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## Promoting youth employment in Europe: Evidence-based policy lessons

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POLICY PAPER SERIES

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## ABSTRACT

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# Promoting Youth Employment in Europe: Evidence-based Policy Lessons

Youth unemployment has become a severe economic and societal problem in many European countries. Based on the existing empirical evidence on different policy options, this chapter draws lessons for future policy making in order to effectively promote youth employment in Europe. In conclusion, one should not be overly optimistic by expecting any short-term remedies. Although effective policy tools are available, they largely require forward-looking structural reforms.

**JEL Classification:** J08, J13, J21, J24, J38, J61, J68, J88

**Keywords:** labor policy, labor market institutions, vocational education and training, employment protection, minimum wage, activation

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## 1 Introduction

Young individuals are a particularly vulnerable group in the labor market. Their unemployment rate typically exceeds that of the adult generation (see, e.g., O’Higgins, 1997),<sup>1</sup> which is, among other things, related to the fact that all youth face the critical barrier of entering the labor market. While youth unemployment has been increasing globally over the last years, the increase has been particularly strong in some (but not in all) European countries. Considering the impact that the Great Recession had on these labor markets, it is not surprising that youth unemployment rates increased. In fact, a fall in aggregate demand increases youth unemployment in a relatively similar way as it affects overall (or adult) unemployment (Eichhorst and Rinne, 2015a).

Based on the existing empirical evidence, this chapter draws policy lessons to promote youth employment in Europe.<sup>2</sup> We mainly review relevant policy options in two broad fields: a) the institutional framework governing the youth labor market, in particular the school-to-work transition regimes involving vocational training and the regulation of the labor market in the areas of employment protection and minimum wages, and b) passive and active labor market policies and their combination via activation strategies targeted at young people.

After reviewing the existing empirical evidence in these areas, we conclude that one should not be overly optimistic by expecting any “quick fixes” to solve the problem of youth unemployment. Although effective policy tools are available, the most effective require forward-looking structural reforms as well as a macro-economic environment that boosts labor demand. More attention should be paid to paving the way for a medium-term integration of young people into gainful and productive employment so that they can benefit from and contribute to a more dynamic economy. In this respect, we find that there are a number of promising strategies, but there are also quite a few approaches that lead to disillusioning effects.

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<sup>1</sup> Throughout this paper, we use the UN youth definition (15 to 24 years) and the ILO unemployment definition (see, e.g., O’Higgins, 1997, for a discussion of both issues).

<sup>2</sup> This chapter is based on earlier work by the authors, in particular Eichhorst and Rinne (2015a) and Eichhorst and Rinne (2015b).

## 2 The Institutional Framework

Important institutional settings and public policies influencing youth labor market outcomes are mainly found in four areas: a) vocational education and training; b) minimum wages and c) employment protection; and d) activation measures and active labor market policies. While the remainder of this paper deals extensively with the fourth area, we give an overview about critical issues in the first three areas next.

### 2.1 School-to-work Transitions and Vocational Education and Training

Vocational education and training – as well as general education – play a crucial role in preparing young people for the labor market. First, low-qualified youth face high risks of unemployment and exclusion. Their unemployment rates generally exceed those of their higher-qualified peers (see, e.g., Bell and Blanchflower, 2011). Second, vocational education and training are core factors in smoothing the transition from school to work. In this context, the quality of the education system is very important in ensuring the skills of the labor force fit the needs of the labor market, and thus can help to avoid educational mismatch. Third, one should distinguish between general education and vocational training, where the latter can be further divided into school-based training, on-the-job training, and dual apprenticeship systems (i.e., a combination of the former two).

What is the relative effectiveness of different types of vocational training on the labor market outcomes of participants? In general, the empirical evidence on this issue is rather scarce – and almost exclusively refers to high-income countries, but existing studies are summarized in Zimmermann et al. (2013) and Eichhorst et al. (2015). Accordingly, cross-country studies typically find a comparative advantage in countries with a dual apprenticeship system (e.g., Quintini and Manfredi, 2009) – although this relationship is not necessary causal. Country-specific studies also identify a relative advantage of dual apprenticeship training, in particular with respect to early labor market outcomes, as this initial advantage fades over time (e.g., Winkelmann, 1996; Plug and Groot, 1998; Bonnal et al., 2002; Parey, 2009).

