

Tackling Youth Unemployment

ADAPT LABOUR STUDIES BOOK-SERIES

International School of Higher Education in Labour and Industrial Relations

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Tackling Youth Unemployment

Edited by

Morley Gunderson and Francesca Fazio

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P U B L I S H I N G

Tackling Youth Unemployment,
Edited by Morley Gunderson and Francesca Fazio

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FOREWORD

MORLEY GUNDERSON AND FRANCESCA FAZIO

Youth have always had higher unemployment rates—about twice or more than the average—as they are usually the last to be hired in an expansion and the first to be let go in a recession (Last-in-First-Out LIFO). As well, they engage in extensive job searching in their early years, and this can imply considerable job churning as both youth and employers look for a good match.

However, there are some aspects that have worsened for youth that merit increased attention. The expected job stability of youth has declined so that many cannot likely expect to have the “life-time” jobs of their parents. In developed economies, the occupational distribution has become polarized, characterised by high paying managerial, professional and technical jobs at the high-end and low paying personal service jobs at the low-end, with the middle rungs of the occupational distribution (e.g. manufacturing) having largely disappeared. This “disappearing middle” means that youth may find it difficult to move up the occupational ladder since the middle rungs are missing. They may be permanently trapped in the low-wage service sector if they have a job at all. In that low-wage service sector, they are also increasingly competing with others who have lost their jobs in the “disappearing middle” and who are bumped down the occupational distribution.

The problem is particularly severe for school dropouts who do not have the skills required in the knowledge economy. By leaving school they miss out on the monetary returns to education, which remain high in spite of the large supply influx of higher educated persons, suggesting that the demand for knowledge workers continues to outstrip the supply increase. Most importantly, dropouts miss out on the substantial *credential* effects associated with *completing* key phases of education (high school, university, and so forth). Perhaps surprisingly, the expected monetary returns for those who otherwise would drop out are higher than average, highlighting the importance of curbing dropping out. Youth do not appear to have knowledge and information about these high returns to education and how they vary by

field of study. Hence the importance of labour market information and perhaps student loans to help take advantage of the high expected returns.

Youth who experience negative bouts of long-run unemployment when they first enter the labour market may experience a long-run *scarring effect* leading to lower lifetime wages and employment. This may occur because of the stigma that employers attach to their initial bouts of unemployment as well as their own disillusionment that youth may feel with the labour market. This runs the risk that youth may engage in anti-social behaviour, turning their backs on a society that they feel has turned its back on them.

This highlights the importance of facilitating the school-to-work transition and having *early interventions* to assist such youth before the negative conditions set in. It also highlights the potential importance of determining those youth most “at risk” of long-term unemployment, and of *targeting* or streaming them into programmes that will yield the largest incremental net benefits given their characteristics.

Increasingly, youth can expect to start off with *non-standard jobs* (internships; volunteering; part-time work; seasonal work; casual, temporary work on limited-term contracts; self-employment; temporary-help agencies; on-call work; telecommuting and home working). Hopefully, these will just be *stepping-stones* to more permanent jobs, but youth may also be trapped in a self-perpetuation pattern of remaining in such jobs. Youth are also engaging in part-time work while still at school, running the risk that it may interfere with the education process, especially if done in large amounts.

Youth might find themselves in a catch-22 situation. Employers often want job candidates with experience, but youth are often not able to acquire such experience. They risk becoming NEETs (not in employment, education or training) fostering a downward spiral that can further lead to socially disruptive behaviour.

The *ageing workforce and its impending retirement* should open job opportunities for youth, although the trend towards early retirement has reversed itself in many countries so youth may be competing with an aging workforce that has postponed retirement. Given the lack of employment opportunities, many youth are continuing to live at home, often creating pressures for both them and their parents. Youth who are fortunate enough to be employed frequently face the growing issue of *eldercare* as their baby-boom aged parents enter the stage of their life when health care becomes more prominent, they live longer, and care is transferred from institutions to the family. Such youth may also face the financial burden of having to pay for unfunded liabilities of pay-go systems like public pensions. In many countries, youth are increasingly expected to pay more for their education through *higher tuition fees*.

