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Getting it right. Youth employment policy within the EU

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Getting it right. Youth employment policy within the EU

Francesco Pastore[§]

Abstract. This essay discusses the determinants of youth unemployment within the EU and then the alternative policy options currently at stake. We argue that youth unemployment regards especially some peripheral EU countries and is due to a mix of factors that should be addressed more vigorously, starting from expansionary fiscal and monetary policy. The guiding line should be to reform the Maastricht Treaty so as to allow eacg EU country to reach the Europe 2020 targets. Moreover, especially in the peripheral countries drastic reforms of the school-to-work transition regimes are needed, including not only the European Youth Guarantee, which is underfinanced, but also the introduction of better links between the education system and the labor market. The past emphasis on labor market reforms, instead, should be reconsidered.

JEL classification: H52; I2; I24; J13; J24.
Keywords: Youth Unemployment; Maastricht Treaty; Europe2020; School-to-Work Transition; Dual Education System; European Youth Guarantee; Work related learning; EU.

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Introduction

This essay aims to assess the employment and education policy implemented in EU countries to address youth unemployment, perhaps the most important social problem of the EU. It is an occasion to provide an overall evaluation of a number of interventions which have been implemented in various EU countries in this field.

For shortness' sake, in several points, the essay follows Pastore's (2015a) suggestion according to which school-to-work transition (SWT) regimes overlap to welfare state regimes n such a way to form something similar to the Esping-Andersen (1990) classification. Each regime is different from the others for the way it addresses the youth experience gap, namely the lack of general and job specific work experience, the only component of human capital able to generate work related skills. Within the EU 5 SWTR can be detected: a) "Continental European"; b) "Scandinavian"; c) "Liberal"; d) "Mediterranean European"; e) "Post-communist". This is the traditional Esping-Andersen's classification, plus the so-called Latin Rim and the new EU member states. For shortness sake, for each regime, we consider the case of a specific country assumed to be the most representative one of that SWTR, namely: Germany, Sweden, the UK, Italy (or Spain), Poland, respectively. Each regime is featured by sa specific strategy for reducing the youth experience gap: a) the dual system in Central-European countries; b) active labor market policy in the Scandinavian regime, where the Youth Guarantee has been invented; c) high quality education and flexible labor market in the Anglo.Saxon countries; d) temporary work and family help in the Latin Rim. The post-communist regime swings between strong labor protection and new employment policy.

The outline of the essay is as follows. Section one lists some stylized facts regarding youth unemployment within the EU. Section two addresses the macroeconomic constraints imposed by the Maastricht Treaty and the so-called Fiscal Compact to the effort of peripheral countries in reaching the Europe 2020 pre-conditions for economic growth. Section three discusses the possible objectives and tools of educational reforms. Attention is lent also to the European Youth Guarantee (EYG). Some concluding remarks follow.

1. Stylised facts

As shown in Figure 1, everywhere within the EU, the youth unemployment rate is higher than that of the adults. There are only few exceptions, notably Austria, Germany and few other Anglo-Saxon countries which tend to behave differently according to the SWTR they belong to. Pastore and Giuliani (2015) show that the best performing countries are the Anglo-Saxon countries and the Central-European countries. Both have a lower youth unemployment rate throughout the economic and financial crisis, but the Anglo-Saxon countries, with their more flexible labor market are easier at worsening their labor market performance during economic crisis and are easier at improving it when the crisis comes to an end. Instead, Central European countries, although having on average a higher average unemployment rate, nonetheless discriminate less young people based on their age and are much less sensitive to business cycle fluctuations.

Being sensitive to the business cycle is positive according to the liberalist view, since it is accompanied by creative destruction, but still involves greater individual and social costs. Besides, Central European countries are also endowed with better social security provisions to help the unemployed and their families to cushion against the crisis.

[Figure 1 about here]

An indicator that is less affected by the business cycle is the relative disadvantage of young people, as measured by the ratio of theirs to the adults' unemployment rate. Figure 2 reports a long series of this indicator for countries representing different SWTRs. Interestingly the best performing country is Germany where the ratio is fluctuating around the value of one, meaning equal distress for young and adult people. This is the sign of specific labor market and, above all, education institutions, which are able to protect young people from the hardship of the business cycle.

