

XII. VULNERABLE WORKERS, PRECARIOUS WORK: A GLOBAL PERSPECTIVE

Young Workers in Recessionary Times: A Caveat (to Continental Europe) to Reconstruct Its Labor Laws?

MICHELE TIRABOSCHI

University of Modena and Reggio Emilia

Introduction

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 people 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 were 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 would become a long-term reality. 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 because growth, according to the International Monetary Fund (2011), is projected to be lower than expected in 2012, even though a more optimistic forecast now comes from the European Central Bank (2012), expecting the euro-area economy to gradually recover in 2012.

National governments, social partners, and policy makers have traditionally responded to the youth labor 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 single labor contracts and the parallel rewriting of labor law. In France, Italy, and Spain there have been debates on proposals for single labor contracts (Blanchard and Tirole 2003; Cahuc and Kramarz 2004; Boeri and Garibaldi 2008; Andrés et al. 2009) that have a 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 specifics, the main features of single contracts are the absence of a clear distinction between a fixed-term and an open-ended contract from the viewpoint of worker 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 labor market, with well-protected permanent workers on one hand, and temporary workers with few protections on the other.

Youth have been hit the most by the crisis, carrying the whole burden in terms of increased unemployment. Given that the priority is to address youth problems in the labor market, this does not mean the destruction of current protections or lead to rewriting labor laws. This paper attempts to forecast implications of the current European debate in terms of scope, goals, and techniques of labor law protection,

Author's address: Marco Biagi International and Comparative Studies Centre, Viale Berengario, 51, Modena, Italy

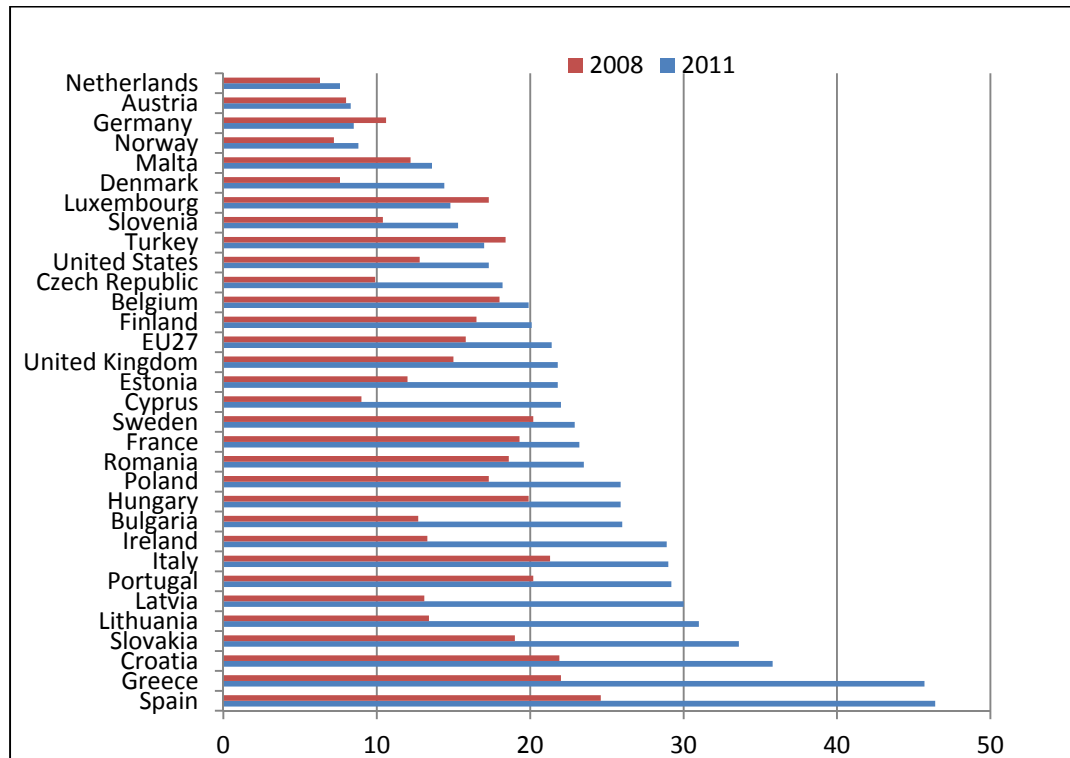
as well as establishing a new group of interventions concerned more with programs than regulatory law. There are three primarily unpicked “low-hanging fruits” for youth employability: (1) human capital and education, (2) industrial relations, and (3) labor market services. The objectives should be a better quality of education and 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 Labor Market Situation for Young People: A Brief Summary