It thus appears that dual apprenticeship systems are most effective in smoothing school-to-work transitions of young individuals. Youth completing school-based vocational education and training do as well as (and sometimes better than) if they had instead remained in purely academic studies (Eichhorst et al., 2015). This is particularly the case when the occupation of the training matches the future career path. Rigorous studies evaluating the effectiveness of vocational education and training show that vocational training makes the transition to gainful employment easier and may improve wage and employment outcomes, in particular for low-ability youths and those working in low-skill jobs (Eichhorst et al., 2015). In several settings, an extension or prolongation of the academic schooling for these youth does not result in additional gains in terms of labor market entry, but instead may entail an increased risk of dropout.

Comparing across types of vocational education and training, the dual system, which is very prominent in a number of continental European countries including Germany, is more effective than alternative academic or training education at helping youth transition into employment; though no wage differences are observed. Hence, it seems fair to say that vocational training elements generate some added value both to employers providing training and to the trainees, and they facilitate the timely entry into more stable and better-paid jobs at the beginning of the working life.

Yet, given that economic and institutional conditions are highly diverse across industrialized countries, when it comes to promoting vocational education and training, policymakers need to take into account the resources available and to build on them. The ideal type of a dual vocational education and training model relies on the support of important societal groups that are involved, namely employers, young people and their families, trade unions, and the government. Hence, while Germany's dual system may serve as a role model for other countries (see, e.g., Eichhorst et al., 2015; Zimmermann et al., 2013), it is generally not advisable to simply copy the German model. Establishing a dual vocational training model is a demanding task that requires a longer-term perspective. Structural reforms to revive the economy and reduce entry barriers to employment are also needed. Since most countries already have some form of vocational training program, they could start with existing elements to bring vocational education and training closer to employer and labor market needs.

## 2.2 Minimum Wage Legislation

Labor costs can be a substantial barrier in the transition from school to work – in particular for low-qualified young job seekers as highlighted by Cahuc et al. (2013). A number of studies document the detrimental employment effects for young people when a minimum wage is set too high (e.g., Abowd et al., 2000; Kramarz and Philippon, 2001; Neumark and Wascher, 2008). As a general rule, studies on labor demand effects estimate that a 1 percent increase in labor costs reduces employment of the low-skilled, a group in which unemployed youths represent a large proportion, by 1 percent (Cahuc and Carcillo, 2012).

Other studies, however, find that effects for young workers are not necessarily negative. For example, Portugal and Cardoso (2006) study the short-term impacts of a substantial minimum wage increase that specifically affected this population group in Portugal during the mid-1980s. They show that the share of teenagers among newly hired workers decreased – a somewhat expected result which is in line with standard theory. Second, and somewhat unexpected, they find that the share of teenagers in job separations strongly decreased after the minimum wage increase; and this increase even compensated the reduced share of hired young workers.

Similarly, Hyslop and Stillman (2007) document a positive labor supply response by teenagers when in their study of a large minimum wage increase for this population group in New Zealand in the early 2000s. While they find no evidence of adverse effects on youth employment immediately following the reform, and only weak indications of such effects later, they find a substantial increase in teenagers' working hours, wages and total earnings. However, total employment effects were mitigated by increasing unemployment, inactivity and benefit receipt; in addition, educational enrollment also decreased after this minimum wage reform.

A way to circumvent or hedge potentially negative effects (or, more generally, any effects) of minimum wages for younger workers is to incorporate exemptions from minimum wages for this population group, such as age limits or reduced rates. This is, for example, the case in the Netherlands: A specific feature of the Dutch minimum wage system is that the minimum wage rate incrementally increases with a young worker's age (from 30% of



the minimum wage at age 15 until the maximum at age 23). Kabátek (2015) analyzes the impacts of this particular legislation on worker flows and he shows that apart from potentially positive effects on the levels of youth employment (as documented in the two studies discussed above), the age-dependency of minimum wages introduces completely new dynamics into the labor market flows of young workers.