Unemployed youth without previous work experience often are not eligible for unemployment insurance benefits when they first enter the labour market. When they do receive job search assistance, they often face a *bewildering array of programmes* that are available to assist them, often with little guidance to help them select the programs that best meet their needs.

The prospects for youth are not completely bleak. Employers often cite impending skills shortages to the extent that the economy recovers. Youth tend to be savvy with computer skills and information technology that is increasingly demanded in the labour market and for job searching. They often have spouses or partners who can engage in labour market work providing a cushion for family income. They are often willing and able to engage in the travel that is increasingly required in the global economy.

Nevertheless, the new challenges faced by youth are ones that are increasingly important to recognize and to deal with. The chapters in this book highlight both those challenges and opportunities. They also highlight the urgency of the issue to ensure that today's youth do not become a "lost generation." George Bernard Shaw once said that it is too bad that "youth is wasted on the young." This could imply that youth do not realize the opportunities they have as youth and only see them as they get older. There is a danger, however, that many of today's youth may be never have those opportunities and hence not even see them with hindsight. This book and others in the *ADAPT Labour Studies Book-Series* are intended to deal with that challenge to make sure that youth is not wasted on the young. Youth are our future; but only if they have a future.

CHAPTER ONE:
THE LEGAL AND INSTITUTIONAL
FRAMEWORK

YOUNG WORKERS IN RECESSIONARY TIMES: A CAVEAT TO (CONTINENTAL) EUROPE TO RECONSTRUCT ITS LABOUR LAW

MICHELE TIRABOSCHI

1. Introductory Remarks¹

Policy makers, social partners, and the public opinion monitor with interest and increasing concern the steep increase in youth unemployment, in Europe more than elsewhere.² Indeed, all the main international institutions³—supported by the analysis of labour market experts⁴—seem to uphold that young people have been hit the hardest by the “great crisis” that began in 2007 with the collapse of financial markets.

¹ The present contribution was previously published in 2012 in the *E-Journal of International and Comparative Labour Studies* 1, No. 1-2.

² In other areas of the world, especially in developing countries, the cultural lens through which the problem of youth unemployment is explored might be different. See on the issue Senatori, I, and M. Tiraboschi. “Productivity, Investment in Human Capital and the Challenge of Youth Employment in the Global Market. Comparative Developments and Global Responses in the Perspective of School-to-Work Transition,” 5th IIRA African Regional Congress, IIRA Cape Town, South Africa 2008.

³ See, by way of example, ILO. 2012. *World of Work Report 2012. Better Jobs for a Better Economy*. Geneva: International Labour Office; ILO. 2010. *Global Employment Trends for Youth*. Geneva: International Labour Office; Martin, J. 2011. *Unfinished Business: Investing in Youth*. OECD Employment Outlook, Paris: OECD; OECD. 2010. *Off to a Good Start? Jobs for Youth*, Paris: OECD.

⁴ See Verick, S. 2009. “Who Is Hit Hardest during a Financial Crisis? The Vulnerability of Young Men and Women to Unemployment in an Economic Downturn,” IZA Discussion Paper, No. 4359. Bonn: IZA. For a different perspective and some valid criticisms on this shared opinion see O’Higgins, N. 2012. *This Time It’s Different? Youth Labour Market During the Great Recession*, IZA Discussion Paper, No. 6434, in particular, par. 2. Both papers are available at www.bollettinoadapt.it, A-Z index, *Lavoratori giovani*.

It is only natural then that in a time of an ongoing recession and many sacrifices demanded of workers,⁵ feelings of apprehension and hope arise with regard to the future, therefore involving younger generations and their employment prospects in the years ahead.

The notion of unemployment has long become less and less appropriate to frame the critical aspects of the interplay of young people and employment.⁶ Of equal importance, as well as extensively discussed and highly controversial, are those phenomenon accompanying young people in their school-to-work transitions, particularly inactivity, precarious employment and low wages.⁷

Nevertheless, unemployment still remains a main indicator, as it supplies clear and immediate evidence of the vulnerability of young people in the labour market, also for those who are not experts in the field.