The Figure also shows that cross-country differences in the relative disadvantage are quite stable reflecting institutional differences in the school-to-work transition regime. The latter include all the institutions that govern the transition, from the education institutions, to the degree of employment protection in the labor market, the employment services, and the family. These institutions and the rules on which they act affect the relative success of young people at the labor market.

[Figure 2 about here]

The recent reforms of the labor market have followed the two-tier scheme, with reducing hiring and firing costs only at the margin for the new entrants into the labor market. Instead, the typical labor contract has remained full-time and permanent with strong protection against individual and collective dismissals. It is only in recent years that some especially South European countries have increased the cost of temporary workers in terms of social security contributions and costs of dismissals. At the same time, the most recent reforms have reduced and, above all, defined the exact amount of severance pay based on the actual length of jobs in cases of firing for economic reasons. Fixed severance pay cost has meant much lower legal costs and also no informal costs for firms to pay to avoid being put on trial by employees claiming to be reinstated on their job. This was in particular the aim of the Italian Jobs Act approved by the government of Matteo Renzi in 2015.

It is too early to assess the impact of the new labor market reforms on the youth unemployment rate and the ratio to the adult unemployment rate. Nonetheless, as a matter of fact, in those countries, such as Italy, where the legislation has started to regard not only temporary workers, but all workers, the degree of employment protection legislation, as measured by the OECD indices. is clearly shrinking starting from 2012 (OECD, 2017).

Nonetheless, to put it in the simplest possible way, no labor law has ever generated new jobs. Labor laws make the labor market more flexible and efficient so as to allow firms hiring more convincingly during periods of economic growth.

And here it comes the underlying point of this discussion. As shown in Figure 3, economic growth has been missing in peripheral areas for too long and no matter the commitment of governments in making tough reforms, reforms which are undermining their consensus, there are no clear results without economic growth on the youth and also the adult unemployment rate. Figure 3 clearly shows that growth has been very slow in all peripheral countries of the EU.

In turn, this suggests us to ask whether the EU has any theory of growth and any effective policy to stimulate it. Our opinion, which we develop more fully in the next section is that the EU is far from agnostic about economic growth, but does not fully implement its guidelines for growth. .

[Figure 3 about here]

Last, but not least, a fact is that in all peripheral areas spending in education is low and, beyond spending, the educational sector is inefficient and has not sufficient links with the labor market. There are many studies already on employment protection legislation and we don't want to discuss this still in what follows, but rather focus on policy issues related to economic growth and the best way of reforming the educational system.

2. Overcoming the Maastricht Treaty

Populist parties in Europe depict the EU as a supranational organization aiming to represent only the interests of autocrats, bureaucrats, banks and other financial institutions. This is essentially because of the Maastricht Treaty and the strong constraints that it imposes on fiscal and monetary policy within each member state and also at the EU level. The monetarist theoretical principles which are behind the Maastricht Treaty are well known and have been discussed already many times (De Grauwe, 2006)).

What matters from the point of view of this paper is that the Maastricht Treaty represents a strong constraint to the implementation of the Lisbon strategy, which, according to several EU councils decisions, represents the most important strategy to achieve a stable economic growth. In a sense, the Lisbon strategy could be considered the soul and the heart of the EU, in opposition to the Maastricht Treaty which is perceived by all as the straightjacket of the EU..

Within the context of Europe 2020, the reason why most peripheral countries do not experience a sufficient economic growth to absorb the soaring youth unemployment is that the relative targets are far from reached. In fact, Europe 2020 assumes that countries grow when the human capital of the population is high and investment in R&D are sufficiently high. Moreover, in a continent which is energy dependent, it is important that environmentally friendly policy be developed.

But which are exactly the Europe 2020 criteria and where are EU countries in reaching them? The criteria are as follows:

1. Employment
    - ✓ 75% of the 20-64 year-olds should be employed
2. R&D / innovation
    - ✓ 3% of the EU's GDP (public and private combined) should be invested in R&D/innovation
3. Climate change / energy
    - ✓ greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990
    - ✓ 20% of energy from renewables
    - ✓ 20% increase in energy efficiency
4. Education
    - ✓ Reducing school drop-out rates below 10%
    - ✓ at least 40% of 30-34–year-olds completing third level education
5. Poverty / social exclusion
    - ✓ at least 20 million fewer people in or at risk of poverty and social exclusion