It is common, in the media as well as in academic journals, to associate youth (typically between 15–24 years old) labor market problems with a single youth unemployment indicator. Even though that indicator is meaningful and important, it is insufficient to provide a complete understanding of conditions for young people in the labor market. The simple number of how many youth are actively searching for a job is neither an exhaustive indicator nor one that is the most alarming. For different reasons, the unemployment rate, per se, represents only a partial and static measure of the youth condition in the labor market. First, it does not necessarily mean a problematic or negative situation in that there are many occupational alternatives available, and the market is sufficiently dynamic. In fact, in this case, the unemployment rate represents only 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 discouraged workers or those who are out of the job market for other reasons.

It is true that, since the 1990s, young people in industrialized countries face increasing difficulties in the labor market compared to those in previous decades, culminating in the recent economic crisis, which caused the youth unemployment rate to increase to more than double that of adults, and it remains at alarmingly high rates four years after the beginning of the crisis (Figure 1).

FIGURE 1
Youth Unemployment Rates (%), 2008 and 2011



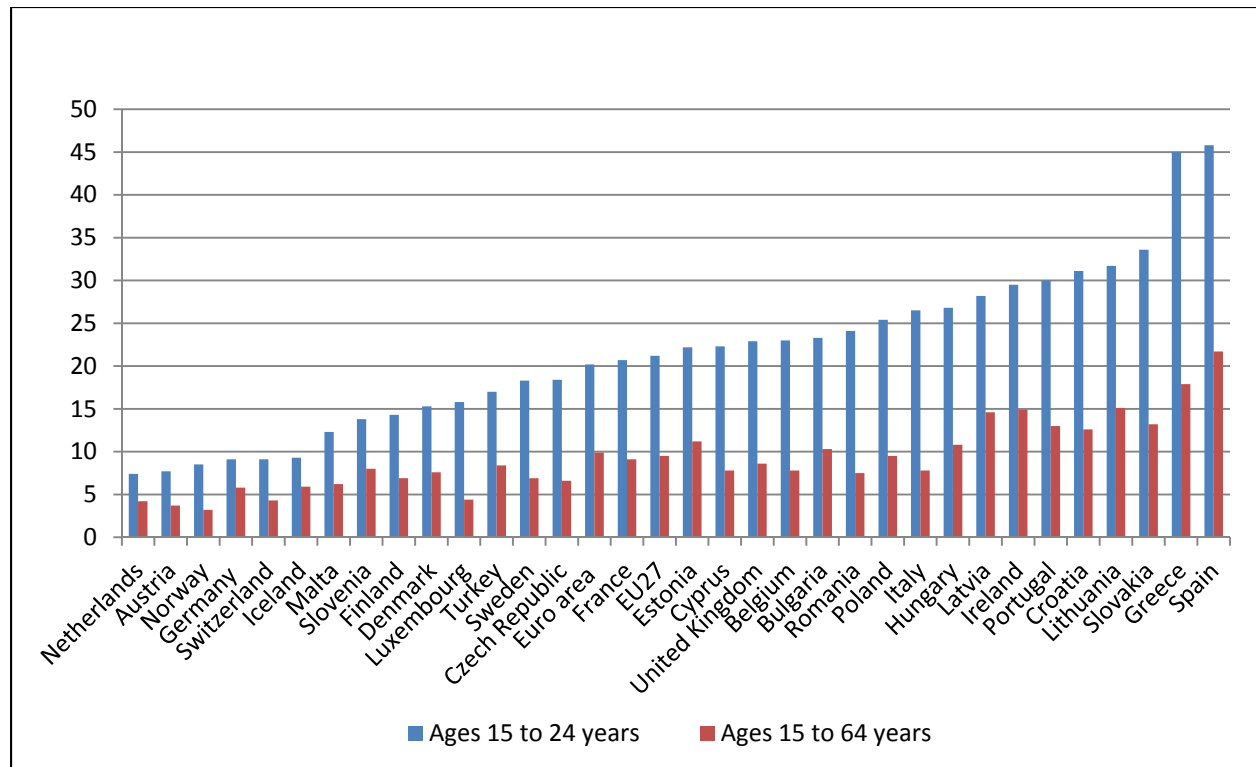
Note: For Greece, Lithuania, Latvia, Italy, Estonia, United Kingdom, Turkey, and Norway, data refer to the third quarter of 2011.

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 (Figure 2). In Spain, the unemployment rate of people ages 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 neared 30%.

