Young Workers in Recessionary Times: A Caveat (to continental Europe) to Reconstruct its Labour Law?

by Michele Tiraboschi

Four years after the beginning of the crisis, unemployment, especially among young people, is still very high in European countries. In December 2011, 5.493 million young persons were unemployed in the EU27, 241.000 more than in 2010, corresponding to an unemployment rate of 22.1%. The lowest rates were observed in Germany (7.8%), Austria (8.2%) and the Netherlands (8.6%), the highest in Spain (48.7%), Greece (47.2% in October 2011) and Slovakia (35.6%) (Eurostat, 2012).

Looking ahead, there are few hopes of a full and quick recovery of employment and many worries that unemployment will become a long-term reality for those unemployed. Real GDP growth in the fourth quarter of 2011 is likely to have been very weak (ECB, 9 February 2012) and future prospects are uncertain since growth, according to the International Monetary Fund (September 2011), is projected to be lower than expected in 2012, even though a more optimistic forecast comes now from the European Central Bank, expecting the euro area economy to gradually recover, in the course of 2012.

National governments, social partners and policy makers have traditionally responded to the youth labour market problem by implementing job creation policies and economic incentives, but an emerging proposal is currently setting the political agenda in more than one country in Europe: the introduction of a single labour contract and the parallel rewriting of labour law.

In France, Italy and Spain there have been debates on proposals for a single labour contract (Blanchard and Tirole 2003, Cahuc and Kramarz 2004, Boeri and Garibaldi 2008, Andrés et al. 2009) with the common underlying goal to overcome the dualism between open-ended and fixed-term contracts, with a view to addressing segmentation and youth unemployment. Despite a country’s institutional specificities, the main single contracts features are the absence of a clear distinction between a fixed-term and an open-ended contract from the viewpoint of workers’ protection and a gradual continuous increase of rights with tenure. These and a few other similar policy initiatives have been posed by European countries with highly segmented labour market,
with on the one hand well protected permanent workers and on the other hand precarious temporary workers.

This debate is clearly crisis induced, since youth have been hit the most by the crisis carrying the whole burden in terms of increased unemployment and decreased employment. Given that the priority is to address youth problems in the labour market, this does not mean the destruction of current protections or lead to rewriting labour laws.

This paper attempts to present and forecast future implications of the current European debate in terms of scope, goals and techniques of labour law protection, as well as setting a new group of interventions that are concerned more with programs than regulatory law. There are three mostly unpicked low-hanging fruits for youth employability: 1) human capital and education, 2) industrial relations and 3) labour market services. The objectives should be set at better quality of education and the easing of youth school-to-work transitions through apprenticeships and traineeships, more cooperative and modern industrial relations and a more efficient school/university placement system.

The Labour Market Situation of Young People: A Brief Summary

It is widespread practice from the media to academic journals and reviews, to associate youth (typically between 15-24 years old) labor market problems with the single youth unemployment indicator. Even though this is meaningful and important, it is insufficient to provide a complete understanding of the youth condition in the labor market. The simple notation of how many youth are actively searching for an occupation is not an exhaustive indicator nor one that is the most alarming.

The unemployment rate per se represents only a partial and static measure of the youth condition in the labor market for different reasons. First, it does not necessarily mean a problematic or negative situation, on condition that there are many occupational alternatives available and the market is sufficiently dynamic. In fact, in this case the unemployment rate would only be a short interval between two occupations.

Moreover, the unemployment rate potentially excludes those who do not have a job and are not looking for one, such as the discouraged and inactive people.

It is a matter of fact that, starting from the 1990s, young people in industrialized countries have been facing increasing difficulties in the labor market compared to those in previous decades, culminated in the recent economic crisis, which has led the youth unemployment rate to increase to
more than double of that of adults, remaining at alarming rates four years after the beginning of the crisis.

**Figure 1 - Youth Unemployment Rates. In %, 2008 and 2011**

![Youth unemployment rates. In %. 2008 and 2011](image)

Note: For Greece, Lithuania, Latvia, Italy, Estonia, United Kingdom, Turkey and Norway data refer to the third quarter of 2011.