Table 1 reports the state of advancement of selected countries in reaching the Europe 2020 criteria as reported on the dedicated website of the European Commission. Again we consider a country, the most representative, for each SWTR. Column 1 reports the criterion; column 2 reports the EU2020 target; the following columns report the current values reached in each country. Inspection of the Table clearly shows that some countries (Germany, UK, Sweden) have reached already most of the EU2020 targets. In fact, the EU2020 targets are based on the experience of these Northern and Central European countries considered to be a kind of best practice, although their level is not always the highest in the world, especially if compared to the USA and some Asian countries. Instead, Italy and Poland are lagging behind on many targets. Italy, one of the most developed countries within the EU, still is far from reaching all the targets, not only the educational targets, but also the environmental ones, although the country has a special competitive advantage in some of these fields for obvious geographical reasons.

[Table 1 about here]

If we have to interpret the Europe 2020 criteria as based on an underlying theory of growth and, therefore, the incapacity of South and East European countries to reach them as a causal explanation of their low growth rate, then we should ask: Why these countries have so many problems in reaching such targets?

The first obvious reason is the Maastricht Treaty, as already mentioned above. The Lisbon and Maastricht treaty are actually following two different and partly opposite recipes regarding economic growth. They are based on two theoretical models from an economic point of view. The Maastricht Treaty reflects the so called Washington consensus whereas monetary and financial stability is a necessary and also, in the long run, sufficient condition for reaching economic growth. Instead, the Lisbon strategy assumes that economic growth requires also important infrastructural investment in the accumulation of human capital, in the quality of education, in the environmental infrastructure and in R%D. But if EU countries have to follow the Maaastricht Treaty and also the other related financial commitments, such as the Fiscal compact, it is clear that we are jeopardizing their ability to reach the Europe 2020 targets.

The euro is becoming even more clearly in most EU countries another unsurmountable obstacle to reaching the Europe2020 criteria. At least, this is what the public opinion perceives. The last political elections in most EU countries and especially in the South and East European countries have become a contest not anymore between center-right and center-left parties, but rather between euro-enthusiastic versus euro-skeptic countries. Still the former are winning in most countries, but it is not hard to foresee that this might not be the case in the near future if the EU does not change the strategy. As a matter of fact, Eurosceptic parties were the exceptions only few years ago. Now, they tend to represent about a half of the electorate.

But what should be done, then? it is clear that we need a less shy monetary and fiscal policy at the EU level. The experience of quantitative easing in the USA and other countries shows that economic growth is not a direct, positive correlate of the overall amount of money supply available in the economy. Most probably, the USA Federal Reserve made an overshooting of money supply with respect to the actual needs of the economy, but it is also quite apparent that the European Central Bank did not do enough under this respect and that the quantitative easing was so small to appear totally irrelevant. Something in the middle could be found to accompany and foster economic growth in the EU.

Moreover, it is time to re-discuss the Maastricht Treaty and re-write it on new bases. EU countries should, on the one hand, find ways to implement a timely and effective spending review. The latter should be done in each branch of public administration following a bottom-up approach, not an upside-down approach only. Fiscal decentralization is not sufficient, because it is effective only if the local public opinion has a high social capital and decides to vote for the most virtuous parties rather than the most nepotistic. Otherwise, fiscal decentralization is conducive to increasing, not reducing public spending (Mauro and Pigliaru, 2013).

On the other hand, though, it is necessary to invest more in favor of the activities which are actually able to foster economic growth. Public spending should be continuously evaluated and its impact on growth should be assessed continuously. Systematic policy evaluation is also an important tool for public spending. Only spending which is effective should be maintained.

In addition, it is time to re-define a far more important EU fiscal and regional policy, which are currently absolutely insufficient. This implies re-discussing the aims and, therefore, also the size of the EU budget. It is in the Mandell and Fleming model of the optimal currency area that regional policy should be used as a tool to equalize chances among regions of the monetary union. However, spending on regional policy is absolutely insufficient and with the strong

budget constraints imposed to single governments also regional policy at the national level is sharply reducing, if non-existent in recent years (for the case of Italy, see Viesti, 2011).

No doubt then if peripheral regions are seeing their gap from core regions further increasing in terms of infrastructure and growth. Regional differences are certainly the consequence of state failure, but also of market failure: with reducing regional policy, the regional divide within EU countries is further increasing not reducing (Bongardt and Torres, 2013). This explains also part of the youth unemployment rate.