According to relevant data,⁸ in most countries—whether industrialised or non-industrialised ones—high levels of youth unemployment have been reported long before the onset of the recent economic and financial crisis, to the extent that many specialists made use of the term *déjà vu* to refer to the phenomenon.⁹

Consequently, the concern resulting from high youth unemployment rates is not a novelty. What appears to be quite new here, at least within the political and institutional public debate taking place in recent years, is the emphasis placed by Europe on the future of younger generations and how this issue is “exploited” to justify—or perhaps to impose—major labour market reforms and deregulation on nation States overseen by central institutions, which will also limit their sovereignty.¹⁰

⁵ Particularly relevant in this respect is the study presented in the *World of Work Report 2012* of the ILO (*op. cit.*, note 2) on the measures that affected workers in terms of protection reduction.

⁶ On this topic, see Marchand, O. 1999. “Youth Unemployment in OECD Countries: How Can the Disparities Be Explained?” in *Preparing Youth for the 21st Century—The Transition from Education to the labour Market*, OECD, (Paris: OECD), 89.

⁷ This issue has been extensively discussed in Tiraboschi, T. 2006. “Young People and Employment in Italy: The (Difficult) Transition from Education and Training to the Labour Market,” *IJCLLIR*, 81 ff.

⁸ See, among others, N. O’Higgins, *op. cit.*

⁹ Bell, D.N.F., and D. G. Blanchflower. 2010. “Youth Unemployment: *Déjà Vu*,” IZA Discussion Paper, No. 4705. Bonn: IZA, at www.bollettinoadapt.it, A-Z index, *Lavoratori giovani*.

¹⁰ In this respect, see Baylos, A. 2012. “Crisi del diritto del lavoro o diritto del lavoro in crisi? La riforma del lavoro spagnola del 2012,” *Diritto delle Relazioni Industriali*, No. 2.

Put it differently, labour law rules—chiefly concerning high levels of protection against termination of employment—would explain high youth unemployment rates as well as the increasing recourse to atypical, non-standard or temporary employment arrangements.

Indeed, there is little wonder about this issue, save for the fact that—in a time of severe crisis and ongoing recession—fathers are now called to make many sacrifices that are deemed to be “acceptable”, for they contribute to provide their sons with better employment prospects. In this sense, the “great crisis” has acted as a catalyst¹¹ for long-awaited labour market reforms and liberalisation processes, which however have never been fully implemented so far due to a lack of adequate political and social consensus.

Of particular significance in this respect is an interview with the President of the European Central Bank, Mr Mario Draghi, which appeared in the *Wall Street Journal*.¹² In the midst of the international crisis and in the name of younger generations, Mr Draghi questioned the future sustainability of the “European Social Model”, urging a major overhaul of national labour regulations in Europe that are currently more favourable to labour market insiders, i.e. adult workers.

This is exactly what occurred in many European countries between 2008 and 2012¹³ with the introduction of a number of unpopular measures aimed at reducing workers’ protection that have been imposed on increasingly disoriented and helpless citizens, and presented as an unavoidable sacrifice required by the current macro-economic situation with a view to improving employment and retirement prospects (also) of younger generations.¹⁴

¹¹ See OECD. 2012. *Economic Policy Reforms. Going for Growth*. Paris: OECD.

¹² Interview with Mario Draghi (Interview Transcripts), in Blackstone, B., M. Karnitschnig, R. Thomson. 2012. “Europe’s Banker Talks Tough,” *The Wall Street Journal*, 24 February 2012, available in the *Adapt International Bulletin*, No. 7.

¹³ For a review of the main actions taken by national governments in Europe, with or without the support of social partners, see Simms, M. 2011. *Helping Young Workers during the Crisis: Contributions by Social Partners and Public Authorities*, European Foundation for the Improvement of Living and Working Conditions. Dublin: Eurofound, in particular 20 ff., at www.bollettinoadapt.it, A-Z index, *Lavoratori giovani*. See also ILO, *World of Work Report 2012. Better Jobs for a Better Economy*, cit.

¹⁴ As far as Italy is concerned, see Prime Minister Monti’s Inaugural Speech to Parliament on <http://www.governo.it/>. Reference to future opportunities of younger generations is a *leitmotiv* of Government discourse. See, in particular, Monti, M. 2012. “Italy’s Labor Reforms Are Serious and Will Be Effective,” *The Wall Street Journal*, 6 April 2012, also in the *Adapt International Special Bulletin*, No. 1.