Source: Elaboration on Eurostat

The youth unemployment rate has increased almost everywhere as a consequence of the Great Recession and is still very high, except in Germany, where despite the crisis it has decreased and is now lower than in 2008.

The situation is especially dramatic in southern European countries. In Spain, the unemployment rate of people aged 15-24 doubled during the crisis reaching in 2011 (not the seasonally adjusted average) the alarming rate of 46.4%, as well as in Greece, where in the third quarter of 2011 it was equal to 45.7%. Not as high, but still worrying are youth unemployment rates in Portugal and Italy, where in 2011 they dangerously neared 30%.

Far from being only a southern European problem due to dualistic markets, the youth unemployment rate also doubled in Denmark, where four years after the beginning of the crisis it is still at the unusual rate of 14.4% (2011, not the seasonally adjusted average). Rates of under 10% are only in Norway, Germany, Austria and the Netherlands, the latter recording the lowest youth unemployment rate in EU27. This variability among countries is comprehensibly mirrored in the adult unemployment rates, as a signal of structural and macroeconomic differences among the labor markets and the economies.
Looking at the relationship between youth and adult data in terms of the relative unemployment rate (i.e. the youth-to-adult unemployment rate, a measure of the gap between the conditions of the two age groups) what emerges is the negative Italian record, confirming the wide gap between the youth and adult condition in this country.

Source: Elaboration on Eurostat data

Source: OECD
Germany, on the contrary, represents the only case where the youth unemployment rate is nearly equal to that of adults. In Germany, youth and adults have almost the same probability of being unemployed, while for young Italians such probability is 4 times higher compared to people aged over 25. The firing restrictions gap between temporary and permanent contracts does not seem to be the main reason for such a difference, since Germany has high level of employment protection for regular workers as well as high costs of firing.

What seems more crucial for youth employability is rather the existence of the dual system of apprenticeship and the role of social dialogue and cooperative industrial relations. On the contrary, loose firing rules cannot guarantee the same probability of being unemployed for youth and adults: in Denmark where there is high exit-flexibility youth have two times higher probability to be unemployed compared to adults.

As the crisis continues to bite and the recent sovereign debt crisis is worsening things in Europe, large increases in the unemployment rates among youth and a slow recovery are now leading the unemployed into long-term unemployment (over 12 months).

**Figure 4 - Long-term Unemployment Rates Among Youth. 2008 and 2010**

Source: Elaboration on OECD data.

At the EU27 level in 2010, long-term unemployment rates among youth was around 28%. It was much higher in Italy, where it reached the frightening rate of 44% (it was 38% before the crisis). Almost one out of two young unemployed in Italy have been looking for a job for more than a year: the highest proportion after Slovakia. In Germany and the UK, this rate is around one out of four, the former country witnessing a decrease in the long-term rate during the crisis. In Austria it is 17%, in the Netherlands 11% and in the Nordic countries less than 10%. However, in Italy the insider/outside dualism of the labour market and the use of flexible work cannot be addressed as the causes of high long-term unemployment rates since this specific rate was higher before the
introduction of such flexible contracts with the labour reforms Treu (1997) and Biagi (2003), on the contrary the flexibility placed reforms in the market that allowed for the increase in the job finding rate from 13% (before 1997) to 32% in 2007. Even though youth long-term unemployment rate is still twice as much as the European average, it has significantly decreased (-14 percentage points, from 58.2% in 2000 to 44.4% in 2010), while the incidence of temporary jobs on youth employment has nearly doubled in Italy, catching up with the international average.

If the Danish flexicurity model has proved to be efficient in normal economic times, in the current context of a prolonged crisis which slacks job turnover, the capacity to absorb unemployment is inevitably reduced. We can see that the proportionally higher increases in the youth long-term unemployment rate registered by Denmark between 2008 and 2010, pushed by the adjustment – predominantly on the extensive margin (through firing) – are not fully compensated by new job creation.

Exporting flexicurity in Italy today, as proposed in the current debate on the oncoming labour market reform, could be very risky given, besides cultural reasons, the existence of strict financial constraints, high unemployment, low employment and anaemic growth and job creation. Moreover, stiffening rules and replacing flexible contracts through the single labour contract can have negative consequences in terms of regular employment, increasing risks of irregular work in the informal market.

