higher education graduates do not have much higher employment probabilities than secondary education graduates in Italy. Returns to education in Italy are thus very low, so that there are often few incentives to obtain educational qualification. It is therefore necessary to invest in the educational system at all levels in Italy. In addition, a legal framework for dual vocational training should be developed with clear requirements concerning the duration and quality of on-the-job training.

Similar to Spain and Portugal, Italy has a dual labour market and a problem of insider unions. As a consequence, youths bore the largest proportion of job losses after the Great Recession and face the risk of remaining in precarious employment for a prolonged period of time. Labour market policies have until now not clearly focussed on reducing the duality of employment protection. A structural labour market reform that reduces and defines clear rules for dismissal costs would be in order.

Finally, interregional mobility of workers is very limited and Italy invests a relatively small proportion of its gross domestic product in active labour market policy. There is certainly scope for improving public employment services and promoting inter-regional mobility within Italy.

Portugal: Finding Ways Out of the Recession

The Portuguese economy has been facing structural problems for many years. Of all countries considered, Portugal's gross domestic product per capita has been the lowest since 1995, and the growth rate plummeted to negative values twice since the start of the Great Recession. The harsh austerity measures taken since then to reduce public deficits led to significant reductions of already tight public budgets and threaten to worsen the recession.

The first priority to tackle youth unemployment in Portugal should therefore be to increase overall job creation and relaunch the economy.

Portugal has made considerable progress in increasing the level of education and the proportion of tertiary education graduates has more than doubled since 2000. Nevertheless, dropout rates from secondary education (21% in 2012) remain among the highest in Europe and the proportion of upper secondary graduates is still low in international comparison. Moreover, there is no vocational secondary school track with compulsory on-the-job training. This means that there are virtually no educational alternatives for youths who do not manage to obtain the general secondary degree. Developing a high-quality vocational education with a sizeable proportion of certified on-the-job training could be an effective way to further increase the qualification level of Portuguese youths.

Several policies initiatives were taken to improve the quality of vocational training through a stronger link with firms, and to reduce dropout rates, but these policies rely almost exclusively on EU and private funding initiatives. There is not a strong support from the side of employers to invest in apprenticeship training beyond these EU measures. The harsh budget cuts following the financial and debt crisis are an additional constraint on public and private investment in dual vocational training. A promising large-scale public initiative (Novas Oportunidades) that provided dual

vocational training as an alternative to the general secondary education was stopped in 2013. A new programme in the framework of the Youth Guarantee provides dual vocational education with compulsory on-the-job training. However, there is no legal framework for the content or quality of the training to be provided by firms and youths are paid only a symbolic amount for the duration of the training.

The rigidity of labour costs is thought to be a further constraint on youth employment in Portugal. The minimum wage, though small in absolute terms, represents close to 60% of the median wage and applies to all workers regardless of their age. Moreover, collective agreements may set wages above the minimum wage level without taking into account possible detrimental effects on youth employment. Allowing firms to opt out from collective agreements would give them more flexibility in setting wages in line with their firm-specific constraints.

The lack of representation of youths' interests in collective agreements is related to the large proportion of youths on temporary contracts. The high dismissal costs of workers with high tenure combined with the liberalisation of temporary contracts is at the origin of the high proportion of temporary employment of youths. The labour market reform of 2011 can be expected to have a favourable effect on job creation, because it reduced the dismissal costs for permanent workers and set a maximum amount of severance payments. Nevertheless, further measures such as regulating the use of service provision contracts are necessary to limit the employment protection gap between permanent and temporary employment.

A General Course of Action for European Countries

While strategies for tackling youth unemployment need to be developed and implemented at the national level, some key elements are relevant for all European countries seeking to tackle the youth unemployment problem. In particular, it is essential to address five key issues.

First, young adults in particular are suffering from the current failure of countries to create new and better jobs in sufficient numbers. Structural reforms aimed at improving global competitiveness and the dynamics of job creation are therefore fundamental. Where labour market entrants will not benefit from more job openings becoming available in the economy, additional structural measures to overcome the labour market divide between younger and older workers are in order.

Second, the difficulties among both unskilled and skilled young people to integrate into the labour market are a reflection of skill mismatch: part of human capital embedded in the young generation is not in accord with the demand of employers. Working against skill mismatch requires modernising education and training systems. A key element in this is to bring human capital development closer to the private sector.

Third, while some active labour market policies seem to be effective in integrating young people into the labour market, the evidence is not satisfactorily strong to warrant youth guarantees on a large scale. Instead, active labour market policies need to be selective. Individual targeting and quality measures implemented within local structures are key success factors, which may easily get lost when active labour market policies are extended quickly and on a large scale.

Fourth, strategies of adapting general economic, labour market and education policies that aim at reducing youth unemployment will unfold their effects slowly. Therefore, complementary measures that could have a short-term alleviating effect, are in order. Among these, geographic mobility is probably the most effective short-term valve. It requires additional support at all levels, as geographical mobility remains low despite a unified European labour market.

Fifth, successful youth employment strategies require involving all relevant stakeholders, including the young people themselves. Part of the challenge is to structure and organise activities among employers, social partners, case managers, education providers, etc. Obstacles to cooperation call governments to take the lead in coordinating and financing partnership models. Still stakeholders must actively engage themselves to identify their interests and contribute their experience in respect to setting up a comprehensive policy agenda to fight youth unemployment. Non-governmental organisations may support the process by acting as mediators and moderators.

A General Course of Action for Tackling Youth Unemployment in Europe	
1. Create More Jobs for Labour Market Entrants	<ul style="list-style-type: none"> – Ensure economic growth that leads to more and better jobs – Fight segmentation between older and younger workers in the labour market – Lower high entry wages and strengthen hiring incentives through wage subsidies
2. Better Align Skills and Labour Market Needs	<ul style="list-style-type: none"> – Fight early school-leaving – Foster the quality of vocational education by stronger (dual) training at the workplace – Make academic training more applied
3. Use a Careful Selection of Active Labour Market Policies	<ul style="list-style-type: none"> – Improve upon counselling and job search assistance – Provide publicly sponsored training to unemployed youth, if possible at real workplaces – Avoid public job creation
4. Support Mobility Across Borders	<ul style="list-style-type: none"> – Encourage international mobility for training and employment in scarce occupations – Improve upon information – Lower language and psychological barriers to mobility
5. Involve All Relevant Stakeholders	<ul style="list-style-type: none"> – Establish cooperative industrial relations – Engage firms in setting up dual vocational training structures – Set up and monitor comprehensive youth employment strategies