High rates of youth unemployment are not limited to southern Europe, though (Figure 2). 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% were found only in Norway, Germany, Austria, and the Netherlands, the latter recording the lowest youth unemployment rate in EU27. This variability among countries is mirrored in adult unemployment rates, as a signal of structural and macroeconomic differences among labor markets and economies.

FIGURE 2
Youth and Overall Unemployment Rates (%), Third Quarter 2011

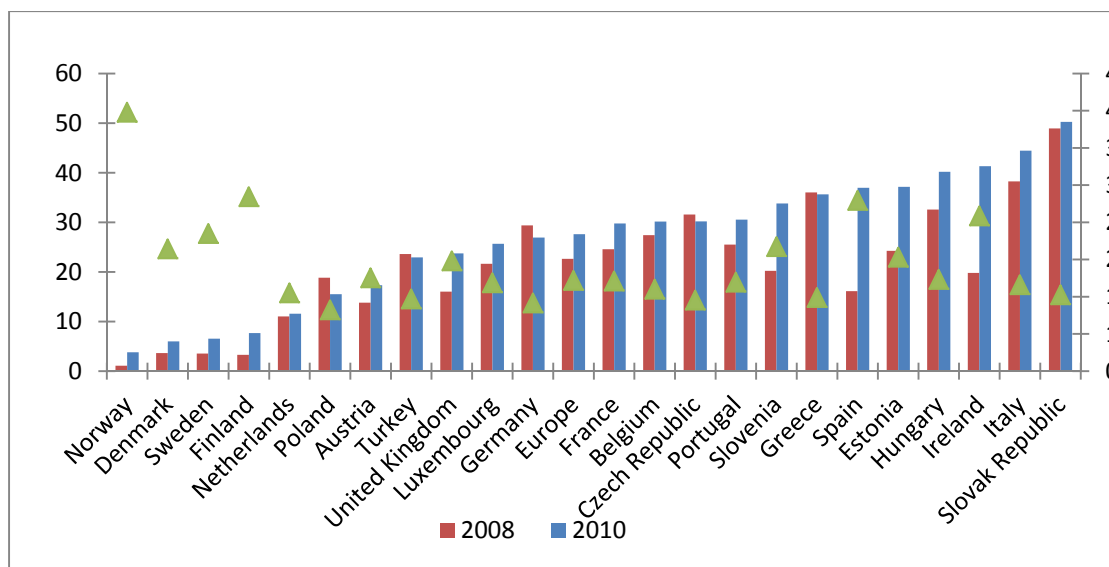


Source: Elaboration on Eurostat data.

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 employment condition in Italy. Germany, on the other hand, is the only country 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 four times greater than for people over age 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 a high level of employment protection for regular workers as well as high costs for firing. What seems more crucial for youth employability, rather, is 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 are two times more likely to be unemployed than adults. As the crisis continues and the recent sovereign debt crisis worsens in Europe, large increases in the unemployment rates among youth and a slow recovery are now resulting in long-term unemployment (more than 12 months; Figure 3).

FIGURE 3
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 were around 28%. The rate was much higher in Italy, where it reached 44% (it was 38% before the crisis). Almost half of the unemployed young people in Italy have been looking for a job for more than a year; only Slovakia has a higher proportion. In Germany and the United Kingdom, the youth unemployment rate is about 25%, although German had a decrease in its long-term unemployment rate during the crisis. In Austria, the rate is 17%, in the Netherlands 11%, and in the Nordic countries less than 10%. However, in Italy the insider/outsider dualism of the labor market and the use of flexible work cannot be identified as the cause of high long-term unemployment rates because that rate was higher before the introduction of flexible contracts in labor reforms (Treu 1997; Biagi 2003). To the contrary, this flexibility created reforms in the market that helped the employment rate increase from 13% before 1997 to 32% in 2007. Even though the youth long-term unemployment rate in Italy remains twice as high as the European average, it has significantly decreased (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.