Today, there are fewer employment chances for youth, so much so that the debate cannot only be focused on the atypical or precarious nature of their employment. Today, the lack of demand is the primary cause behind the recent rise in unemployment. The real problem now are the lack of jobs, the sudden increase in youth unemployment, the risk of long-term unemployment and the high percentage of youth who are out of employment as well as of education or training.

At the same time, the already mentioned single labour contract proposal risks to be an oversimplification of the complexity of relationships taking place in the labour market.

The same idea of precariousness which is attracting the attention of the Italian government and social partners is more sociological than supported by data.

**Figure 5 - Temporary Employees as a Percentage of Total Employment by Age. In %. Third quarter 2011**
The temporary nature of employment has always typically characterized youth entrance in the labour market, but it has certainly increased dramatically during the crisis. Countries that in the past partially reformed Employment Protection Legislation (EPL) (as among others Spain, Italy and France did) addressing the need of flexibility only on the entry side (i.e. easing hiring practices) and maintaining the same protection for permanent workers, today register the biggest gap between adults and youth in the share of temporary jobs in total employment, but were able to keep workforce human capital alive in the downturn through short time work arrangement (as in Germany and Italy).

However, in Italy, notwithstanding the debate on youth precariousness, the share of temporary employment among them is still lower than in the Euro Area, and, most importantly, precariousness is significantly further reduced in their working life, as demonstrated by the very low share of temporary jobs among adults.

What is of more importance seems to be the school-to-work transition difficulties faced by Italian youth, especially in terms of discouragement, inactivity and the resulting effects on human capital.

**Figure 6 - Neet Rates Among Teenagers and Young Adults. In %. 2010**
The Neet rates (the share of youth not in employment nor education or training) for teenagers (15-19) and young adults (18-24) are the real youth emergency in Italy, reaching in 2010 the alarming rate of one out of four young adults (aged 18-24) and 12% of teenagers neither studying nor working or searching for a job: the highest rate after Bulgaria.

This calls for a reshaping of the educational and school-to-work transition pathways, a closer link between school and work and better quality of education, rather than for the destruction of labour law and the introduction of a single labour contract. Focusing on education and the school-to-work transition means moreover preventing the labour market problems that obviously will come together with those Neet’s when (or if) they ever will ever enter the labour market.

Helping Young Workers During the Crisis. Answers and Proposals from National Governments, Social Partners, Public Institutions and Academia: The Case of Single Labour Contract and Apprenticeship in Italy

The traditional and common responses of national governments and institutions to the problems of young workers during the crisis have been concerned with the use of unemployment and social assistance benefits granted to protect young people’s income or help them stay in school through scholarships and other conditional cash transfers, and through employment subsidies (contribution to salary, waivers to social security contributions, tax breaks), a measure to sustain youth employment through a combination of economic incentives for new employment, stabilisation of
temporary jobs, employment services, skills development, income support, youth entrepreneurship, large-scale public works and community services. However, these represent no structural solution to the problem of youth unemployment and although the aggregate resources that are being invested in the plethora of small-scale schemes are significant, their impact is barely visible. A cost-benefit analysis indicates that the benefits are not enough to recover the high costs of these programmes (Boone and Van Ours, 2004).

Even though active measures proved to be more effective than passive ones, job placement rates from any Active Labour Market Programmes (ALMP) when unemployment rates are high are likely to plummet and the schemes are unlikely to provide adequate rates of return (Bell, Blanchflower, 2010).

Due to this, national governments have been searching for alternative answers with the aim to tackle the worsening of youth working conditions, the drastic intervention on pension systems (longer working careers), the strong reduction in public resources available and the modest effects of public policies.

A growing consensus is emerging on the issue that a too strong employment protection legislation limits work opportunities for young people, and so, it is necessary to overcome dualism in the labour market between insiders and outsiders by relaxing statutory protections against unfair dismissal.

In few European countries, including Italy, the debate focused on the flexicurity “mantra” and the transposition of the Danish model in southern Europe.

