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Conditions and Opportunities in Italy**

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March 2015

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ABSTRACT

The European Youth Guarantee: Labor Market Context, Conditions and Opportunities in Italy^{*}

This essay aims to discuss the conditions for a successful implementation of the European Youth Guarantee in Italy. In principle, the program should be able to affect the frictional and mismatch components of unemployment, if not the Keynesian and neoclassical ones, as also the experience of Scandinavian countries suggests. However, this requires an in-depth transformation of the entire school-to-work transition system, involving not only public employment services, but also educational and training systems. To tackle the Keynesian and neoclassical components of unemployment, instead, it is vital to rethink the European austerity and reduce the labor wedge.

JEL Classification: E12, E62, H52, J13, J24

Keywords: European Youth Guarantee, European Social Model, school-to-work transition, youth unemployment, youth experience gap, Keynesian unemployment, neoclassical unemployment, mismatch and frictional unemployment, Italy

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Introduction

Young people are bearing most part of the social cost of the current economic and financial crisis, especially in the South and East European members of the European Union (EU). In Italy, the youth unemployment rate has been escalating from about 20% in 2007 up to a historical peak of 44.2% in 2014. It is, however, from the last months of 2011 that the crisis translated from the production sector into the labor market, causing most of the recent massive increase in unemployment (Figure 1). The Italian youth unemployment rate is hence not far below the rates in Spain and Greece (for a recent assessment of the youth labor market problem and school-to-work transition system (SWTS) in these countries, see Pastore, 2012; Rocha, 2012; Tubadji, 2012; Cahuc et al., 2013; Dietrich, 2013; Bell and Blanchflower, 2015). The EU as a whole and the individual EU member states feel that they should do something to help young people cope with the crisis.

[Figure 1 about here]

Based on a proposal originally formulated by the European Socialist Party, the EU Parliament and the other EU institutions have approved a program, called European Youth Guarantee (EYG since now), which implies the (moral, if not legal) “obligation” for each member state to provide young people with a job, training or educational opportunity within four months from the beginning of their unemployment spell. As discussed at more length in Section one, the Scandinavian model of school-to-work transition clearly inspires the EYG. The program has already been recently implemented in Germany, Austria, The Netherlands and Poland.

This essay aims to discuss the macroeconomic conditions under which the program is implemented and to highlight the necessary institutional conditions to be met in order for the EYG to be successful. To such an end, Section two will give a tour d’horizon on the current status of the national debate on youth unemployment. In order to fully understand the context of implementation of the program, the section will discuss the main political positions emerged in the last elections. This should allow understanding the momentum that the Eurosceptic protest is gaining in the country and the need to address it not only at a micro-, but also at a macroeconomic level. In turn, this requires also redefining the Maastricht criteria and involving also the European Central Bank into the fight against youth unemployment. In other words, it is vital to discuss the terms of the debate on supply-side versus demand-side programs

against youth unemployment and the issue of where (new) jobs could be coming from. The main conclusion is that macroeconomic policy – both fiscal and monetary – is important and should be discussed again. Nonetheless, also the institutions regulating the labor market and the overall school-to-work transition system in particular should be also reformed. Accordingly, Section three will deliver an assessment of the micro-economic conditions that should be met in order for the EYG to be successful in Italy. Some discussion of the issues dealt with will be given in the final section together with summary remarks.

1. The EYG program: An assessment

In Italy, the EYG is perceived as very far away, a kind of ideal model or just a dream, but a dream that is hard to implement because Italy does not have the labor market institutions that are necessary to make the EYG work properly and also because it is a foreign body in the country's welfare state tradition.

As Pastore (2015) argues, in Mediterranean countries, it is almost entirely up to the individuals and their families to choose the best educational attainment level and an effective school-to-work transition strategy. Public Employment Services (PESs since now) are very inefficient in Italy. Pro-active schemes cover only a very small share of the young people in need and are of very low quality. Much too often a temporary employment contract is the only chance offered to them.

Young people have accepted application of the EYG in Italy with a lukewarm reaction. According to the data provided in the last weekly monitoring report of the Ministry of Labor (2015), as late as in mid-February 2015, about 11 months from the beginning of the program, slightly more than 400 thousands young people (aged 15-29) have joined the project out of 1,700 thousand young not in employment education and training (NEETs since now). Only 151 thousand of the registered users have undergone the welcome meeting, only 12 thousand of them have used the second level orientation meetings and about 8 thousand have entered a pro-active measure. This means 9.2% of those undergoing the welcome meeting, 3% of the registered users, and 0.7% of the target population. This indirectly means that the term of four months from the beginning of the unemployment spell is not dealt with for almost nobody.

Figure 2 shows the evolution of registrations to the EYG program since its beginning by gender. The initial enthusiasm that led about 80 thousand young people to register in few weeks has since then much lessened. After the summer it has risen again for a couple of months to continuously shrunk since then, probably as a consequence of the disappointing news coming from the press, rather than from depletion of the stock of the target population, which remains still huge.

[Figure 2 about here]

Only very few tangible job opportunities were provided to registered users. Official statistics show that about 74% of the jobs offered were fixed-term contracts. Permanent jobs were only 11.5% of the total. Despite being mentioned by all EU Commission documents as key to the success of the EYG, traineeships were only 8% and apprenticeships were only 1.7% of the total.

Analysis of the available statistics shows that there are no significant differences by gender. Of the three typical age groups of young people, not surprisingly, the young adults, aged 20-24 are the most numerous, about 52% of the total. The teenagers, which are often still at school, are only less than 10%, the rest being aged 25-29, some of which have already found a job in another way.

Only about 39% of the young people registered in the program were actually interviewed and subjected to profiling, with dramatic differences across regions in the ability of local employment offices to organize the profiling of such a large number of individuals (Figure 3). The least efficient regions were located not only in the South (especially Calabria and Campania), but also in the Centre-North (especially Piedmont and Liguria). Typically, the most efficient regions are the central ones (Emilia Romagna, Tuscany, Umbria, Marche), except for Lazio, which is about average. The strong regional differences are an important factor able to jeopardise the program, as explained at more length in what follows. It is therefore not by chance that the first intervention of the government led by Matteo Renzi in the field of employment services has been the introduction in the Jobs Act of a National Agency, with the aim of coordinating the activities of public and, to some extent, also private employment services existing in the country. Currently and since the 2001 constitutional reform of chapter V of the Italian constitution, in fact, regional authorities have been in charge of training and employment policy, which has created 20 different labor markets, with different rules, institutions and administrative capacity.

[Figure 3 about here]

By its very nature, the EYG is implemented in a different way in every country of the EU, according to the strength and weaknesses of the country's labor market institutions (Besamusca et al., 2012). Although there is no comparative information on the implementation of the EYG, it is clear that, for reasons that will be discussed at length in what follows, in South European countries the program is hardest to implement and the few statistics provided above show that Italy is no exception to this scheme.

In his recent report, Tiraboschi (2015) lists a number of shortcomings of the EYG in Italy:

- a) The national agency in charge of the program implementation (Struttura di Missione) has been dismissed in December 2014, but at the moment there is no. probably the government is planning to attribute control of the program to the be-found national agency for employment services;*
- b) Against the EU suggestions, the 4 months of the guarantee are computed from the signing of the deal between PES and program participants, but, in fact, much more time is used also for the few who participate in the program;*
- c) Official websites report job vacancies which were already published elsewhere and often are not for young people, but require several years of work experience;*
- d) The authorities consider paying any deal, not only those who survive after some months;*
- e) Despite the EU invitation to invest especially in apprenticeship contracts, only 4.5% of the funds are used for that and some regions do not spend any money for apprenticeship (e.g. Liguria, Piedimont, Sardinia and Veneto).*

Together with the bureaucratic nature of meetings and talks' orientation, these numbers are likely to discourage further registrations, which, as noted above, have already dramatically reduced on a monthly basis. A confirmation of our concerns regarding the inefficiency of the institutions responsible for the organization of the labor market. This also confirms the lack of interconnectedness between educational institutions and the world of work.