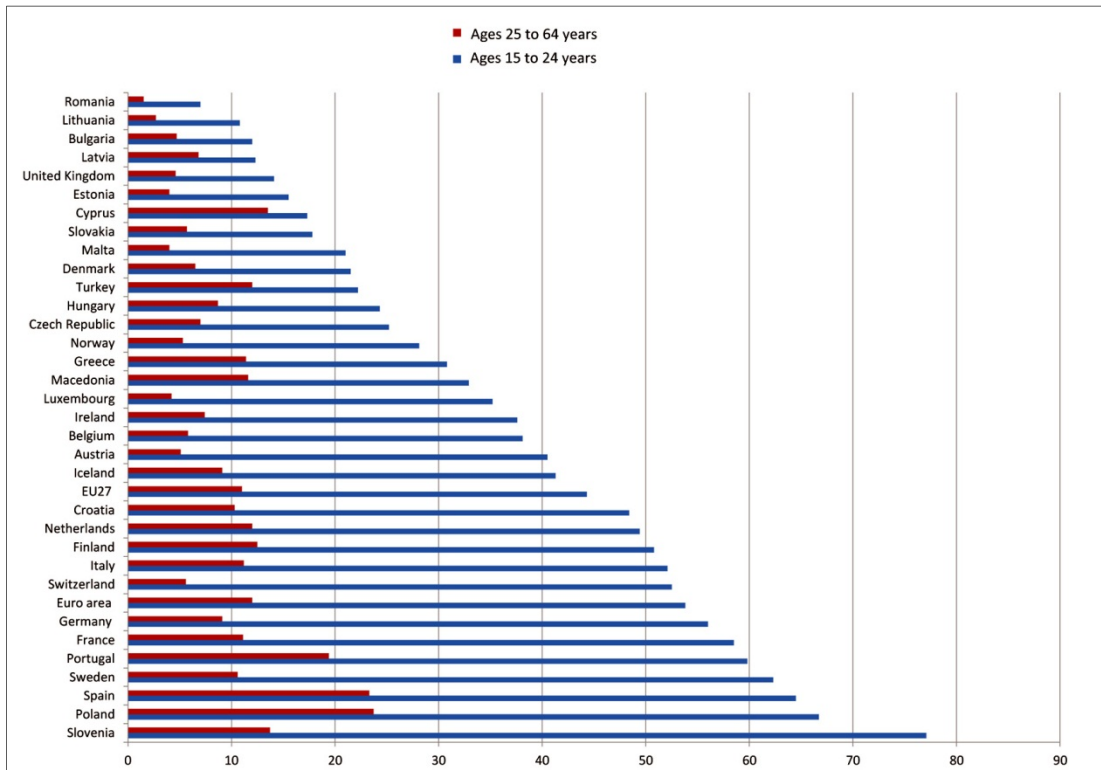
The Danish flexicurity model has proved to be efficient in normal economic times but in the current context of a prolonged crisis, which reduces job turnover, the capacity to absorb unemployment is inevitably reduced. The proportionally higher increases in the youth long-term unemployment rate in Denmark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

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

Today, there are fewer employment opportunities for youth, so much so that the debate cannot be focused only on the atypical or precarious nature of their employment. The lack of demand for workers is the primary cause of the recent rise in unemployment. The real problems 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 neither employed nor participating in education or training. At the same time, the previously discussed proposal for single labor contracts overlooks the complexity of relationships in the labor market. The precariousness that is attracting the attention of the Italian government and its social partners is more sociological than it is supported by data.

The temporary nature of employment has always characterized youth entrance in the labor market, but it has increased dramatically during the crisis. Countries that in the past partially reformed employment protection legislation (EPL) (Spain, Italy, France, and others) to address the need for flexibility on the entry side only (i.e., easing hiring practices) and to maintain the same protections given to permanent workers now have the biggest gap between adults and youth in the share of temporary jobs in total employment. However, they were able to maintain workforce human capital in the downturn through short-time work arrangements (as in Germany and Italy). However, in Italy, notwithstanding the debate on youth job precariousness, the share of temporary employment among young workers is still lower than in the euro area, and, most important, that precariousness is significantly further reduced throughout a worker’s life, as demonstrated by the very low number of temporary jobs among adults.

FIGURE 4
Temporary Employees as a Percentage of Total Employment by Age, Third Quarter 2011