However, evidence on the link between restrictive EPL and unemployment is not robust enough (Bassanini and Duval, 2006; Baker, Glyn, Howell and Schmitt, 2004; Belot and Van Ours, 2001; Nickell, 1997, 1998), and, given the significant effect of recessions in countries with more flexible labour markets, this causes some concerns in deregulating labour markets in countries where the unemployment rate is quite high and, as in southern Europe, financial constraints are very important.

In France, Italy, and Spain, a number of proposals for the introduction of a single labour contract (Blanchard and Tirole 2003, Cahuc and Kramarz 2004, Boeri and Garibaldi 2008, Andrés et al. 2009) have been extensively discussed, with the common declared underlying goal to create a new type of employment contract that should help overcome the strong asymmetry between open-ended and fixed-term contracts with a view to addressing segmentation. Despite countries’ institutional specificities, the main features of a single contract are the absence of a clear distinction between a fixed-term and an open-ended contract from the viewpoint of workers’ protection and a gradual continuous increase of rights with tenure.
In Italy various single labour contract proposals have been issued since 2009. As in the case of other European experiences, also in Italy these proposals have the declared goal to overcome the duality of the labour market and to simplify the current contractual arrangements structure. The main proposals are those brought forward by Senator Pietro Ichino (Senato della Repubblica, 11 novembre 2009, D.D.L. n. 1873/2009, Codice dei rapporti di lavoro. Modifiche al Libro V del codice civile and Senato della Repubblica, 25 marzo 2009, D.D.L. n. 1481/2009, Disposizioni per il superamento del dualismo del mercato del lavoro, la promozione del lavoro stabile in strutture produttive flessibili e la garanzia di pari opportunità nel lavoro per le nuove generazioni) and by Senator Paolo Nerozzi, based on the model from the economists Boeri and Garibaldi (Senato della Repubblica, 5 febbraio 2010, D.D.L n. 2000/2010, Istituzione del contratto unico di ingresso); other proposals, though minor in the public debate, have been submitted by deputy Marianna Madia (Camera dei Deputati, 22 luglio 2009, D.D.L. n. 2630/2009, Disposizioni per l'istituzione di un contratto unico di inserimento formativo e per il superamento del dualismo del mercato del lavoro) as well as by Raisi and Della Vedova (Camera dei Deputati, 8 aprile 2011, D.D.L n. 4277/2011, Deleghe al Governo per l'adozione di norme in materia di disciplina dei rapporti di lavoro, di formazione e di misure di protezione sociale per favorire l'accesso dei giovani al lavoro).

A common feature of these proposals is the applicability only to newly signed contracts, while nothing changes for workers already inside the labour market. This is particularly important in the case of the Ichino proposal, since it aims at reducing the dualism in the labour market through the introduction of the well-known single labour contract and through the loosening of firing costs for firms (i.e. the abolition of Art. 18 of Law No. 300/1970).

His is the only proposal that suggests an increase in the exit flexibility, allowing, for firms the possibility to fire workers for economic reasons, paying generous unemployment subsidies for three years and being responsible for the outplacement of the fired worker. Apart from the doubts regarding the portability of such a flexicurity system in Italy, this reform proposal is actually the most innovative and articulated. In fact, other schemes use the single labour contract as the solution of all problems of young people in the labour market, addressing only the entry side of the labour relationship and without considering the exit side.

Moreover, single labour contract proposals fail to consider that an open-ended contract of this kind already exists in Italy: the apprenticeship contract. Behind the name of the single contract in fact, one can recognise a structure similar to that of the apprenticeship, i.e. the single contract provides flexibility for new entrants until the reach of a threshold, after which the contract becomes open-ended. The recently reformed apprenticeship contract (Legislative Decree No. 167/2011) provides flexibility to employers, creating the possibility to end the labour relationship at the completion of
the training period, and if the employer doesn’t end the relationship, the contract is automatically transformed into a permanent contract, with all the protections associated to it. Apparently the situation is exactly the same, involving the coexistence of a more flexible contract for the entrance in the labour market with lower firing cost, and the possibility for conversion after a threshold time, into a permanent contract with high firing costs (and the employment protection legislation of the Art. 18 of Law No. 300/1970). Both situations can be considered dualistic in the sense that people on an apprenticeship contract and on the single labour contract can be fired at lower costs more easily than people with permanent contracts. In this connection, we believe that Nerozzi’s proposal does not change the dualism in the labour market, nor does it improve youth employability. In fact, looking more carefully, what differs (apart from economic incentives), are the incentives provided to the employer side and to the employee side by the two entry contracts.