2. The outlook

2.1. Raising Euroscepticism

The Italian electorate, especially the young component, feels strongly dissatisfied with the government policy and also with the EU policy. This explains why the last political and European elections were perceived as a test not between center-left against center-right, but rather between those parties who favored the EU policy and the euro and those who declared to be against the European (or German) austerity. For the first time in the Italian history, several parties were explicitly Eurosceptic: first of all, the so-called "5-star movement" (Movimento 5 Stelle; 5SM since now), the party led by Beppe Grillo, but also Lega North and, with the usual political ambiguity, the People of Freedom, the party led by Silvio Berlusconiⁱ. A number of other smaller parties were also trying to pick up on the anti-euro protest.

In fact, these Eurosceptic parties almost won the political elections back in 2012; the former won the European elections in 2014. In the 2012 political elections, Grillo's movement which declared the intention to go back to the Italian lira, became, together with the Democratic Party, the first political party, with about 25% of the votes, at their first appearance in the political arena. This result was quite surprising for a number of reasons. First, the opinion polls that were circulating before the elections invariably gave the Democratic Party led by Pier Luigi Bersani as the undisputed winner of the elections. Second, and paradoxically, despite the enormous political responsibility for the November 2011 Italian financial crisis, also the People of Freedom, the party led by Silvio Berlusconi, managed almost to win the elections by promising to give back to tax payers the IMU (Imposta Municipale Unica, a municipal property tax) introduced by the government led by Mario Monti and supported by the troika to recover the public deficit accumulated during the previous Berlusconi's government.

Conversely, the Democratic Party which supported the EU strategy and was expected to get the payoff of the political and financial disaster caused by Berlusconi won by only 200 thousand votes and, therefore, got the majority of seats in the Camera, but not in the Senateⁱⁱ. The party of Mario Monti, who hoped to be the alternative to Berlusconi for the center-right electorate obtained only a meager 10% of the votes. The reason of the defeat of supporters of the EU strategy is to be found in the aptitude of the vast majority of the electorate who feels that they pay already too many taxes. In fact, probably because

of tax evasion, the actual tax payers, especially wage employees, pay an unbearable amount of taxes, more than in the Scandinavian countries, but they receive public services which are of far lower quality than their Scandinavian peers.

Most young people feel that politics, also due to the EU constraints, is not going to make the necessary changes (Diamanti, 2012). Young people importantly contributed to the electoral success of Grillo's movement. They massively voted for protest and against the so-called EU austerity policy: about 47% of the young people aged 18-24 voted M5S. For instance, they found Grillo's proposal of a means-tested income support scheme for the unemployed important in a period of dramatic economic crisis. It would be certainly a novelty in a country where there is no income support scheme for first time job seekers (Albertini, Impicciatore and Tuorto, 2013; Paparo e Cataldi, 2013).

Another (unintended) effect of Grillo's exploit in the 2012 political elections was the resignation of Pier Luigi Bersani and the ensuing victory of Matteo Renzi as the leader of the Democratic Party. On the 22nd of February 2014, Renzi also obtained to become the head of the government instead of Enrico Letta, whom Renzi considered not in line with the leap he wanted to give to the government before the next political elections. His government was able to implement a number of reforms already in the early weeks of his mandate, which allowed him to gain an outstanding 40%, a record for the Democratic Party, in the May 2014 European elections. Since then, Renzi government is implementing a number of reforms, including the EYG, the Jobs Act, the electoral reform, the constitutional reforms, to mention a few, which have maintained the new Democratic leader still relatively high in the opinion polls. Nonetheless, the persistently unsatisfactory economic and financial situation is in the meantime increasing Euroscepticism in the country. In fact, if not even the Renzi reforms are able to change much, it means that it is the Euro itself that is causing the crisis. This argument is gaining momentum, in favor of the 5SM and Lega North, whose young leader, Matteo Salvini, was publicly endorsed by Berlusconi as his possible political successor.

2.2. Austerity and the euro

Many people believe that raising taxes cannot be the solution against the public debt considering the size itself of the debt. In the meantime, the fight against tax evasion has not been much successful. In the current situation, tax pressure is so high that raising further taxes would mean, as Monti's government has proven and Monti himself has declared, further increasing, not reducing the debt.

[Figure 4 about here]

In addition, there is growing concern that some public spending, the so-called "productive" spending, should be permitted, especially in a period of dramatic economic crisis like the one we are in. By "productive" public spending, we mean the growth-enhancing components of it. It is necessary to define policies aimed at restructuring public spending in depth, by reducing the weight of public sector branches that are less effective in reducing the impact of the crisis and favoring the other branches. Public spending is needed to make the country cope with the crisis, but also to re-launch the economy in the long-run, which requires investing in education, research and development, and public infrastructuresⁱⁱⁱ.

In fact, this was the argument that Renzi raised during his 2014 Italian Presidency of the EU. Together with Gianni Pittella, the leader of the EU Socialist Party, in January 2015, he has obtained that the newly elected President of the EU Commission, Jean-Claude Juncker, promised to implement a development plan at the EU level of 300 billion euros, financed by the European Central Bank (ECB since now; see Pittella, 2015). At least in principle, this is certainly a u turn in the EU policy regarding fiscal and monetary stimulus and hopefully it will be the beginning of a new way of thinking of the role of the EU in aggregate management at the EU level.

In the case of Italy, the long-term single cause of the economic crisis is to be found in the move from an economy based on the so-called competitive devaluations to one based on a strong currency, and the wrong economic policy that both the country's government and the EU as a whole have (not) implemented to cope with this change. Moreover, as Aristotelous (2006) shows, Italy was unable to gain from the introduction of the euro also in terms of greater trade integration with the rest of the euro area.

In fact, the Italian economy was located at the lower tail of the distribution of growth rates of the European economies already before the financial crisis started. As Figure 6 shows, labor productivity is stagnating at least from the early 1990s.

[Figure 5 about here]

These disappointing outcomes are surely also the consequence of bad economic policy. It was not infrequent during the last about two decades to hear Giulio Tremonti, the Minister of the Economy in 8 out of 10 of the 2000s, claiming that the low spending in education, R&D and innovation typical of Italy is due to the peculiar industrial structure of the economy, which is traditional and based on small-sized firms; therefore, any public intervention to counteract this outcome is bound to fail.

Another cause of the lack of intervention to stimulate structural change was also fiscal austerity and the need to maintain public finances as stable as possible in a situation where the public debt has been well above 100% of GDP for all of the 2000s. Austerity has had severe consequences for the countries with the highest public debt. Austerity is probably also due to a mistrust in the ability of national governments to implement the right reforms, but then instead of forbidding public spending at all it would be better to introduce some form of conditionality, while providing support to national level industrial policy.

2.2. The on-going labor reforms

The national debate on youth unemployment in Italy is fortunately overcoming some of the refrains of the past which had become also like blind spots. The emphasis on labor market flexibility is perhaps the most important. The recent reform of the labor market, so-called Fornero Act (Law 92/2012) from the name of the Minister of Labor, Elsa Fornero, who proposed it, has been one of the last attempts to further flexibilize the Italian labor market, although in the name of flexicurity^{iv}. On the one hand, it has made temporary work more costly and, on the other hand, it has made permanent work cheaper by reducing the constraints on firing decisions as based on article 18 of the 1970 Labor Code. On the one hand, entrepreneurs have been obliged to declare the reason for the temporary nature of the contract

and to pay higher social security contributions to temporary than to permanent workers. On the other hand, firing decisions have become a little bit easier. The Fornero Law has had only a limited impact on employment, despite the great expectations. In fact, by making temporary work more difficult to renew, over 200 thousand temporary contract jobs have been immediately discontinued, also because of the ongoing economic crisis (Boeri, 2013).

The public debate has, in fact, immediately highlighted the need for new labor market reforms. In fact, already in 2014, the Parliament has approved the Jobs act with a mandate to Renzi government to implement important changes in the labor legislation, such as, among others: a) abolition of the obligation for the employer to hire again workers fired for economic reasons (so-called *reintegra sul posto di lavoro*) as based on art. 18 of the Labor Statute of 1970; b) introduction of the so-called single labor contract, a contract with increasing guarantees for workers by the years of employment (*contratto unico a tutele crescenti*)^v; c) the ensuing abolition of temporary work contracts and project work.