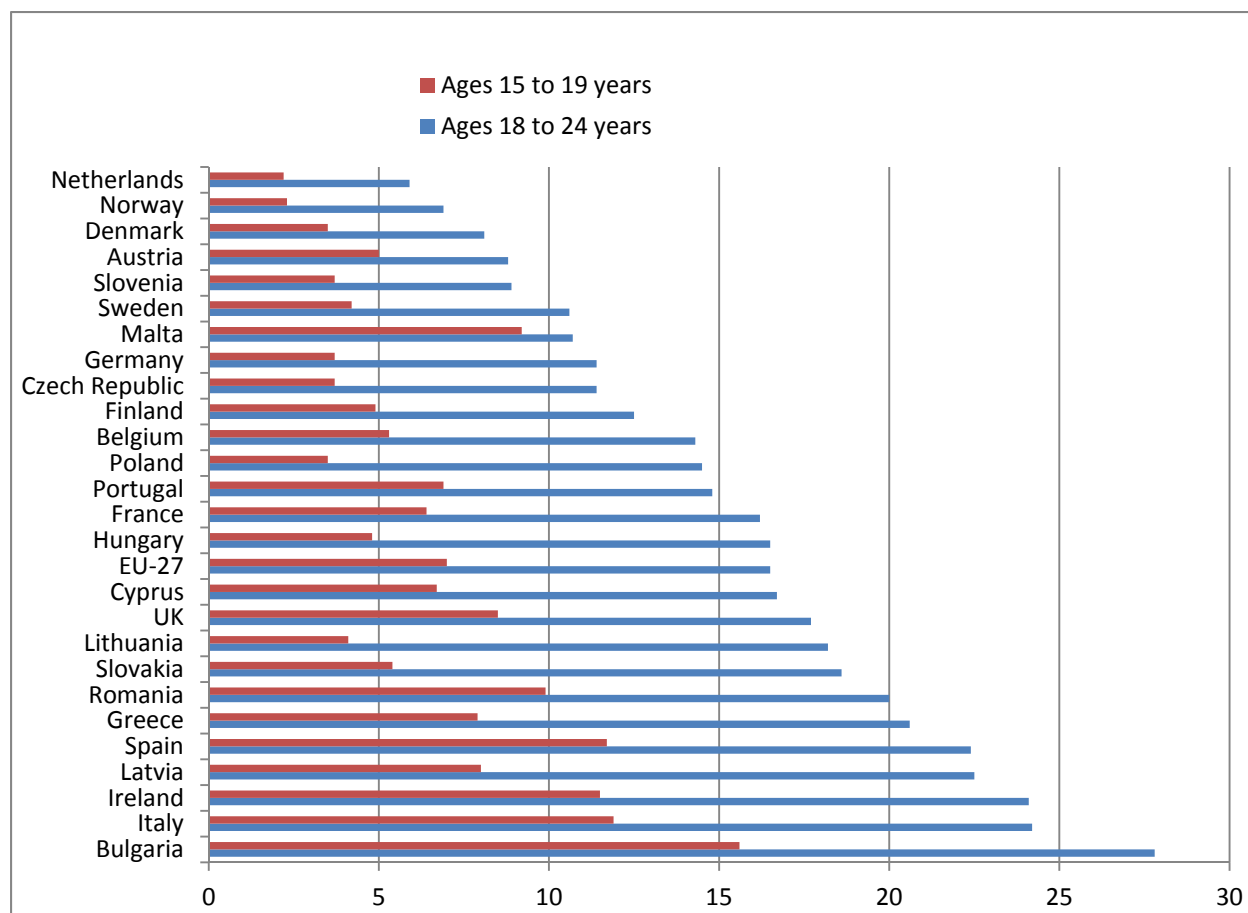


*Former Yugoslav Republic of Macedonia.
Source: Elaboration on Eurostat.

What is of more importance seems to be the school-to-work transition difficulties faced by Italian youth, especially in terms of discouragement and inactivity—and their effects on human capital. The NEET rates (“not in employment, education, or training”) for teenagers and young adults are the real youth

emergency in Italy, reaching the alarming rate in 2010 of 25% of young adults and 12% of teenagers—the highest rate after Bulgaria. This calls for reshaping 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 labor laws and the introduction of single labor contracts. Moreover, focusing on education and the school-to-work transition means preventing the labor market problems that teenagers and young adults will face when (or if) they enter the labor market.

FIGURE 5
NEET (“Not in Education, Employment, or Training”) Rates Among Teenagers and Young Adults (%), 2010



Source: Elaboration on Eurostat.

Helping Young Workers During the Crisis: The Case of Single Labor Contracts and Apprenticeships in Italy

The traditional responses of national governments and institutions to the problems of young workers during the crisis have included the use of unemployment and social assistance benefits 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), as well as measures to sustain youth employment using a combination of economic incentives for new employment, stabilization of temporary jobs, employment services, skills development, income support, youth entrepreneurship, large-scale public works, and community services.