In conclusion, the introduction or adjustment of minimum wages affecting young workers can lead to quantitatively important distortions. Although these distortions do not necessarily lead to detrimental impacts on youth employment, they are very context-specific and may substantially change employment dynamics. It is thus very important to closely monitor and evaluate not just employment stocks and wage levels after a minimum wage reform, but also employment flows and wage changes.

### 2.3 Employment Protection Legislation

The phenomenon of high and persistent unemployment, in particular in Europe, has often been attributed to labor market rigidities caused by high levels of employment protection. In response, and because employment protection for permanent jobs has proven difficult to change, many (European) countries have liberalized or deregulated fixed-term contracts in recent years. As a result, temporary jobs have emerged as a major form of employment in Europe, reaching more than 20% of total employment in countries such as Spain or Portugal and more than 15% in Sweden or France, even after a drop following the 2008/09 recession (Eichhorst, 2014).

The rationale behind the deregulation of fixed-term contracts was to create additional job opportunities and better employment prospects, in particular for labor market “outsiders” and entrants – such as young workers. Indeed, the segmentation of the labor market between permanent contracts and fixed-term contracts (and other forms of flexible or non-standard employment) appears to affect young people more strongly than other population groups. But while reforms liberalizing temporary contracts have created additional entry options into the labor market, in particular for youths in many European countries, there is strong evidence that these policies generate a highly fragmented labor market with a secondary segment of jobs characterized by excess labor turnover and very

limited possibilities of a successful transition from fixed-term to permanent positions. This is aggravated further if no systematic vocational training is involved.

For countries such as France, Spain, Italy or Portugal, studies have found a high risk of repeated spells of temporary employment and unemployment so that the process of liberalizing fixed-term contracts can in fact be seen contributing to severe youth unemployment (see, e.g., Cahuc and Postel-Vinay, 2002; Blanchard and Landier, 2002). An important function of fixed-term contracts is that they allow for the screening of workers in the presence of strict dismissal protection. However, their potential as a stepping stone to permanent employment is undercut if there is a strong degree of segmentation in labor markets. If that is the case, the labor flexibility motive of employers (i.e., the demand for temporary jobs with high turnover) ends up outweighing the screening function (Eichhorst, 2014).

While the stepping stone hypothesis assumes that it should be rather easy and efficient to convert good job matches initially formed as fixed-term contracts into permanent positions, the empirical support for this argumentation is mixed. The alternative “entrapment hypothesis” has shown to be empirically relevant in this regard. It assumes that employers change their recruiting behavior when fixed-term contracts can be easily offered and become very reluctant to offer open-ended contracts. This would then lead to dead-end jobs, temporary contact work and high turnover rates. In a review of relevant, and sometimes conflicting studies, Eichhorst (2014) concludes that the effect of the liberalization of fixed-term contracts is mixed. In particular countries where the level of dismissal protection and other labor market regulations remains unchanged run a high risk of creating a dual labor market. In such a regime, many fixed-term workers, in particular the young, are trapped in a secondary segment of flexible jobs with low chances to move from temporary to permanent employment.

We thus conclude that the evolution of fixed-term contracts has to be closely monitored. In this context, the available evidence calls for reforms to ease the regulatory divide in national labor markets and to strengthen the vocational training content during fixed-term jobs – in particular when they are offered to young workers.

### 3 The role of labor market policies

One crucial area of institutional settings and public policies influencing youth labor market outcomes is the area of activation measures and active labor market policy. These type of instruments appear especially relevant because they are typically implemented within a given set of institutional and economic constraints – and are thus independent of broad and comprehensive structural reforms. The role of activation measures – and active labor market policy – has been a core pillar and essential element in many governments' efforts to promote youth labor market integration in a situation of crisis.