This trend has not been witnessed only in Europe, since 40 ILO member countries out of 131 have reduced their standard employment protection levels.¹⁵ This aspect is particularly apparent in industrialised countries, and chiefly in central and southern Europe, where 83% of anti-crisis reforms focused on employment protection, with particular reference to the regulation on dismissal for economic reasons.¹⁶

In view of the above, and in the context of a dramatic deterioration of the economy and lack of public resources for subsidies, this paper sets out to understand whether job-creation policies, employment incentives,¹⁷ and deregulation of labour laws in Europe—in particular in relation to unfair dismissal—could really provide a possible (if not the only) solution to cope with the issue of youth unemployment.

2. The Issue of Youth Unemployment: The New Perspective Provided to Labour Lawyers through a Comparative Study

Intuitively, it could be argued that high protection levels provided to labour market insiders may discourage or pose an obstacle to outsiders, thus including young people. Drawing on this assumption, at the end of the last century, the OECD started implementing a set of measures collected in the well-known *Jobs Study*.¹⁸ The studies that followed have

¹⁵ See ILO. 2012. *World of Work Report 2012. Better Jobs for a Better Economy*, cit., 35 ff. With particular reference to the measures adopted in favour of youth employment, see Ha, B., C. McInerney, S. Tobin, and R. Torres. 2010. “Youth Employment in Crisis,” International Institute of Labour Studies Discussion Paper, No. 201, at www.bollettinoadapt.it, A-Z index, *Lavoratori giovani*.

¹⁶ See ILO. 2012. *World of Work Report 2012. Better Jobs for a Better Economy*, cit.

¹⁷ The relevant literature, as well as having highlighted “traps” and “risks” of public subsidies to youth unemployment and inactivity, has long discussed the limits of job creation policies, that produce limited (if not negative) effects in terms of cost-benefit analysis. On the subject, see Ryan, P. 2001. “The School-to-Work Transition: A Cross-National Perspective: Corrigendum,” *Journal of Economic Literature* 39, No. 3, 767 ff., and Boone, J., and J.C. Van Ours. 2004. “Effective Active Labor Market Policies,” IZA Discussion Paper, No. 1335. Bonn: IZA. For a general overview see Tiraboschi, M. *Young People and Employment in Italy: The (Difficult) Transition from Education and Training to the Labour Market*, op. cit.

¹⁸ OECD. 1994. *The OECD Jobs Study. Facts, Analysis, Strategies*. Paris: OECD.

questioned the role of workers' protection in terms of total and youth unemployment.¹⁹

Limited data actually reveal increased youth employment prospects in countries with a deregulated or flexible labour market. To the contrary, many studies show that higher workers' protection actually favoured, at least in the medium term, youth employment during the "great crisis".

Not less straightforward is that in deregulated labour markets with higher flexibility in hiring and dismissals, youth can be discouraged or find themselves in a less favourable position compared to adults, due to a lack of work experience, no well-established connections or relations helping them in job searching, lower productivity, lack of expertise and skills, and competition with migrant workers, who are more inclined to take jobs and stand employment arrangements deemed unacceptable by the local population.²⁰

Labour lawyers, like the author of the present paper, have limited knowledge of technical and conceptual instruments to take part in a debate—that is also very controversial among labour economists—on the effects of the regulatory framework on the labour market organisation and regulation. Because of the thorough knowledge of the regulatory and institutional framework, labour lawyers can present economists with a different interpretation of the potential impact of protection measures on youth unemployment rates.

This is the real challenge to take on as pointed out also by the International Labour Organization over the last decade. According to the ILO, the currently available indicators are perfectly suitable to afford an analytical framework through which detailed information about the condition of young workers in the labour market in the different parts of the world might be given. The ILO still that maintains that the real

¹⁹ See Nickell, S. 1997. "Unemployment and Labor Market Rigidities: Europe versus North America," *Journal of Economic Perspectives* 11, No. 3; Baker, D., A. Glyn, D. Howell, and J. Schmitt. 2004. "Labor Market Institutions and Unemployment: A Critical Assessment of the Cross-Country Evidence," in *Fighting Unemployment: The Limits of Free Market Orthodoxy*, ed. Howell D., Oxford: Oxford University Press; Nickell, S., L. Nunziata, and W. Ochel. 2005. "Unemployment in the OECD Since the 1960s: What Do We Know?" *The Economic Journal* 115, No. 500; Bassanini, A., and R. Duval. 2006. "Employment Patterns in OECD Countries: Reassessing the Role of Policies and Institutions," OECD Social, Employment and Migration Working Paper, No. 35. Paris: OECD.