However, these actions represent no structural solution to the problem of youth unemployment and, although the aggregate resources 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 programs (Boone and van Ours 2004). Even though active measures proved to be more effective than passive ones, job placement rates from any active labor market programs when unemployment rates are high are likely to plummet, and the schemes are unlikely to provide adequate rates of return (Bell and Blanchflower 2010). Consequently, national governments have been searching for alternative answers with the aim of tackling the decline of youth working conditions, the drastic intervention in 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 too-strong employment protection legislation limits work opportunities for young people; therefore, it is necessary to overcome dualism in the labor market between insiders and outsiders by relaxing statutory protections against unfair dismissal. In a few European countries, including Italy, the debate focused on the flexicurity “mantra” and the transposition of the Danish model to southern Europe. However, evidence for the link between restrictive EPL and unemployment is not robust enough (Bassanini and Duval 2006; Baker et al. 2004; Belot and van Ours 2001; Nickell 1997, 1998), and, given the significant effect of recessions in countries with more-flexible labor markets, this causes some concerns about deregulating labor markets in countries with high unemployment rates and, as in southern Europe, where financial constraints are an important factor.

In France, Italy, and Spain, a number of proposals for the introduction of single labor contracts (Blanchard and Tirole 2003, Cahuc and Kramarz 2004, Boeri and Garibaldi 2008, Andrés et al. 2009) have been extensively discussed, with the common declared goal to create a new type of employment contract to help overcome the strong asymmetry between open-ended and fixed-term contracts with a view to addressing segmentation. Despite institutional differences among countries, 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 worker protection and a gradual continuous increase of rights with tenure. In Italy, various single labor contract proposals have been made since 2009. As in the case of other European countries, in Italy these proposals have the goal to overcome the duality of the labor 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 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 their applicability only to newly signed contracts, while nothing changes for workers already in the labor market. This is particularly important in the case of the Ichino proposal, since it aims at reducing the dualism in the labor market through the introduction of the well-known single labor contract and through the loosening of firing costs for businesses (i.e., the abolition of Article 18 of Law No. 300/1970). This is the only proposal that recommends an increase in exit flexibility, allowing businesses to fire workers for economic reasons, paying generous unemployment subsidies for three years, and being responsible for the outplacement of fired workers. Apart from the doubts about the portability of a flexicurity system in Italy, this reform proposal is actually the most innovative and well articulated. In fact, other schemes use the single labor contract as the solution to all problems of young people in the labor market, addressing only the entry side of the labor relationship and not considering the exit side.

Moreover, single labor contract proposals fail to consider that an open-ended contract of this kind already exists in Italy: the apprenticeship contract. In the single contract, one can, in fact, recognize a

structure similar to an apprenticeship—i.e., the single contract provides flexibility for new entrants until a particular threshold is reached, 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 labor relationship at the completion of the training period; if the employer does not end the relationship, the contract is automatically transformed into a permanent contract with all the protections associated with it. Both situations can be considered dualistic in the sense that workers with an apprenticeship contract and those with a single labor contract can be fired at lower costs and more easily than people with permanent contracts. In this connection, I believe that Nerozzi's proposal does not change the dualism in the labor market nor does it improve youth employability. In fact, looking more carefully, what differ (apart from economic incentives) are the incentives provided to the employer and the employee under the two entry contracts.

The training time outside and inside the business under an 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 its investment in human capital. Similarly, the employee will stay with the company in order to earn a higher wage, reflecting the employee's investment in his/her own human capital. In fact, during an apprenticeship, the exchange between wage and training significantly reduces wages. On the other hand, under a single labor contract, the employer can fire the worker before he/she becomes more expensive; the threshold occurs 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 might be more inclined to fire the worker earlier. Also, there are no indirect costs relating to the investment in human capital because that type of contract contains no provisions about education and. In this context, the employee has the incentive to stay until the end of the single labor 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 labor contract does not imply a lower initial wage or an exchange between wage and training.

Flexicurity and apprenticeship countries represent two success stories for youth (both scoring positive youth labor market performances, as shown by indicators such as high employment rates and low unemployment rates) in apprenticeship countries. More equality between youth and adult conditions in the labor market has already been observed, as well as better reactions to the employment crisis.

Apprenticeship countries had lower (or no) decrease in employment compared to other countries, such as Denmark, which has lower exit flexibility and the use of short-term employment (Spattini and Tiraboschi, forthcoming). Moreover, Germany, Austria, and Switzerland had lower increases; in the case of Germany, there was a decrease in the unemployment rate compared to Denmark. As emphasized 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).

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 Existing Indicators on Youth Employment— A Comparative Perspective

A comparative perspective showed marked heterogeneity among countries regarding the likelihood of youth unemployment compared to adult unemployment. The ratio of youth-to-adult unemployment rates varies from around 1 (equal probability) in Germany and Switzerland to 2 (twice as high) in Denmark, Canada, United States, the Netherlands and Spain, to almost four times in Italy, Finland, Norway, and Britain. This verifies that almost everywhere, irrespective of legal frameworks, youth and adults are unequal in the labor market; there are regulatory barriers for youth to tackle as well as a number of other barriers that cause a disparity between youth and adult unemployment. Even though public debate, especially in Italy, has focused primarily on statutory protection against unfair dismissal as the main and crucial cause of youth unemployment, the labor market barriers for youth are more heterogeneous and are related to both the supply and demand side of the labor relationship.