Beside the reform of Fornero law, there seems to be awareness of the need to overcome the emphasis of the past debate on labor market flexibility. Several members of the Letta and Renzi government (Carlo Dell’Aringa, Pier Carlo Padoan and so on) have mentioned the need to reduce the cost of labor, especially the wedge, which is particularly high at about 120% of the net wage, and to reinforce the existing institutions in the labor market (Giubileo, Leonardi and Pastore, 2014). It is not surprising that, although the possible effects are uncertain and probably modest, one of the most welcomed reform of Renzi government was the reduction by 80 euros of the wedge of labor incomes under the wage of euros 1500 (Guiso, 2014).

For instance, the Jobs act has explicitly stated the need to overcome the weaknesses of PESs . The aim of the Jobs act is to introduce flexicurity, meaning not only greater flexibility in the employment protection legislation (EPL since now), but also more public intervention to increase the employability of those who lose their job. Spending more on active (ALMP since now) and on passive labor market policy (PLMP since now) is another core element of flexicurity, but also of the EYG. In fact, as already noted, the latter is based on the Scandinavian school-to-work transition model, which in turn is based on ALMP on a large scale for the jobless young people, often coupled with some passive income support. ALMP is a tool to provide young people with the work experience and job-related skills they actually need when the

educational system is sequential, rather than dual, as it is in both Scandinavian and Southern European countries. As well-known, in sequential educational systems, building general education is the only mission of the educational system, while work experience should be gained after completing the educational path. Now, the point is that in Southern European countries, including Greece, public and private employment services are very weak. In Scandinavian countries, instead, the Ghent system allows excellent employment services (Pastore, 2015).

3. The conditions for success

3.1. The length of the SWT

As Pastore (2015) notes, the school-to-work transition, namely the move from education to gainful employment, is a complex mechanism which is affected by different organizations and institutions, such as the family, the educational and training system, the labor legislation, the PES, the type of PLMP and ALMP. The different way such institutions are modelled affects importantly the ability of young people to fill in their experience gap and therefore to find a stable job. EU countries can be clustered in different regimes, although there are also important differences from one country to another within the same regime: a) North-European; b) Central European; c) Anglo-Saxon or liberalist; d) South European; e) New Member States. Table 1 provides a self-explaining synoptic view of the differences between these regimes. Giuliani and Pastore (2014; and 2015) show by means of panel data analysis that there is something in the Central-European and liberalist regimes which allows them to have the lowest the youth unemployment rate, also after controlling for a number of factors, such as per capita GDP level and growth, share of secondary and tertiary education attainment, degree of EPL, expenditure in PLMP and ALMP.

[Table 1 about here]

The simplest indicator of the efficiency of a school-to-work transition is its length. Unfortunately, there is still very little information about the characteristics of SWTRs. Recently, the Eurostat has released new important information on the length of the school-to-work transition as based on two

modules of the European labor force survey¹. The available data reported in Figure 6 focuses only on average values by country and educational level. In addition, they look only at the transition to “the first significant job”, meaning a job of at least three months duration in the survey and, hence, not necessarily a permanent job. It shows that there are large differences by country and education attainment level. The slowest countries are the South-European and the East-European ones. With an average waiting time of 9 months, Italy is second only to Greece in terms of the length of the transition for tertiary graduates. In addition, with an average waiting time of about 13.5 months it is the 7th in terms of the transition of high school graduates.

[Figure 6 about here]

This figure, however, gives us only an underestimation of the overall length of the SWT in Italy. At least two important factors should be taken into account for a more realistic account. First, as noted above, the Eurostat data considers only the transition to the first important job, but this may not represent the real end of the transition, especially after the implementation of two-tier reforms and the diffusion of temporary work. Quintini et al. (2007, Table 1) report that in Italy the length of the transition from education to a permanent job lasts about 44.8 months, a factor of almost 4 with respect to the Eurostat data. The reason of such long SWT is clearly the lack of sufficient work related skills to become employable in the eyes of employers, due, in turn, to the lack of occasions to gain work experience either during or after the educational period.

Second, the length of the transition should be weighted for the actual length of time that is necessary to obtain a university degree in Italy, one of the world longest, especially in terms of expected values. According to data provided by the Ministry of Education, over 50% of undergraduate students drop out of college without attaining a degree and too many remain registered with little hope to complete their studies or they complete their studies only after an outrageously long time. About 40% of graduates get their college degree with a delay of between 1 and 10 years with respect to the curricular 3+2 years. According to AlmaLaurea data, the average age at graduation for students starting their university at 18 years is 24 years for the 3-year program and 26.1 years for the 3+2 program. The reason is the high indirect cost of university education, which in turn depends on unpreparedness of the

¹ http://ec.europa.eu/eurostat/statistics-explained/index.php/School-to-work_transition_statistics

university system to deal with the increasingly large number of students who register at the university. Too many young people go to the university without an adequate cultural background, while the data suggests only a very little attendance rate at courses, the heaviness of courses' programs, the presence of "cliff exams" (esami scoglio) and so on (for a more detailed account of the phenomenon called fuoricorsismo, see Aina et al. 2013).

3.2. Making the EYG work

Section 1 has shown that the EYG is only virtually in place in Italy, if one considers the actual numbers. Indeed, the Italian labor market is poles apart from the social model that is behind the EYG. First of all is the fact that the Italian system has no obligation whatsoever to even help young people to search for a job. The EYG is based on the well-functioning of PESs. The first condition, then, to be met in order to successfully implement the EYG in Italy is one of administrative capacity.

Since 1991, the state sector has lost its legal monopoly over labor intermediation, also for low skill jobs, which it had maintained since 1970. This did not help increase the share of the unemployed who found a job through PESs, though, just the opposite. Even when in 1997, the Treu Law allowed private agencies to contend the activity of job placement to the PES for temporary contracts, things have not changed much. The Biagi Law of 2003, which strongly encouraged the cooperation between public and private agencies, was not much more successful. Against the expectations of experts and policy makers, despite the reforms implemented, as Mandrone (2011, Table 1) reports, the share of jobs placed through the PES has remained stubbornly low (just above 3%). This compares to about 7.7% in the UK and 13% in Germany.

A possible explanation of the inefficiency of PESs is the lack of available resources, both financial and human. Just to make a quick international comparison, consider Table 2. It reports comparative indicators regarding the PES activities in 2012. The number of unemployed per staff of the PES and the index of efficiency, namely the number of registered unemployed who found a job in the unit of time are particularly useful. The efficiency index is just 2.6%, almost nothing, similar to other South European

countries. Instead, the efficiency index is much higher for the Scandinavian (especially Sweden, Finland and Denmark) and Central European countries (especially Germany and Austria). The low efficiency rate is due first of all to the lack of resources. In Italy, there are 314.9 unemployed for every staff of the PES; the comparable number for the UK is about 32.3 and in Germany about 21.1. Not surprisingly, the Italian ratio has dramatically further increased during the economic crisis, from a high of 150.1 in 2007. The ratio of staff per registered unemployed is only slightly lower at 254.2.

[Table 2 about here]

In addition, the current legislation does not help much in as much as it assigns to PES eminently bureaucratic tasks. (see, among others, Cicciomessere and Sorcioni, 2013; Giubileo, 2011; and 2012; Pastore, 2013;). The situation should get better with the implementation of the Jobs Act, which should foresee the introduction of a National Agency to overcome the lack of coordination among the PES of each province. In addition, the relationship between public and private operators should change from one of competition to one of division of roles, with the public sector having the tasks of profiling, giving the guidelines, organizing, monitoring, supervising and evaluating the results and the private sector executing such services as counseling, insertion, training and so on (Giubileo and Pastore, 2012 and 2013a; 2013b; and 2013c).

In a period of dramatically plummeting opportunities in the public sector, with the share of jobs offered falling down from about 29.5% in the mid-1990s to about 8.6% in the late 2000s, the percentage of young people who is seeking jobs through their network of family and friends has dramatically further increased from a high of 24.4% in the mid-1990s to about 35.3% in the late 2000s. In the meantime, private agencies of temporary work have increased their market share up to 5% in the late 2000s (Mandrone, 2011).