3. Better links between education and the world of work

The previous section has addressed macroeconomic aspects. They are certainly very important and without a dramatic change of pace and direction in macroeconomic policy, microeconomic policy is bound to fail. No matter how deep labor reforms have been in most peripheral countries, they have generated no economic growth and no job creation per se. However, thanks to those reforms, peripheral countries are ready to catch the opportunities in terms of job creation when economic growth will come again. First of all, we need to foster a stable and robust economic growth at this very moment.

Nonetheless, also important microeconomic reforms are needed to reduce youth unemployment in the long run. After having focused our attention on labor market reforms in the last two decades, it is now time to focus mainly on educational reforms. In our view, they are even more important. But which are the problems to address and what are the solutions?

Reforms should affect the education system to remove a number of problems experienced by young people. Such problems make in most countries, especially in the peripheral countries, and especially in the South of Europe, the SWT extremely slow and harsh:

a) high dropout rate, at all levels of the educational career, from primary, compulsory, secondary and tertiary education, which is also a target of EU2020;
b) in many countries, university education is lasting too long, causing delayed graduations with respect to the curricular years (Aina et al. 2013);
c) technical education and vocational training is still lacking or it is of low quality in too many countries. In those countries where technical and professional education can give access to the university, it has lost it original function;
d) as a consequence, the education system, both at the high secondary and tertiary level conveys mainly general competences, rather than the work related ones. Still the education system assumes as its mission to generate general education, rather than the all-round human capital;
e) this makes also the transition to a permanent job extremely slow and hard, since firms require job related competences, not he general ones possessed by students (so called “work experience trap”);
f) as a consequence of the deficit in their knowledge, young people have to start accumulating work experience after completing their education on their own, which means that they can more easily develop general work experience in short term jobs, rather than job-specific work experience which requires long periods of work experience (Pastore (2015);
g) the bargaining power of insiders further strengthens, therefore increasing rather than reducing the downward pressure of youth unemployment on wages (Bentolilla and Dolado, 1994; Bentolila et al., 2012);
h) the strong educational mismatch for both high secondary school diploma holders and university graduates: overeducation is reaching high levels also in countries with a low

level of tertiary education attainment (European Commission, 2013; Caroleo and Pastore, 2017).

To address these issues, it is necessary to implement reforms of the educational system in various directions. The first reform should imply a move towards more flexible rather than rigid education systems. An education system is flexible when it allows:

a) moving easily from one track to another (e.g. from classical to technical education) and from one field of study to another at the university (Hammer, 2003);

b) getting a university degree in the curricular time, which implies, among others, fostering courses' attendance, providing more teaching hours and tutoring activities.

:The Bologna reform, which introduced the 3+2 system in most EU countries went in the right direction, but was not fully understood for it was lacking an adequate process of democratization. The reform needs now a re-assessment to understand what did not work and how to make it work.

The dual principle should be introduced at all levels of the education system instead of the sequential education principle. According to the latter the only mission of the education system is to create general education, while work related skills, the other components of the human capital should be gained after exiting from the education system. However, this generates a number of problems as already mentioned above. The various components of the human capital are complementary, not substitute of each other and can be better developed if they are generated together.

Training should be provided together with general education. Technical and vocational education and training should be reinforced at the school and at the university level. It is important to introduce he dual principle in all its forms, from work related learning to full apprenticeship at school and after school.

The *Buona scuola* reform of 2015 has recently introduced work related learning (so-called *alternanza scuola-lavoro*) in Italy at the level of high secondary school, if not yet at the university level. Work related learning is not yet apprenticeship, as it is based more on the Scandinavian, rather than the German tradition (Giubileo, 2016; Maisto and Pastore, 2017).

Work related learning goes together with the recent implementation of the European Youth Guarantee. The latter, however, has had only a limited impact in most EU countries, involving e.g. in Italy less than 1% of the youth unemployed (under 29 years of age) for a number of reasons: a) the slow growth mentioned in the previous section; b) the inefficient organization of public and private employment services; c) the unpreparedness of the institutions which should implement the policy from the local to the national level (Pastore, 2015).