²⁰ With reference to internal and external labour market, Bell, D.N.F., and D. G. Blanchflower, *op. cit.*, 2. In the same vein, see also ILO. 2010. *Global Employment Trends for Youth*, cit.

difficulty is identifying the tools to improve employment conditions by means of existing indicators.²¹

What labour economists may interpret by simple facts empirically proven—if not even the outcome of their investigation—is seen by labour law experts, especially if a comparative perspective is taken, as some useful insights to better assess the efficiency of labour market institutions and, in particular, the impact of protection measures on youth unemployment.

From a comparative analysis of labour market indicators—before and after the “great crisis”—what emerges is the different ratio between youth and overall unemployment rates (see Fig. 1-1). Of particular interest to a labour lawyer is that in some countries, youth unemployment is broadly in line with that of adult workers (Germany, Switzerland), whereas in other countries, regardless of its level, youth unemployment is about twice (Portugal, Denmark, Spain, United States) or three times as high as that of their adult counterparts (Italy, Greece, the United Kingdom, Sweden).

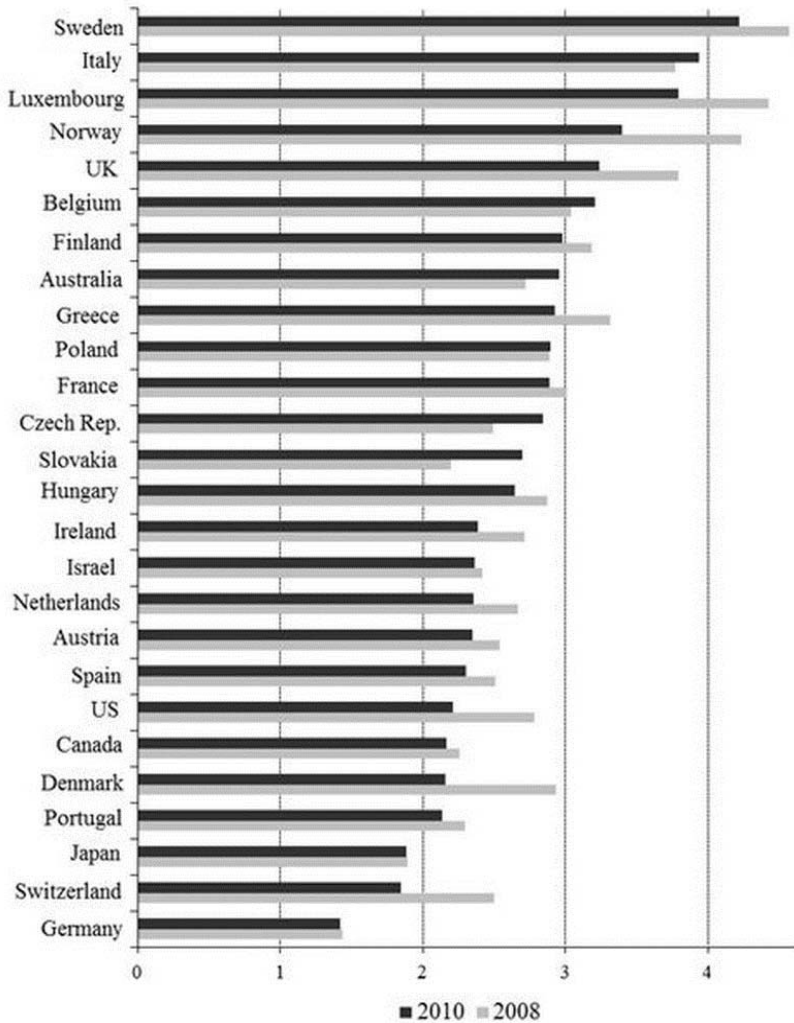
At a first glance, a “geographical” representation of the different youth unemployment rates intuitively shows that youth unemployment is not much of a problem in those countries (or in those legal systems, as a labour lawyer would put it) which make extensive use of apprenticeships, and which consider these tools not merely as a “temporary” contractual scheme, but rather as a lever for placement²² to achieve better integration between education and training and labour market (Fig. 1-2).