The training time outside and inside the firm connected the apprenticeship contract represents an indirect but considerable cost for the employer, who will retain the worker at the end of the apprenticeship in order not to lose his investment in human capital, both specific and general. Similarly, the employee will not leave the company to gain the return on his investment in human capital in terms of higher wage. In fact during the apprenticeship, the exchange between wage and training significantly reduces wages.

Vice versa, with regards to the single labour contract, the employer could fire the worker before he becomes more expensive, the threshold occurring at different stages of the relationship (costs increase with seniority), until a final threshold (at the end of the third year), after which the contract becomes permanent. In this situation the employer could be more inclined to fire earlier, also because there are no indirect costs relating to the investment in human capital, since nothing is said about education and training in this type of contract. In this context, the employee has the incentive to stay until the end of the single labour contract in order to gain more protection, but he/she does not have the additional indirect incentive to stay in order to take advantage of the investment made and to gain returns on this investment, because the single labour contract does not imply a lower initial wage nor an exchange between wage and training.

If flexicurity and apprenticeship countries represent two success stories for youth, both scoring positive youth labour market performances, as provided by indicators such as high employment rates and low unemployment rates, in the apprenticeship countries, more equality between youth and adult conditions in the labour market have already been observed, as well as a better reaction to the crisis.
Apprenticeship countries had lower (or no) decrease in employment compared to other countries and compared to Denmark, given the lower exit flexibility at the margin and the use of Kurzarbeit (Spattini, Tiraboschi, 2011).

**Figure 7 – Youth Employment Rate and Percentage Changes during the Crisis. 2010**

![Graph showing youth employment rate and percentage changes during the crisis](image1)

Source: Elaboration on Eurostat data.

Moreover Germany, Austria and Switzerland had lower increases, or as is the case of Germany there was a decrease in the unemployment rate compared to Denmark. As stressed by Andersen (2011) the Danish flexicurity system adjustment of employment during downturns has more weight on the extensive margin (i.e. number of employees) than on the intensive (i.e. hours worked).

**Figure 8 – Neet Rates Among Youth. 2010**

![Map showing Neet rates among youth](image2)

Source: Eurostat
The tighter link between school and work succeeds in keeping young people far from inactivity: apprenticeship countries register very low Neet rates compared to other countries.

**An Alternative Response: Building on the Existing Indicators on Youth Employment in a Comparative Perspective.**

The comparative perspective showed marked heterogeneity among countries in the probability for youth to be unemployed with respect to adult unemployment. The ratio of youth to adult unemployment rates vary from around 1 (equal probability) of Germany and Switzerland, to 2 (twice as high) in Denmark, Canada, United States, Netherlands and Spain, to almost 4 times in Italy, Finland, Norway and Britain.

This verifies that almost everywhere, irrespective of the legal frameworks, youth and adults are unequal in the labour market, since there are not only “regulatory barriers” for youth to tackle, but a number of different barriers that cause a disparity that needs to be considered.

Even though public debate, especially in Italy, has mainly focused on statutory protection against unfair dismissal as the main and crucial cause of youth unemployment, the labour market barriers for youth are more heterogeneous, concerning both the supply and demand side of the labour relationship.

The economic literature has offered wide contributions, both theoretical and empirical, to the explanations of extensively higher unemployment rates among youth compared to adults.

The first explanation, a contractual one, implies that young people, generally hired with temporary contracts, are prone to suffer in “a super-cyclical” labor market. Their unemployment rate is more sensitive to the economic cycle with comparison to adults’ because of the greater ease and lower cost associated to their lay-off. Moreover, young people usually have less experience and working tenure. Given the smaller investment in general and specific knowledge accumulated, the relative cost of their resignation in terms of human capital loss is lower.

There is then a consequential explanation, firstly, a reaction of youth to the deterioration of the labor market prospects, determined by the decision to postpone the entry in the labor market and to increase the investment in human capital (Blanchflower and Freeman, 2000). Secondly, youth are staying with their families for a longer period of time as a consequence of difficulties in the labour market).