The recent reform of employment services in Italy (decree n. 150 of the Jobs Act) goes in the right direction, but for a number of reasons has not yet been implemented. The reform foresee the introduction of a quasi-market system for the management of employment services, with a complementary role of public and private agencies. State agencies are in charge of the profiling of the youth unemployed and of the definition of vouchers and the basket of services, which are to be provided by private agencies (Giubileo et al., 2013).

However, work related learning and the European Youth Guarantee are not enough to fight the aforementioned youth experience gap and the work experience gap. Despite the obvious difficulties of importing the German apprenticeship system, it is important that this is done in all EU countries. It should maybe be implemented not in a rigid way like in Germany and not in all technical and professional schools, but still every EU countries should introduce it in the schools who wish to introduce it. If it is useful and effective, it will spread on its own rapidly. The impression is that also firms would like to have something like the dual apprenticeship system also in peripheral countries (see also Eichorst et al., 2915).

Last, but not least, to favor a smoother STW transition, other reforms aimed at establishing better links between the educational system and the labor market should be implemented. Such links can follow three models:

1. German dual system;
2. Direct links of schools and universities with perspective employers: *Jisseki Kankei* in Japan;
3. Job placement services in Anglo-Saxon countries.

We have already discussed the German system. Let now compare the other two systems. The idea of establishing links of between educational institutions and perspective employers has two general models. The Japanese *Jisseki Kankei*, well described in Mitani (2008) among others, is able to place about 30% of graduates from high school immediately after obtaining their diploma, thanks to capillary links between firms and schools. Schools have an important role in assessing whom to suggest to firms for the type of job vacancy they have, based on the personal knowledge they have of the talents and competences of youngsters.

The Anglo-Saxon model of job placement is less capillary and controlled by schools and universities, but not less effective. The principle behind it is that, after all, nobody knows better than the individuals themselves and firms. Consequently, the role of schools and universities should be simply to provide placement services by spreading information about possible job vacancies among young graduates both at the high secondary school level and at universities, so that each young person chooses his/her own way.

Both have advantages and disadvantages. More effort should be put by educational institutions at the EU level to develop closest, more capillary and direct links with the labor market. This means developing immaterial infrastructures of the SWTR which are not less important than rooms and other physical structures. It is not enough that these activities be developed occasionally and randomly. They should become structured, with their own staff, financial resources and recognised role within educational institutions at all levels.

Concluding remarks

This essay has developed an interpretative framework to understand and assess the possible effectiveness and also shortcomings of youth employment policy at the EU level. We have shown that the countries where youth unemployment is still very high despite the end of the world financial and economic crisis are the peripheral ones at East and South. In some EU countries, the youth unemployment rate is over 40% and the ratio to the adult unemployment rate is above 3, meaning that young people have more than 3 times the chances of adults to experience unemployment.

The main reason why this is the case is that high youth unemployment countries experience sluggish economic growth. If we have to follow the EU policy framework, and especially the principles stated in the Lisbon strategy, the reason of the low economic growth is to be found in the low level of human capital attainment, the low level of spending in R%D, the low level of energy savings. In other words, the Europe 2020 targets are very far from being reached and an important reason why this is the case is to be found in the Maastricht Treaty and the Fiscal Compact. They should be re-discussed in depth so as to allow greater fiscal and financial flexibility. Moreover, there should be a much more energetic monetary and fiscal policy at the EU level. This, in turn, requires bringing up the contribution of member countries to the EU budget to at least 4-5% of the countries' GPD. We know that this statement will make the nose of many readers to wrinkle, but it is the only way forwatd.

From a microeconomic point of view, considering the emphasis and the effort that we have already put on labor market reforms in the last two decades and the little results attained, our suggestion is that we should focus on educational reforms instead from now on. Education systems should become more flexible, informed to the dual principle, assuming as its mission the formation of all-round human capital, rather than only general education and providing better links to the labor market. Education systems need important reforms and investment, which should not be blocked by the constraints set by the Mastricht Treaty and the Fiscal Compact.