The same holds true for inactivity, most notably the issue of NEETs (Not in Employment, nor Education or Training), which is less serious in countries where apprenticeship is resorted to as a means to obtain secondary education (Fig. 1-3). But, there is more. The best performing countries in terms of youth employment, such as Austria and Germany, also report high levels of workers’ protection, especially against unfair dismissals (see Fig. 1-4). By contrast, countries with more liberal legislation on dismissals, such as Denmark, the United Kingdom and the United States, account for high levels of youth unemployment. Evidently, they do not fare among the European countries with the worst youth employment outcomes, such as France, Italy and Spain, but youth unemployment is still twice as high as that recorded in the best performing countries.

²¹ ILO. 2006. *Global Employment Trends for Youth*. Geneva: International Labour Office at www.bollettinoadapt.it, A-Z index, *Lavoratori giovani*.

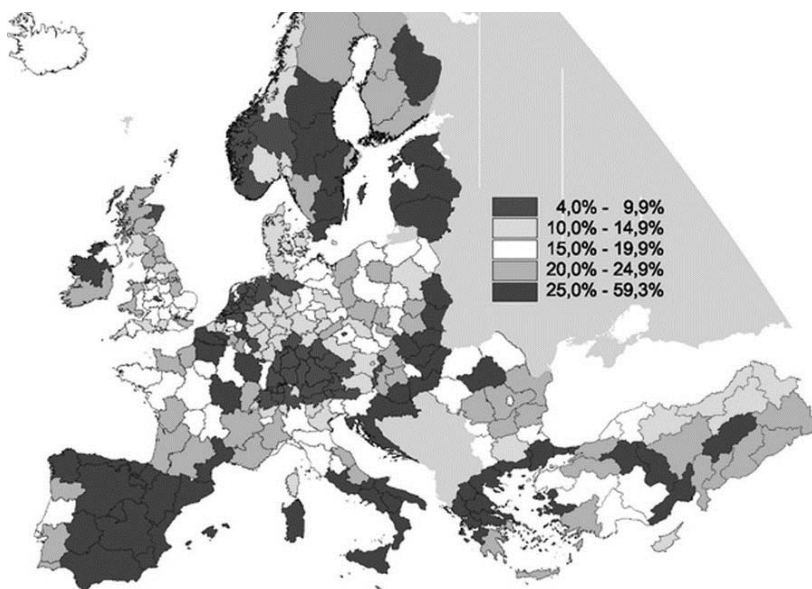
²² See in this connection the article by Ryan, P. 2011. “Apprendistato: tra teoria e pratica, scuola e luogo di lavoro,” *Diritto delle Relazioni Industriali*, No. 4, analysing the German “ideal” model, as opposed to the lack of transparency of market-oriented systems and to Italy and United Kingdom, where apprenticeship is a contract of employment.

Fig. 1-1. Relative Youth Unemployment Rate (2008 and 2010).



Note: The relative youth unemployment rate is the youth to adult unemployment ratio. Source: Own Elaboration on OECD data.