For all these reasons, the EYG would be, in principle, certainly useful and positive in the case of Italy. It would imply if not a "legal" obligation, which is hard to even conceive, at least a "moral" obligation that the public sector will play a more active role in the labor market, as it is the case in the countries where flexicurity is working. In order for this to happen, though, it is necessary that the PES be endowed with sufficient human and financial resources, while being cleaned from bureaucratic burdens which

could be assigned to private call centers just paying a little cost (Giubileo, 2012; and Giubileo and Pastore, 2012).

*A proposal raised in a number of contributions would be to support the EYG by using the EU money coming from different sources, including the structural funds, which are hardly and poorly spent in Italy in small programs whose impact can be claimed to be negligible also without making any evaluation study. If **all** the money that is spent (and even more the money which is not spent) were used for a single unified and organic reform program of re-launching the role of the PES by assigning to it new tasks and resources under the umbrella of the EYG, the money would be spent in a sounder and more efficient way. This money is currently out of reach because of the low absorption capacity and also because the criteria are very hard to meet especially for peripheral regions. We are aware of the difficulties that the strict rules regulating the use of European Structural Funds would place in case they were used in the direction of improving the institutions regulating the labor market. But we are also convinced that this would be a more effective way of reaching the declared aims of the EU funds than using them in the way they are currently used (Giubileo and Pastore, 2013a).*

3.3. Reorganizing the SWT

Another condition for the EYG to work is that flexicurity be fully implemented, not only in terms of EPL, but also of ALMP. If the EYG means providing young people with employment or, at least, training opportunities, then there is not much in Italy about this, but few training programs implemented at a regional level, whose impact is negligible (Giubileo and Pastore, 2013).

The current Italian organization of the entire system is confusing: according to the 2001 reform of Title V of the Constitution, the state is in charge of the education system, through the Ministry of Education, regional bodies are in charge of the training system and provinces (county-level authorities) are in charge of the PES. The EYG would need to re-structure the way regional bodies manage training programs.

The organization of PESs and their performance is very different across regions and also provinces. The situation should further evolve since provinces will soon disappear and a National Agency should be

established to coordinate the activities of PES agencies. However, the current condition of uncertainty is affecting also the success of the EYG as already noted in Section 1.

Another important aspect is that ALMP should be properly targeted and the effectiveness of any intervention should be assessed with sound evaluation studies. Currently, Italy is one of the few advanced economies where statistical data for program evaluation is not collected at all. Some recent reforms – the Fornero law, the Single Act on Apprenticeship, the Jobs Act and the EYG itself - have requested some form of monitoring of public spending, but no proper evaluation studies of the outcomes. The new programs, including those implemented within the context of the EYG should also foresee some money for data collection and evaluation based on rigorous econometric methodologies.

More importantly, the unemployment and NEET rates are so high that it is necessary to think of some interaction of labor market institutions with the educational system and further restructuring of the current labor legislation.

The third problem is one of fine targeting the EYG to those who can benefit more from it, which implies also coordinating the scheme with the existing tools. One of the most important novelties of labor policy in Italy was the approval, by unanimity vote, of the Consolidated Act on apprenticeship in September 2011 (for an overview of that legislation, see Tiraboschi, 2011). It attempted to provide a solution to the youth experience gap and also to the failure of the temporary work legislation in providing adequate opportunities for young people to accumulate the work experience they need. In addition, using firm level data, Cappellari et al. (2012) find, for instance, that temporary work is generally associated with productivity losses, whereas apprenticeship is associated with productivity gains.

The Act confirms the 2003 Biagi law definition of three types of apprenticeship contracts: a) apprenticeship to gain a professional qualification or a craft; b) professional apprenticeship; c) high level apprenticeship. Type a is an alternative to high secondary school for those students who do not wish to attend the standard technical or professional high school, as an alternative to dropping out. Type b is the first three-year period of a permanent working contract, often post-secondary high school. Type c is for college graduates.

The apprenticeship law is inspired to the German system, but with an important difference: except for type a) of apprenticeship, which is seen as a tool to prevent school dropout of a small minority rather than the main option in some types of schools, it is mainly a post-school, post-university program for young people up to the age of 29 years^{vi}. This means giving up an important aspect of the German model, namely the duality principle, which allows all young people not attending gymnasium to develop their competences and skills when they are still in education. Nonetheless, in the Italian labor market vacuum, allowing some form of interrelation between the training system and the labor market is in principle an important novelty. Another novelty is that also university graduates can be apprentices. This is an important novelty that hardship of university education in providing work related training to university graduates.

Nonetheless, as the Ministry of Labor (2012) noted in one of its monitoring reports on implementation of the apprenticeship law, against the expectations and the need for insertion jobs and on-the-job training of young people, the number of apprenticeship places has been unexpectedly low in all regions of the country and further reducing during the crisis time. Apprenticeship contracts have, in fact, further reduced by about 50 thousand places during the years from 2010 (530 thousand) to 2012 (470 thousand), probably because of the crisis. Figure 7 shows that apprenticeship is an opportunity for quite a large share of young people, about 14% in the country. This shows that the potential of these types of contracts is notable. The macro-areas where apprenticeship contracts are more widespread are the Centre and the North-West. The South is the area where a lower share of contracts is signed, probably also because informal work is a better alternative for cost-saving strategies of firms located there.

[Figure 7 about here]

The EU Commission (2013, Figure 2.1) provides comparative statistical information regarding the share of apprenticeship contracts in many EU27 countries as based on the EU labor force survey in 2011, hence, before the economic crisis affected the labor market of most EU countries. According to this source of information, the share of apprentices in the youth population (aged 15-29) had in Italy a medium incidence, defined as being an incidence of between 1.5 and 5%. A similar share was found also in France, Poland and Portugal. Germany was the only country with a share bigger than 5%. All other

countries for which information was available had a share below 1.5%. This suggests that the share of apprenticeship contracts is not particularly low in Italy, although being still quite low, especially if compared to the needs of the EYG.

The main reason why, although being so important, the apprenticeship contract is not much widespread in Italy is that it is squeezed between two alternative solutions, which are cheaper and more convenient for firms. On the one hand, other types of insertion contracts, such as stages and internships (tirocini formativi), are available, whereas firms may hire young people for a short time almost for free and with no obligation to provide on-the-job training to them. Instead the apprenticeship program implies the undersigning of a training program agreed by firms, education institutions, PESs and local authorities, which in some Italian regions is just very hard to do. On the other hand, temporary work contracts provide a much cheaper alternative for labor. A full functioning of the new apprenticeship law would be important for the successful implementation of the EYG, especially in consideration of the EU Commission recommendation which point to apprenticeship as one of the main channels to implement the EYG. In order for the apprenticeship program to work properly, a number of authors (ISFOL, 2012; 2013; Leonardi e Pallini, 2013; D'Agostino, 2014; Pastore, 2014b; 2014c) have suggested that some conditions to be met:

a) apprenticeship should be made simpler for firms, introducing less muddled procedures;

b) other types of insertion contracts – stages, internships, short term contracts and so on – should be either eliminated or made more costly for firms;

b) the regional government should collaborate with firms to provide adequate training courses: again this need calls for an empowerment of the PESs and a dramatic improvement of the quality of training courses;

c) some financial incentives should be provided to the firms which prefer apprenticeship to temporary contracts, such as tax reliefs on the wedge relative to apprentices, although this alone might also be not enough;

d) the educational system should be involved in the program and apprenticeship should be offered to all those interested at the technical and professional high school.

The role of apprenticeship as an alternative to compulsory education should be reinforced. It is within the agenda of Europe 2020 that the share of school dropout should reduce. In Italy, school and university dropouts are a widespread social phenomenon (Gitto et al. 2012; Aina et al., 2013). For the EYG to be successful in Italy, it is necessary to assign to each institution its own role and mission. The EYG cannot be conceived for all the jobless individuals that are there in the country. Part of them need to complete their educational track, as also Europe 2020 suggests. To such an end, alternatives to general education should be provided. One such alternative could be incentives for firms to hire on apprenticeship contracts those who have dropped out of high secondary school without a qualification or also for the other NEETs with a diploma or college degree.