However, difficulties exist prior to entrance in the labour market, at the moment of skills acquisition. An incorrect decision or short-sighted career guidance can produce skills mismatch that hinders future employability. From the labor demand point of view, many studies have
demonstrated the existence of discrimination when hiring youth, because of their lack of experience and their volatility that can affect their occupational paths. The transition from school to work is in fact characterized not only by many barriers to labor market entry, and therefore the involuntary alternation of periods of unemployment and employment, but also by the explicit will to have a number of different jobs, with the aim of seeking professional guidance, looking for the preferred occupation, personal and professional growth, and the best match to fulfill “shop around” wishes (Clark & Summers, 1982).

Certainly the latter seems not to be the case of the current situation, where slow job-growth is impeding the fast reallocation of the unemployed and low confidence about the future is making it even more difficult for youth to have access to credit.

Moreover, in line with the Search Theory of Diamond by Mortensen and Pissarides, the labour relationship needs effort to be made in the search of the best match among the heterogeneity of individuals, firms and spaces; and, even once matching has taken place, the two parts have to establish a mechanism of cooperation in terms of skills to be acquired by the employee in order to be productive and an investment in the firm’s specific knowledge. Risks are on both sides. For firms, especially technologically advanced ones, the risk is that the investment in research and development and know-how made on the employee leaves with them once they leave the company, vice-versa, employee’s risk the focus on firm specific knowledge which is hardly transferable in other contexts. Non-compete and apprenticeship contracts help overcome such market imperfections, the former providing an explicit clause of non competition for a time period after leaving the company and the latter establishing the price for the formation through the lower wage.

Moreover, apprenticeship can help clear another hurdle for youth entering the labour market: the poor signalling and screening capacity of employees and firms in a labour market characterized by asymmetry of information. According to Acemoglu and Pischke (1999), apprenticeship is, other than a training and school-to-work transition tool, a selecting and screening devise for firms and a signalling tool for candidate. Strict training regulations enforced independently by regions can in fact guarantee in a transparent way the acquisition of the skills required by a specific occupation, easing the selecting process by firms and the employability of apprentices. Given the certification released at the end of the apprenticeship, corresponding to a specific qualification, employers can have realistic expectations about the average productivity level of the candidate that completed an apprenticeship, and this is useful both if the employer decides to keep the apprentices or when an employer is hiring one that has been an apprentice in the past. The main signal vehicle, apart from the possibility to know the social and work-related skills, is the issue of credible certificates of qualification. These certificates serve as a valid signal for individual qualifications gained by an
apprenticeship graduate during training because they are connected to the classification of professions (in Italy a formal national framework including 21 vocational qualifications to which all Regions have to rely on, achievable through three or four years of training courses) which pinpoints skills and abilities that each apprenticeship has to accomplish. Moreover, through the combination of on-the-job and out-of-firm training the employer can have an idea of both the candidate’s practical skills and theoretical occupational skills. As pointed out by Akerlof (1970) the positive side of this is the neutrality and the control from independent institutions responsible for formation (as it is with Regions in the Italian case). These institutions have the task to provide nationally comparable, transparent and independent assessments without their own economic interests. An efficient dual system of apprenticeship could not be the only reason, but certainly contributed to the fact that Germany and Switzerland are the two countries where youth and adults are more equal in the labour market.

Without assuming a causal relationship between policy mix adopted by countries and youth unemployment rates, it is however possible to find connections to support the “institutional approach” and to dismantle the excessive emphasis on labour reform, blamed for a (unrealistic) “thaumaturgic power”.

The institutional approach, as here considered, instead, tries to connect youth labour market performance to labour market institutions. In particular, it aims at efficiently connecting the former with educational and training systems (i.e. school-to-work transition, employability and quality of education), industrial relations systems (i.e. flexibility of wage determination, degree of cooperation and social dialogue) and labour market services (i.e. public and private employment services, school and university placement).

All in all, the approach can be represented as follows. The table shows the already mentioned institutional characteristics of the labour markets in different European countries and in the US, ordered from the best labour market situation to the worst, using as indicator the youth unemployment rate.