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Appendix of Tables and Figures

Table 1. State of advancement in Europe 2020 criteria in selected countries

	EU target in 2020	Italy	Uk	Germany	Swe
Employment rate in %	75%	67-69%	No target	77%	Ove
R&D as % of GDP	3%	1.53%	No target	3%	4%
CO2 emission reduction target	-20% as compared to 1990	-13%	-16%	-14%	-17
Renewable energy	20%	17%	15%	18%	49%
Energy efficiency. Reduction of energy consumption	-20% (=368MTOE)	158 MTOE	177.6 MTOE	276.6 MTOE	43.4
Early school leaving in %	10%	16%	No target	<10%	<10
Tertiary education in %	40%	26-27%	No target	42% (incl. ISCED 4)	40-4
Reduction of population at risk of social exclusion	- 20mlns	-2.200.000	2010 Child poverty act	- 320,000 LTU	<14 202

Figure 1. Unemployment rate by age groups in selected countries (2000-'15)

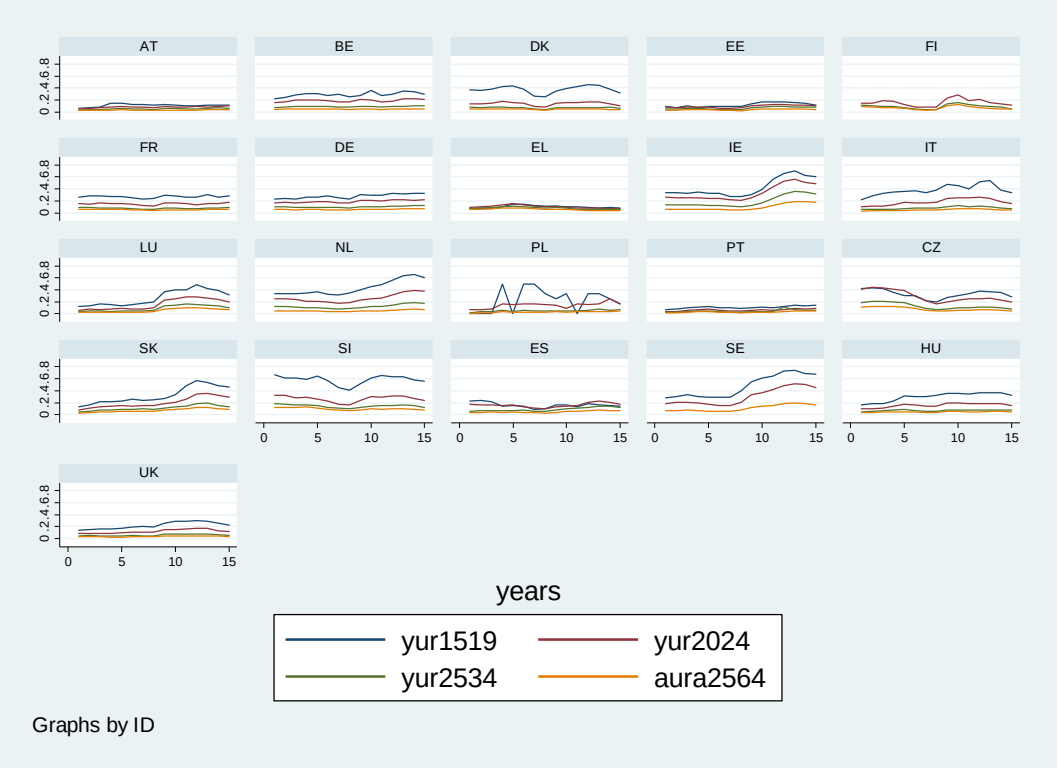

Figure 2. Ratio of youth to adult unemployment rates in selected countries (1970-'15)