Also universities should be involved in the school-to-work transition. The German type of professional universities could be an alternative for those young people who find it hard to get a university degree and come from technical or professional high school (Cappellari e Leonardi, 2011; 2012).

4. Discussion and concluding remarks

There are macro- and micro-economic factors of youth unemployment. Aggregate demand management (or the fight against austerity) is contrasted with structural reforms. Some observers, especially in North-European countries, call for aggregate demand policy as an important pre-condition for the EYG to be successful. Without expansionary fiscal and monetary policy at the EU level, structural reforms, may be ineffective in the contrast to youth unemployment. The EYG itself does not create new jobs, is the argument. And nonetheless, North European countries were the first to introduce and implement the EYG. Other more liberalist observers argue in favor of the opposite line of reasoning: aggregate demand policy will not work unless there is more flexibility in the labor market and one reduces the cost of labor.

In fact, both arguments own some right and, especially when youth unemployment is so massive as it is in Italy all components of youth unemployment coexist: Keynesian, neoclassical, as well as frictional and mismatch unemployment. Keynesian unemployment, which is due to insufficient aggregate demand,

has recently increased because of low economic growth. Without stimulating growth, the EYG is bound to fail as a tool to bring full employment.

Without some fiscal stimulus, the economic outlook will not be favorable to youth employment, despite the very low interest rates decided by the European Central Bank. But, not any public spending will do it. Public spending has increased in many Mediterranean countries in the last years, sometimes dramatically increasing the public debt and hence worsening the budget constraint on public finances. In Italy, public debt has rapidly escalated from 103 in 2008 to over 130 percent of GDP today. And nevertheless, youth unemployment has further rocketed. This means that not any public spending is helping the youth. In fact, increasing public debt may be (though it does not need always to be) contractionary if it further increases taxes and if the new taxes weigh eventually on labor incomes, hence further depressing the already very low aggregate consumption. With the Maastricht criteria, public deficit becomes soon recessive for the economy because it is immediately followed by taxes. "Spend and tax" becomes almost instantaneous, not only because of the rational expectations of operators, as some macroeconomists would argue, but also because of the EU constraints on public debt.

A discussion on aggregate demand policy cannot escape the problem of where to find the necessary financial resources and therefore either on the instruments to fight tax evasion and elusion or on an in-depth spending review. It is clear that the European Parliament should elaborate on criteria to implement an effective spending review both at the EU level and at a country level in order to free public resources for the implementation of the EYG. Labor income earners – the working and middle class – pay already too many taxes and need alternatives to raising taxes on them to support social expenditure. Otherwise, it becomes a vicious circle which will quickly put under threat our democracies, like the last Italian political elections suggest.

What criteria should a spending review follow in Italy? To answer this question, it is important to consider that the origin of the crisis lies in the introduction of the Euro currency, which has produced many benefits, but also some problems that many countries especially the Mediterranean countries have not been fully aware of. The move from a weak to a strong currency, from competitive devaluations to permanent monetary stability has meant a dramatic loss of competitiveness for the manufacturing sector which is the backbone of the economy in all Mediterranean economies. It is necessary to facilitate

the on-going structural change by providing tools to move resources from the declining low technology to the expanding high technology sectors, strengthening it through the provision of machinery endowed with advanced technology to traditional sectors, like the theory of endogenous growth would suggest. The money should be cut from traditional sectors and concentrate on promoting education, research and development and innovation. Industrial policy should be resumed to support the development of advanced industrial sectors and in creating appropriate connections with traditional sectors, both for the transfer of new technologies and to facilitate the propagation of spillovers. This should also allow moving resources and jobs from traditional to high tech manufacturing.

These measures will not have a direct impact on Neoclassical unemployment, which is due to the high cost of labor for firms. To such an end, instead of reducing wages, it would be important to improve the productivity of all production factors, through using better technology and greater human capital. It is important to reduce the labor wedge for firms also because it is going to increase the income of wage employees actually available for consumption. It is possible to fight neoclassical unemployment by also reducing Keynesian unemployment if public resources are freed from alternative less productive usages.

But also microeconomic reforms should be encouraged. In fact, youth unemployment was already high in the countries where it has increased more, such as the Euro-Mediterranean countries. The reason is that in these countries also other components of youth unemployment are massive.

Without reforming labor market institutions, frictional and mismatch unemployment will remain high. Structural reforms, are meant here not as a new labor market regulation, but the reinforcement of the PES and the re-organization of labor market institutions, will have several positive effects. First, they will reactivate a lot of jobless young people, not only the unemployed, but also the out of the labor market. In turn, this will increase the number of tax payers and, indirectly, consumption by generating a redistribution of resources from high to low incomes and especially to the unemployed. This is in fact a pre-condition for a really expansionary fiscal policy.

Also before the crisis exploded, Mediterranean countries experienced a dramatically high unemployment rate. One direction for a modern New Deal able to unite the interests of the low and the middle class could be that of increasing public spending on developing services which have been excluded from the welfare state in South Mediterranean countries.

In Central- and Northern European countries, the PESs work well and there is a problem of reducing spending in passive and pro-active schemes. In Italy, youth unemployment is very high also because the educational system and the labor market do not provide sufficient guidance to young people. If the EYG will bring the number of young people who find a job through the PES to the German level, it would be a great success. And a full understanding of the inefficiencies of the educational and training system of Mediterranean countries strongly suggest that the jobs created through structural reforms would be additional, not substitutive to existing jobs.

5. A list of priority areas

This section aims to sum up the priority areas emerged from the previous analysis for a more successful implementation of the EYG in Italy:

- a) Making austerity less binding, by:
 - a1) Excluding those components of public spending which are growth-enhancing from the accounting of the Maastricht criteria;*
 - a2) Restructuring public spending in favor of more “productive” aims;*
 - a3) Redistributing the fiscal weight in favor of labor incomes, which have shrunk by 15% of GDP in the last 20 years (Pastore, 2010);*
 - a4) Fighting tax evasion and elusion, which remain massive in the country.**
- b) Reducing the cost of labor, especially the taxes on labor incomes as well as social security contributions (Giubileo, Leonardi and Pastore, 2014);*
- c) Reforming the labor market to implement a fully-fledged flexicurity system;*
- d) Introducing fiscal incentives for employers who hire on a permanent basis, especially young people;*
- e) Improving the institutions supervising the school-to-work transition system;*
- f) Making apprenticeship work more effectively by simplifying the procedures and reducing the relative cost as compared to alternative insertion contracts (Leonardi and Pallini, 2013);*
- g) Providing income support to the jobless young people on a contractual basis.*

List of abbreviations

<i>SSM</i>	<i>5 Star Movement</i>
<i>ALMP</i>	<i>Active Labor Market Policy</i>
<i>ECB</i>	<i>European Central Bank</i>
<i>EPL</i>	<i>Employment Protection Legislation</i>
<i>EU</i>	<i>European Union</i>
<i>EYG</i>	<i>European Youth Guarantee</i>
<i>GDP</i>	<i>Gross Domestic Product</i>
<i>IMU</i>	<i>Imposta Municipale Unica</i>
<i>NEET</i>	<i>Not in Employment Education and Training</i>
<i>PES</i>	<i>Public Employment Service</i>
<i>PLMP</i>	<i>Passive Labor Market policy</i>
<i>SWTS or SWTR</i>	<i>School-t-Work Transition System or Regime</i>