Table 1 – Policy Mix Adopted in Europe and the US from the Best to the Worst Labour Market Situation for Youth
Given that young workers are especially vulnerable in labour markets, a number of actions might be worth considering in order to reduce these difficulties. The table visually suggests a number of measures that can be taken to deal with youth unemployment.

The first pillar is education. Education can represent both a crisis policy and a structural one. The expansion of education in response of recession (i.e. the withdrawal from the labour force to apply to colleges and universities) has to be encouraged in the crisis as a way to increase human capital and stay away from inactivity. However, and also from a structural point of view the establishment of an efficient and high-quality educational system is a priority.

As the table shows, the higher perceived quality of education is correlated with lower youth unemployment rates. The indicator used to put the cross in comes from the World Economic Forum Competitiveness Report, where through an executive opinion survey, it was asked: “How well does the educational system in your country meet the needs of a competitive economy?” [1 = not well at all; 7 = very well]. Countries with low (green) or medium (yellow) youth unemployment rates were all among the first 30 countries (out of 140 countries considered) for perceived quality of education. Even though this indicator suffers from a subjective bias, it can be useful because it is connected to a judgment coming from labour markets’ operators, addressing the question not only with regards to

### Table

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<th>VET &gt; General Education</th>
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Sources: Youth unemployment rate 2010 from OECD (2010). Quality of education, Cooperative labour-employer relations, Flexibility of wage determination, Flexible hiring and Flexible firing from World Economic Forum Competitiveness Report (2011). Apprenticeship as a flexible work, school and pay from Ryan (2011), Vocational education > general education from OECD (2007), Minimum wage from OECD (2011), School/university placement our own calculation, PES placement services (>0.1% GDP) from OECD.
the quality of education *per se*, but also considering to what extent it meets the needs of a competitive economy.

In line with this broad approach to education, apprenticeship certainly constitutes a form of work-based learning and so a component of our first pillar. Following Ryan (2011), apprenticeship needs to combine part-time vocational education with training and experience at the workplace. The table distinguishes apprenticeship depending on the educational share of it, recognizing that, in spite of what rules state, the reality is much different and apprenticeship is sometimes used as a flexible and cheap contract instead of an educational one. Apprentices in Germany and Austria receive part-time formal schooling, while in the UK and Italy the shares of apprentices receiving formal education were lower than 40% (Ryan, 2011).

As already said, the apprenticeship is a peculiar labour relationship that involves an exchange between wage and training, as well as traditionally lower wages. In this sense the third column of apprenticeship in the table can indicate where and how big the investment is meant to be in human capital and skills formation, on the contrary, apprenticeships pay relatively higher wages in relation to lower training and human capital investment. In Germany and Austria apprentices earn less and presumably learn more. The dual system approach, in fact, distinguishes itself starting from the name of the pay involved, which is defined as an allowance (*Vergütung*) and not as a wage, as on the contrary occurs in the UK and Italy. In Austria and Germany the pay of an apprentice is less than the half of that of a skilled employee, as is the case in the Netherlands and France as well. Last but not least, countries with the lower youth unemployment rates are also those where the proportion of young people pursuing vocational programmes is higher than those pursuing academic general education at the upper secondary level (OECD, 2007).

Focusing on education and on the school-to-work transition is a way to prevent future problems concerning labour market entrance, and apprenticeship can be the tool for skills acquisition and for creating better labour demand and supply matching in the world of work. On the contrary, policies and regulations act when a problem has already occurred and cannot solve the root difficulties of the youth labour market.

The second pillar that we consider to be important for youth labour market prospects concerns industrial relations. Making industrial relations a driver for youth employability through decentralization of collective bargaining and through an effort by social partners in designing educational pathways and school-to-work transition possibilities are two policies that might be worth considering. Among industrial relations indicators, inspired by the German miracle during the recession (Burda, 2011) we choose to introduce an index that measures the extent to which labour-employer relations are cooperative, as well as the flexibility of wage determination. Both indexes
are taken from the World Economic Forum Competitiveness Report since, as before, we want to look more at the perception of the real functioning rather than at the theoretical situation stated by rules. The first index answers the question “How would you characterize labour-employer relations in your country?” [1 = generally confrontational; 7 = generally cooperative] and the second: “How are wages generally set in your country?” [1 = by a centralized bargaining process; 7 = up to each individual company]; again we put the “x” if the country ranks among the first 30 most competitive out of 140. All countries where youth unemployment is medium-low have cooperative industrial relations (except US) and flexible wage determination mechanism (except Denmark).