The economic literature has put forth many explanations, both theoretical and empirical, about the 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 compared to adult unemployment because of the greater ease and lower cost associated with laying off younger workers. 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 also a consequential explanation: in reaction to the deterioration of the labor market, young workers postpone entry in the labor market and invest in developing their education and training (Blanchflower and Freeman 2000). Many youth also live with their families for a longer time as a consequence of difficulties in the labor market. However, situations before a worker enters the labor market can also affect youth employability. For example, an incorrect decision about education or training, or short-sighted career guidance, can produce skill mismatches that hinder future employability.

Also, many studies have demonstrated the existence of discrimination when hiring youth because of their lack of experience and the volatility that can affect their occupational paths. The transition from school to work is 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 choice of many youth to work in a variety of jobs in order to help determine their preferred occupation and to pursue personal and professional growth (Clark and Summers 1982). However, this does not appear to be the case in the current situation, where slow job growth impedes the quick reallocation of unemployed workers and where low confidence about the future makes it even more difficult for youth in the labor market.

Moreover, in line with the search and match theory of Diamond, Mortensen, and Pissarides, it is not a simple matter to match workers with jobs. Risks are on both sides. For businesses, especially technologically advanced ones, the risk is that their investment in training and developing knowledge and skills in an employee will be lost if the employee leaves with them. The risk to the employee is that his/her company-specific experience and skills might not be transferable to other contexts. Non-compete and apprenticeship contracts help companies overcome market imperfections such as these—the former includes an explicit clause of non-competition for a specified period after an employee leaves the company, while the latter allows employee development at a lower wage.

Apprenticeship, however, can help clear a hurdle for youth entering the labor market: the poor signaling and screening capacity of employees and businesses in a labor market characterized by asymmetry of information. According to Acemoglu and Pischke (1999), apprenticeship is more than a training and school-to-work transition tool: it is also a selection and screening device for companies and a signaling tool for job candidates. Strict training regulations enforced independently by regions can in fact guarantee, in a transparent way, acquisition of the skills required by a specific occupation, which eases the selection process by businesses and the concerns of apprentices about employability.

The main signal vehicle, apart from knowing the social and work-related skills of an employee, 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 (e.g., in Italy a formal national framework including 21 vocational qualifications achievable in 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 employee 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 control from independent institutions responsible for formation (as it is with regions in the Italian case). These institutions have the task of providing nationally comparable, transparent, and independent assessments without the bias of their own economic interests. An efficient dual system of apprenticeship could not be the only reason, but it certainly contributed to the fact that Germany and Switzerland are the two countries where youth and adults are more equal in the labor market.

Without assuming a causal relationship between the policy mix and youth unemployment rates, it is, however, possible to find connections that support the institutional approach and to dismantle the excessive emphasis on labor reform, blamed for an (unrealistic) thaumaturgic power. The institutional approach, as

considered here, instead, tries to connect youth labor market performance to labor market institutions. In particular, it aims to efficiently connect the former with educational and training systems (school-to-work transition, employability, and quality of education), industrial relations systems (flexibility of wage determination, degree of cooperation, and social dialogue), and labor market services (public and private employment services, school and university placement). The approach can be represented as follows. Table 1 (see next page) shows the already -described institutional characteristics of the labor markets in various European countries and the United States, ordered from the best labor market situation to the worst, using as the youth unemployment rate as the indicator.

Given that young workers are especially vulnerable in labor markets, a number of actions might be worth considering to reduce these difficulties. The table 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 to recession (i.e., withdrawal from the labor force to apply to colleges and universities) has to be encouraged in the crisis as a way to increase human capital and avoid worker inactivity. However, from a structural point of view, establishment of an efficient and high-quality educational system is a priority.

As Table 1 shows, higher perceived quality of education is correlated with lower youth unemployment rates. This indicator is based on survey results in the World Economic Forum's *Global Competitiveness Report* (2011). Countries with low (green) or medium (yellow) youth unemployment rates were among the top 30 countries (out of 140 countries in the survey) 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 from labor markets' operators, addressing the question not only with regard to the quality of education but also considering the extent to which it meets the needs of a competitive economy.