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Tables and Figures

Table 1. Characteristics of school-to-work transition regimes

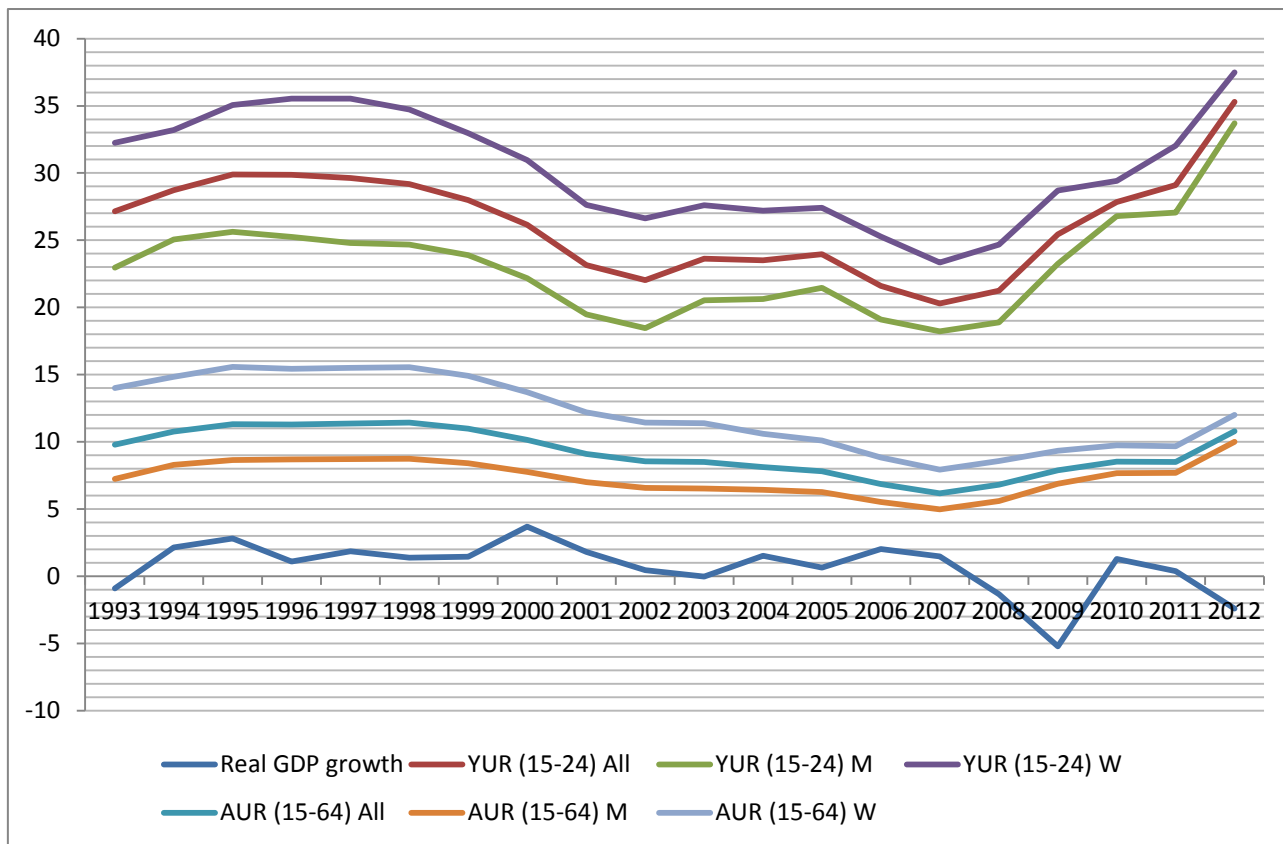
	Scandinavian	Central-European	Anglo-Saxon	South-European	East-European
<i>Educational system model</i>	<i>Sequential</i>	<i>Dual</i>	<i>Sequential</i>	<i>Sequential</i>	<i>Sequential, except for some countries which follow the dual system (Hungary and some South-European countries)</i>
<i>Mobility between curricula</i>	<i>Rigid</i>	<i>Very rigid and segmented school track</i>	<i>Flexible, both at the school and university level</i>	<i>Flexible in principle, but rigid in practice</i>	<i>Rigid</i>
<i>Education attainment</i>	<i>High secondary and tertiary education attainment</i>	<i>High secondary and tertiary education attainment</i>	<i>High secondary and tertiary education attainment</i>	<i>Low education attainment</i>	<i>High, but with some exceptions</i>
<i>ALMP</i>	<i>Very common for every young NEET</i>	<i>Common as a last resort after high vocational and professional school</i>	<i>Last resort, to be used only if leading quickly to work</i>	<i>Marginal and underdeveloped,</i>	<i>Marginal in most countries</i>
<i>PES (see Table 2)</i>	<i>Relatively efficient, well-endowed in terms of resources, based on the Ghent model</i>	<i>Strong presence of the unions, integrated with the school system, relatively efficient</i>	<i>Centrally managed, little role of trade unions, principle of horizontal subsidiarity</i>	<i>Decentralized, lack of coordination, insufficient resources</i>	<i>Relatively inefficient, insufficient resources</i>
<i>PLMP</i>	<i>Unemployment benefits for a limited period of time and awarded on a contractual basis, linked to some program, plus means-tested income support after a year, awarded by PES as based on the Ghent model</i>	<i>Similar to Scandinavian countries,</i>	<i>Similar to the Scandinavian countries, but state-based</i>	<i>Unemployment benefits but no means-tested income support</i>	<i>Unemployment benefits and means-tested income support in some countries</i>
<i>Role of the family</i>	<i>Marginal</i>	<i>Marginal</i>	<i>Marginal</i>	<i>Central</i>	<i>Marginal, except for the South-European countries</i>
<i>EPL (based on the OECD assessment)</i>	<i>Rigid, but becoming slowly more flexible</i>	<i>Rigid, but becoming slowly more flexible</i>	<i>Very flexible</i>	<i>Rigid, but with two-tier reforms</i>	<i>Quite flexible, with two tier reforms</i>

Table 2. Comparative indicators of PES in EU countries

Country	Total number of offices	Number of staff	ALMP	PLMP	Number of unemployed workers registered at	Number of unemployed per staff of PES (2012)	Index of efficiency of PES (%) (2011) (1)
<i>Austria</i>	110	4.828	SI	SI	54,0	39,2	24,4
<i>Brussels</i>	18	866	SI	NO			
<i>Wallonia</i>	145	3.602	SI	NO			
<i>Flanders</i>	20	4.010	SI	NO			
<i>Belgium</i>	183	8.478	SI	NO	48,9	43,5	12,2
<i>Bulgaria</i>	252	2.500	SI	NO	145,8	164,1	7,2
<i>Croatia</i>	122	1.315	SI	SI	246,6	206,8	5,8
<i>Denmark</i>	95	9.336	SI	NO	14,8	23,4	22,7
<i>Estonia</i>	42	519	SI	SI	80,6	132,0	7,7
<i>Finland</i>	117	3.081	SI	SI	82,2	67,1	27,0
<i>France</i>	1.173	49.159	SI	SI	65,4	57,2	7,8
<i>Germany</i>	1.100	110.033	SI	SI	26,3	21,1	18,8
<i>Greece</i>	212	3.674	SI	SI	217,1	327,7	1,5
<i>Ireland</i>	135	6700	SI	SI	66,4	47,2	2,9
<i>Italy (2)</i>	556	8.713	SI	NO	254,2	314,9	2,6
<i>Latvia</i>	29	817	SI	NO	145,6	189,8	15,0
<i>Lithuania</i>	94	1.441	SI	NO	150,5	136,6	8,8
<i>Luxembourg</i>	7	343	SI	SI	43,7	37,3	36,3
<i>Malta</i>	n/d	292	SI	NO	23,4	39,4	12,7
<i>The Netherlands</i>	36	4.365	SI	SI	130,3	107,3	9,3
<i>Poland</i>	358	23.163	SI	SI	92,8	75,5	6,2
<i>Portugal</i>	89	5.767	SI	NO	110,0	149,1	9,1
<i>UK</i>	860	77.722	SI	SI	20,2	32,3	19,2
<i>Czech Republic</i>	257	9.020	SI	SI	56,0	40,7	7,3
<i>Romania</i>	271	2.162	SI	SI	207,4	324,3	3,4
<i>Slovak Republic</i>	47	8.949	SI	NO	45,4	42,2	6,0
<i>Slovenia</i>	60	987	SI	SI	111,6	90,8	15,1
<i>Spain (4)</i>	781	21.309	SI	SI	199,8	272,7	2,4
<i>Sweden</i>	321	12.560	SI	NO (3)	17,0	32,1	55,7
<i>Hungary</i>	194	4.333	SI	SI	129,0	109,8	10,5