Cooperative industrial relations and flexible wage determination can improve youth employability through the channel of social dialogue and the proximity to firms’ needs and production places. Agreements between social partners can reach favourable conditions for youth employment, compensating the youth experience gap by admitting initial lower entry wages; it is then possible to imagine an exchange between job stabilization and temporary limitation in wage increases or longer trial time periods in sectors characterized by high informative asymmetry, or, again the possibility of cooperation through the flexible determination of wage and a better connection to productivity trends. The correspondence between wage and productivity appears to be crucial for youth and their career development. A mechanism where wages simply increase with seniority (a monotone line of wage increasing with age characterizes Italy) is not rewarding youth (and their career prospects) productivity, especially given the temporary jobs that characterize youth employment. A modern and flexible industrial relation system should provide a closer link between wage and productivity, changing the monotone line in an upside down U-shaped one, with wages that are lower for youth, reaching the maximum for experienced adults and decreasing after a certain age.

The third pillar regards labour market institutions. Its first two indicators, flexibility of hiring and firing, concern the rigidity of employment protection legislation, which, as already seen, affect labour market outcomes in an ambiguous way. The indicators are based on indexes taken from the World Economic Forum Competitiveness Report that answers the questions: “How would you characterize the hiring and firing of workers in your country?”, the cross in the table referring to countries ranking whithin the first 30 most competitive out of 140. Different from the famous EPL index by OECD, and based more on rules than on real evidence, we want to see again how hiring flexibility is actually perceived by firms’ agents. What appears is that a certain ease of hiring is common to all countries considered, with the possibility to resort quite easily to flexible contracts to hire people on a temporary basis. On the contrary, flexible firing is not widespread: only US, the UK and Denmark show ease of firing. Anglo-Saxon countries and Danish flexicurity provide high exit-flexibility maintaining medium-low levels of youth unemployment (yellow); but a “liberalist”
regime is not the only one associated with low unemployment rates for youth. Austria, the Netherlands and Germany do not have such firing flexibility. Nor is it possible to say that flexibility on the exit-side is the main driver for youth employability, since what really marks Anglo-Saxon labour markets is the existence of the best school/university placement services attained through the competition among universities to grab the best students, offering them job placements. Efficient school and university placement in particular, and public employment services in general represent real drivers for youth employability. Finally, statutory minimum wages are ambiguously connected to youth unemployment, the economic literature finds no significant direct impact of the minimum wage on the unemployment rate. The ambiguity also depends on the existence of possible sub-minima for youth, as in the Netherlands, which act as a comparative incentive to hire youth. The ambiguity comes, moreover, from the existence in many countries (as in Italy) of collectively-bargained minima, only partially offset by contractual economic incentives provisions.

Conclusions

The current crisis-induced debate in southern Europe aimed at reducing the insider-outsider dualism and improving youth employability puts excessive emphasis on labour reforms, without taking into account the opportunity to take other concrete interventions. Young workers in recessionary times are not a caveat for Europe to reconstruct its labour law in the unique direction of flexibilization and deregulation.

Granted, there is not a single “best response” (no one size fits all), since it is important to understand the cultural context and the legal framework in which any possible solution operates. The point that this paper tries to make is that intervention is needed, but not in the direction of deregulations and rewriting of laws, too often considered to have “thaumaturgic power”. Rather, there is need to work on the heterogeneous and various youth labour market barriers using an “institutional approach”, i.e. building an efficient connection between educational and training systems, public employment services and labour market institutions (school-to-work transition, employability, quality of education, measures/actions against the mismatch between labour supply and demand, flexibility of wage determination).

As demonstrated, to effectively address the issue of youth unemployment the implementation of a modern apprenticeship system as a tool of placement, a flexible wage determination mechanism and an efficient school and university placement may be beneficial.
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