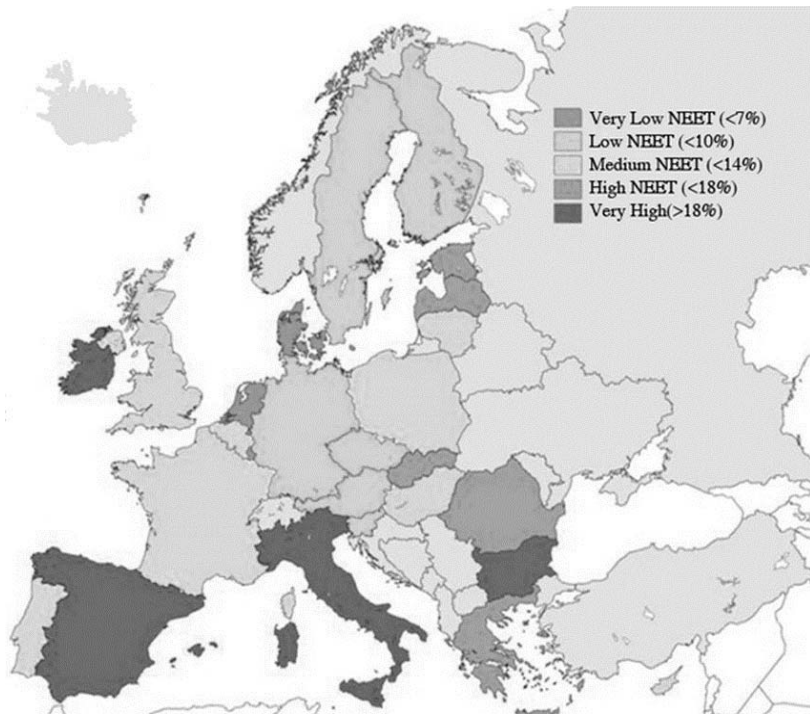
Fig. 1-2. Youth Unemployment Rate 2010.



Source: Eurostat Data.

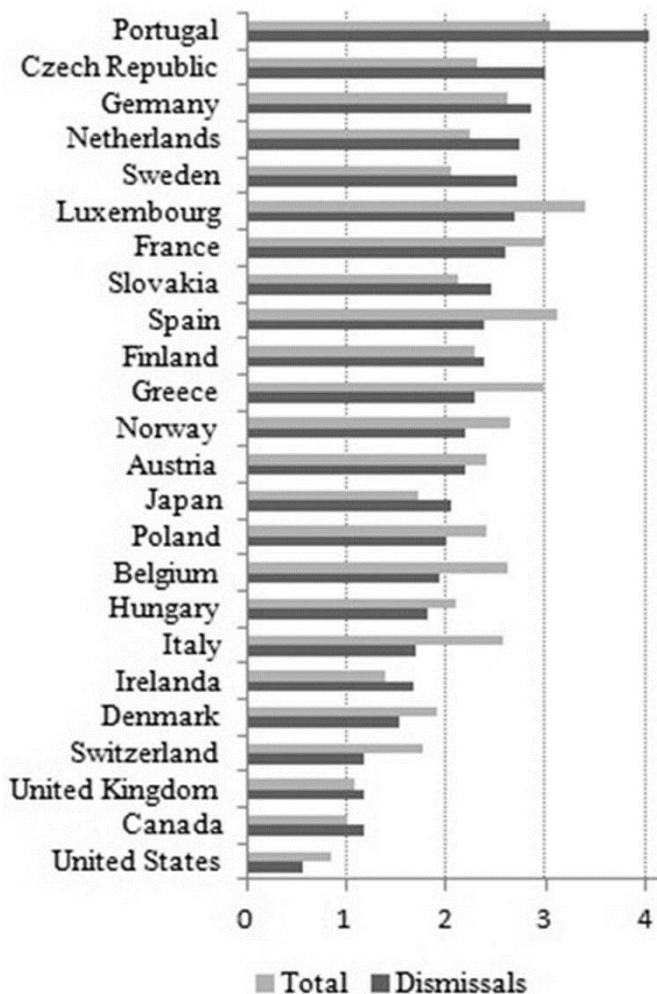
This simple and straightforward empirical observation seems therefore to uphold the assumption that major difficulties for youth entering the labour market are not caused by inadequate regulations, but rather by inefficient school-to-work transition processes as well as by the failure to properly match labour demand and supply. A good match between labour demand and supply is, however, not to be intended in static terms as merely dependent on more or less effective employment services—be they public and private—but rather in relation to the devising of academic careers which are consistent with current and future labour market needs in terms of training and skills acquisition.

Fig. 1-3. NEET Rates 2010.



Source: Eurostat data.

Fig. 1-4. Overall Work Protection and Work Protection against Individual Dismissal (0 = less restrictive; 4 = more restrictive).



Source: Own Elaboration on OECD data