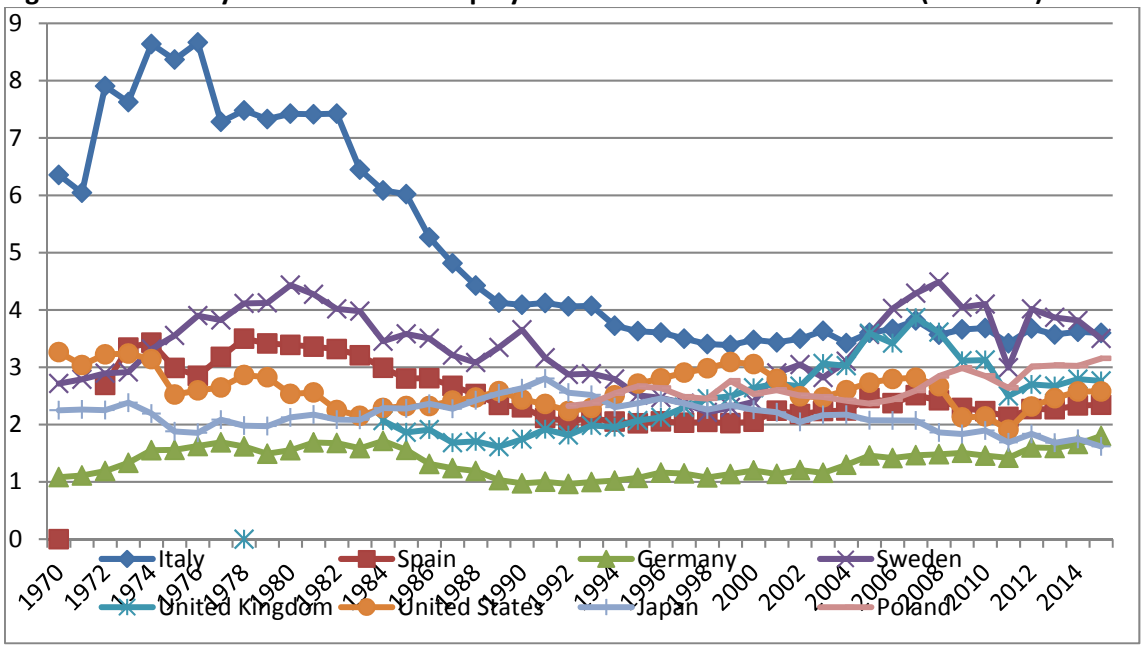
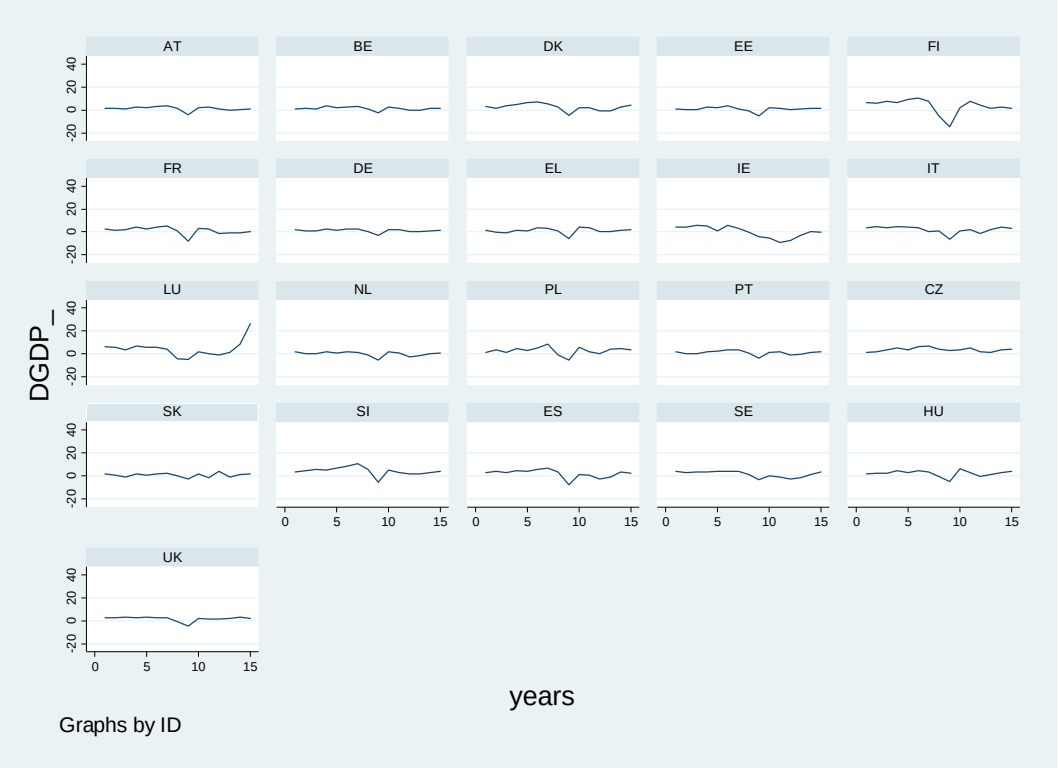
Figure 3. GDP growth in selected countries (2000-’15)