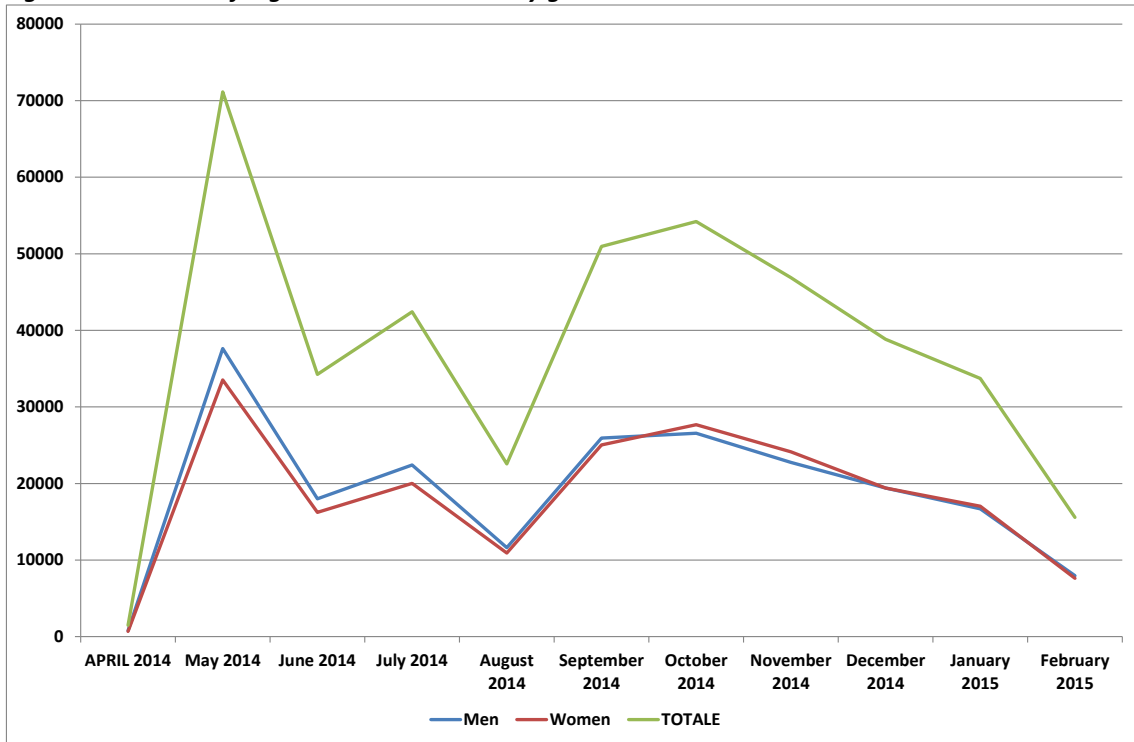
Source: Cicciomessere (2015, Tab. 3).

Figure 1. Recent evolution of the YUR (15-24 years), AUR (15-64 years) and real GDP growth in Italy



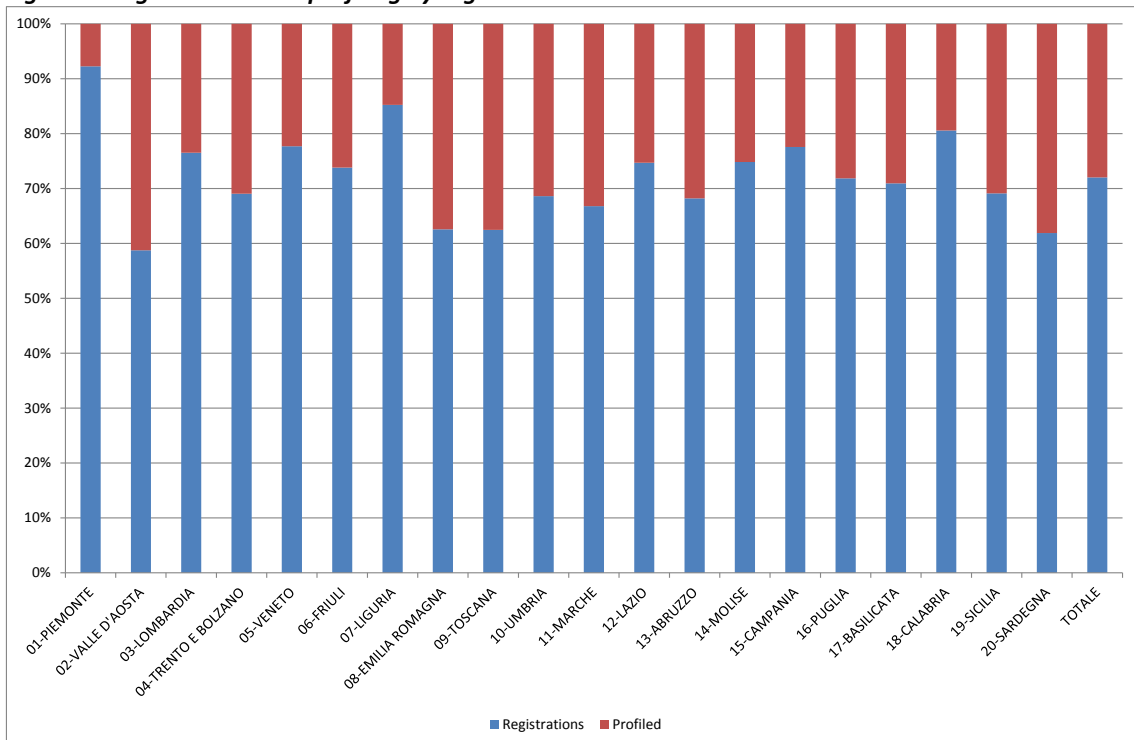
Source: own elaboration of OECD data.

Figure 2. Evolution of registrations to the EYG by gender



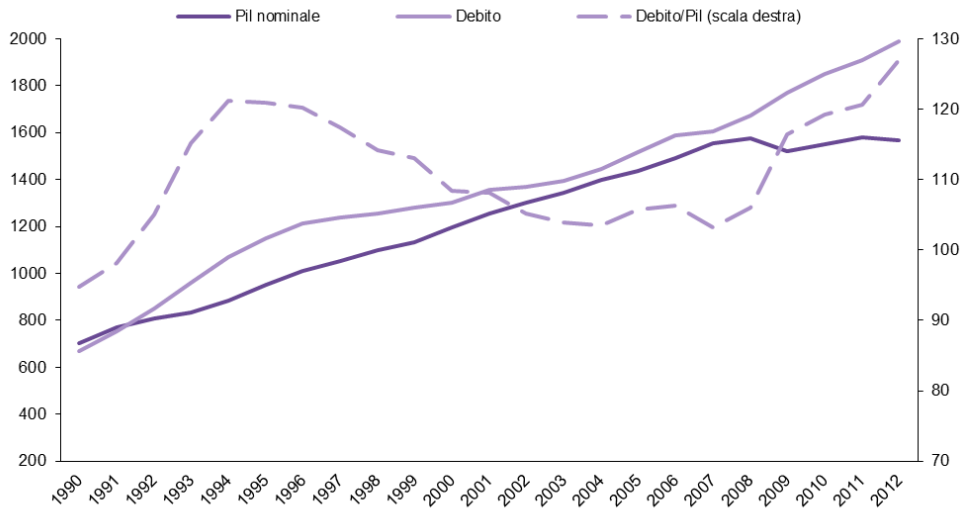
Source: own elaboration on Ministry of Labor data.