In line with this broad approach to education, apprenticeship constitutes a form of work-based learning and therefore is a component of the first pillar. According to Ryan (2011), apprenticeship needs to combine part-time vocational education with training and experience in 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 United Kingdom and Italy, the shares of apprentices receiving formal education were lower than 40% (Ryan 2011).

As already said, the apprenticeship is a peculiar labor 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 programs 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 labor market entrance, and apprenticeship can be the tool for skills acquisition and for creating better labor 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 labor market.

TABLE 1
Policy Mix Adopted in Europe and the United States and Its Effect on the Labor Market Situation for Youth

Country	Youth unemployment rate, 2010	Education and School-to-Work Transition				Industrial Relations		Labor Market Situations					
		Quality of education	Flexible work	School	Pay < 50% of a skilled worker	Vocational education > general education	Cooperative labor-employment relations	Flexibility of wage determination	Flexible hiring	Flexible firing	Minimum wage	School/university placement	PES placement services > 0.1% of GDP
Austria	9	X		X	X	X	X	X	X			X	X
Netherlands	9	X		X	X	X	X	X	X		X	X	X
Germany	10	X		X	X	X	X	X	X			X	X
Denmark	14	X		X			X	X	X	X		X	X
U.S.	18	X	X				X	X	X	X	X	X	X
U.K.	19	X	X				X	X	X	X	X	X	X
France	23			X	X			X	X	X	X	X	X
Italy	48		X					X	X				
Spain	42		X					X	X	X	X		

Sources: Youth unemployment rate 2010 from OECD (2010). Quality of education, cooperative labor-employer relations, flexibility of wage determination, flexible hiring, and flexible firing from World Economic Forum's *Global 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. School/university placement our own calculation. PES placement services (> 0/1% GDP) from OECD.

The second pillar that we consider to be important for youth labor market prospects concerns industrial relations. Making industrial relations a driver for youth employability through decentralization of collective bargaining and 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 and Hunt 2011), we chose to introduce an index that measures the extent to which labor–employer relations are cooperative, as well as the flexibility of wage determination. Both indexes are taken from the *Global Competitiveness Report* (2011) 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 addresses the question “How would you characterize labor–employer relations in your country?” [1 = generally confrontational; 7 = generally cooperative] and the second asks, “How are wages generally set in your country?” [1 = by a centralized bargaining process; 7 = up to each individual company]. Again, an X in a column indicates that 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 the United States) and a 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 businesses’ needs and production locations. Agreements between social partners can provide favorable conditions for youth employment, compensating the youth experience gap by allowing 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 flexible determination of wage and 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 monotonic line of wage increasing with age characterizes Italy) does not reward youth productivity nor does it improve their career prospects, especially given the temporary jobs that characterize youth employment. A modern and flexible industrial relations system should provide a closer link between wage and productivity, changing the monotonic line to an upside-down U-shaped one, with wages that are lower for youth, which reach the maximum for experienced adults and decrease after a certain age.

The third pillar regards labor market institutions. Its first two indicators, flexibility of hiring and firing, concern the rigidity of employment protection legislation, which, as already seen, affects labor market outcomes in an ambiguous way. The indicators are again based on indexes from the *Global Competitiveness Report* (2011) that answer the question “How would you characterize the hiring and firing of workers in your country?” An X in a column indicates countries ranked in the first 30 most competitive out of 140. What appears is that a certain ease of hiring is common to all countries considered, with the capability to resort easily to flexible contracts to hire people on a temporary basis.

On the contrary, flexible firing is not widespread: only the United States, the United Kingdom, 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 firing flexibility. Nor is it possible to state that flexibility on the exit side is the main driver for youth employability, since what distinguishes Anglo-Saxon labor markets is the existence of the best school/university placement services attained through competition among universities to obtain the best students by offering them job placement. 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 subminimum wages for youth, as in the Netherlands, which act as a comparative incentive to hire youth. Moreover, the ambiguity arises from the existence in many countries (such as Italy) of collectively bargained minimum wages, which are 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 labor reforms without taking into account the opportunity to implement concrete interventions. Young workers in recessionary times are not a reason for Europe to reconstruct its labor laws in the direction of flexibilization and deregulation.

Granted, there is not a single best response (i.e., no one size fits all). 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 revision of laws too often considered to have thaumaturgic power. Rather, there is need to work on the heterogeneous and various youth labor market barriers using an institutional approach—i.e., building an efficient connection between educational and training systems, public employment services, and labor market institutions (school-to-work transition, employability, quality of education, measures/actions against the mismatch between labor supply and demand, and flexibility of wage determination).

As demonstrated, to effectively address the issue of youth unemployment, 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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