Figure 3. Registrations and profiling by region



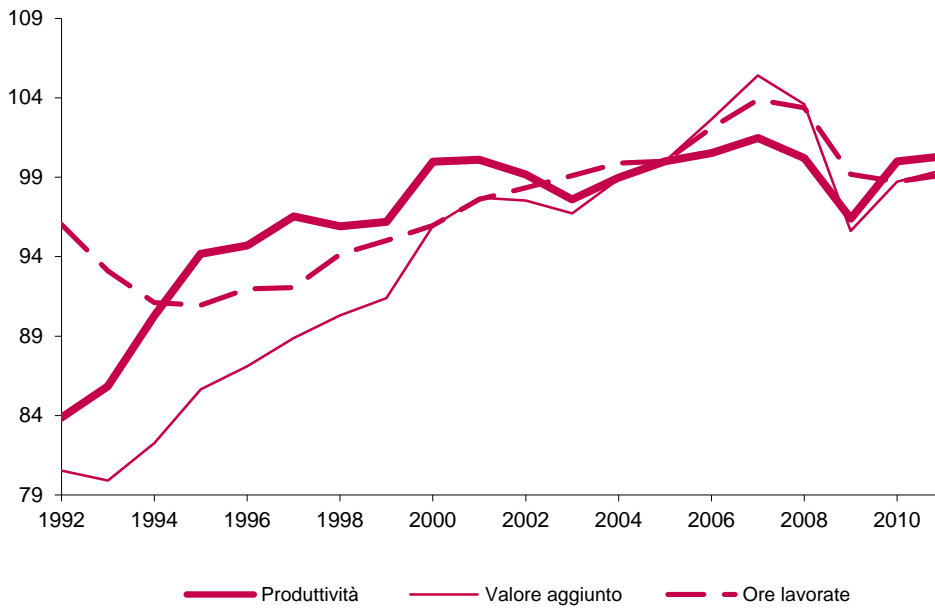
Source: own elaboration on Ministry of Labor data.

Figure 4. Public Debt, GDP and Debt to GDP ratio (1990-2012; billion euros and shares)



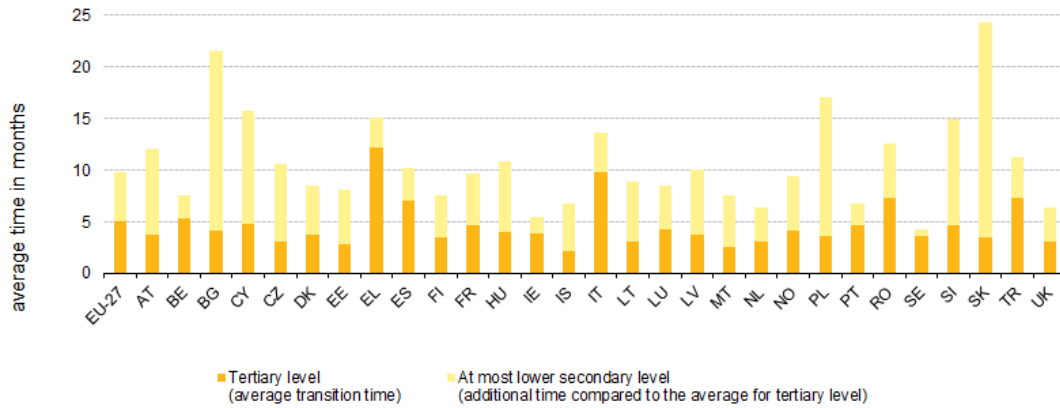
Source: ISTAT data.

Figure 5. Labour productivity in Italy (1992-2011)



Source: Istat data.

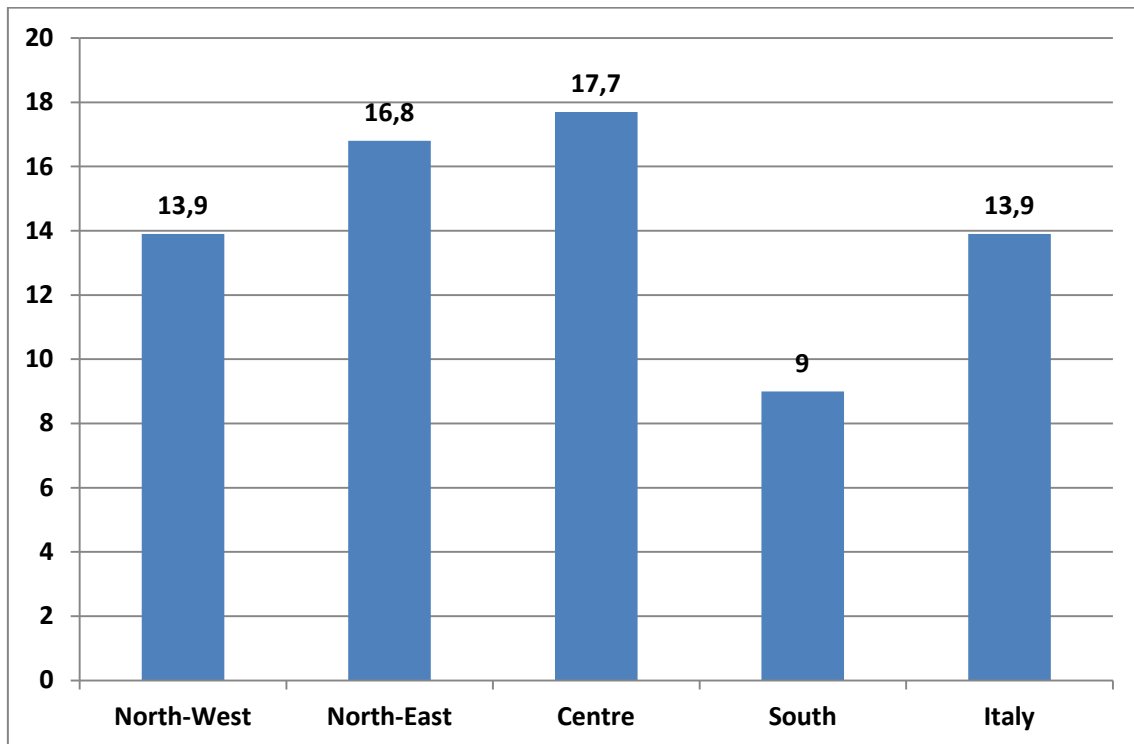
Figure 6. Average length of the school-to-work transition by educational attainment level (2009)



Notes: Results are based on people who left formal education in the last five years.
 BG, LT and SI data lack reliability due to low sample sizes for the category "at most lower secondary".

Source: Eurostat.

Figure 7. Share of apprentices over total employment by macro-area (2012)



Source: own elaboration on ISTAT and INPS data.

Short bio of the author: Francesco Pastore [Ph.D. (Sussex); Dottorato ("Federico II"); M.Sc. (Cortina-Piemonte); Laurea ("Federico II")] qualified as full professor of Economic Policy and as Associate Professor of Economics (2013) and Economic Statistics (2014). Currently, he is Associate Professor at Seconda Università di Napoli; research fellow of the IZA of Bonn; the Secretary of the Italian Association of Labor Economists; and a member of the executive board of the Italian Association of Comparative Economic Studies. He has acted as a consultant for, among others, the EU Commission, ILO, UNDP and World Bank. He has published two edited books for Springer Verlag, three special issues of the International Journal of Manpower and a large number of articles in such journals as, among others: Journal of Economic Surveys, Stata Journal, Economics of Education Review, Economics of Transition, Annals of Public and Cooperative Economics, Post-Communist Economies.

i Generally speaking, the People of Freedom is euro enthusiastic in Europe and Eurosceptic in Italy.

ii The electoral mechanisms of the two Chambers are different. At the Camera, where all the over-18 years old vote, the party who obtains the relative majority nationally gets 55% of the seats. At the Senate, where only the over-25 vote, a majority premium is assigned in each region. It means that the advantage of the government parties in terms of votes at the Senate is much smaller if the gap among leading and opposing parties is small and no party has a clear majority in all regions.

iii There is a wide debate among Italian academicians regarding the need to change in some way the EU macroeconomic policy. A number of economists proposed an appeal to ask the then Italian President of the EU, Matteo Renzi, to launch a new Bretton Woods conference of Europe (Becchetti et al. 2014). Gallegati (2014) suggests reforming the EU institutions and foreseeing stronger forms of support to the public finances of the weakest countries. Pastore (2014) suggests to overcome the Maastricht Treaty at least to allow member states implementing the Lisbon strategy.

iv See the recent self-assessment of her experience as a Minister of Labor: Forenro (2013).

v The proposal of a single contract is due to Tito Boeri and Pietro Garibaldi (2007; 2010) in a number of contributions published on www.lavoce.info.

vi Although, already from 2003, the apprenticeship contract of type one has been an alternative to compulsory education for those who require it, nonetheless, as a matter of fact, it has been rarely used and is not integrated in the educational system.