#### 3.1 Unemployment Benefits, Activation, and ALMP Spending

Active labor market policy and activation measures were designed to promote labor market integration by reducing job-finding obstacles, thereby increasing the probability of entering employment successfully. Specific instruments include, for example, job-related training that improves skill levels and productivity of job searchers, or hiring subsidies designed to compensate for lack of work experience and other deficits. Five main types of active labor market policy schemes can be distinguished:

1. Job-search assistance,
2. Training programs,
3. Subsidized employment with private employers (usually based on temporary contracts),
4. Direct job creation and public employment programs,
5. Start-up subsidies, self-employment assistance and support.

In addition, it is important to take into account different country contexts. By adhering to the activation paradigm, most high-income countries such as OECD countries and EU member states link benefit receipt with participation in measures of active labor market policy. Hence, benefit receipt is made conditional upon active job search effort and the availability of the unemployed to participate in different measures of active labor market policy. This approach has emerged as a generally accepted method to avoid work

disincentives stemming from unconditional benefit access. Rather, activation measures work to incentivize and support at the same time (Immervoll, 2012).

Activation measures include the enforcement of rigorous eligibility criteria for benefit recipients along with the provision of effective re-employment services (Immervoll and Scarpetta, 2012). Hence, participation in active measures is not voluntary, but it is required to maintain access to benefits and avoid sanctioning. This type of activation implies a systematic articulation and interaction of benefit systems and active labor market policy programs following the lines recommended by the OECD Jobs Strategy and other advisory contributions. It requires both access to social benefits and an elaborate, efficient delivery of active labor market policy programs. In such a system, the access to unemployment benefits, as well as minimum income support, works as a mechanism for the administration to remain in contact with young people after they have left the schooling system.

The advantage of an activation orientation of these policies is that it helps to mobilize jobseekers into employment and avoid benefit dependency. All countries with a well-developed system of income support for the unemployed can benefit from a strong employment-focused activation system which includes job search and matching assistance, reducing barriers to employment and implementing sanctions when recipients fail to comply with the requirements. However, although these form the key pillars of a strong system, there is no unique formula for effective activation, and the implementation has to be country-specific (OECD, 2013).

The recent financial and economic crisis led to an increasing number of unemployed and therefore raised costs for unemployment benefits as well as escalated the need for jobseekers' support for reintegration into work services and other active labor market policy programs. In general, activation strategies are implemented at the local level by the Public Employment Service (PES), sometimes with support of private providers of job placement and training services. The PES targets people of working age who are unemployed but could work and are in receipt of unemployment benefits conditional on compliance with employment and job search related requirements (Immervoll and Scarpetta, 2012).

Access for young people to unemployment benefits is, however, limited in most EU countries, both with respect to insurance and assistance benefits. Unemployment benefits are conditional on contributions to an unemployment insurance scheme for a minimum period of time and/or on a minimum period of working days. The amount of unemployment benefits depends on the age, the duration of the previous occupation and the overall unemployment insurance contributions of the unemployed person.

In most countries the amount of unemployment benefits is dependent on previous earnings. In a number of countries means tested unemployment assistance provides continued benefit entitlements once insurance benefits expire. Some countries also have an entrance age which varies from 15 to 17 years. In most cases, young people entering the labor market and having not made any contributions to unemployment benefit insurance are unlikely to be eligible for unemployment benefits. Some countries offer unemployment assistance for those who are not qualified for unemployment benefits.

To ensure receiving benefits, jobseekers have to be immediately available for work and accept suitable job offers. As part of job-search assistance and monitoring, most countries follow a practice of intensive obligatory interviews between the jobseeker and an employment advisor. However, the frequency of such interviews varies. Beneficiaries are also required to report regularly on their job-search effort, while the PES refers unemployed clients to vacant jobs (Immervoll and Scarpetta, 2012).

The expenditure for active labor market policy varies significantly across EU countries, from less than 0.1% of GDP in Romania and the UK up to 1.4% of GDP in Denmark<sup>3</sup>. While the amount of expenditure on income support is strongly counter-cyclical, spending on active labor market policy programs tends to react only moderately to business cycles in most countries (with the exception of Nordic countries). Because of the lack of strong responsiveness during a recession, the amount of spending on active labor market policy programs per unemployed person has a tendency to decrease while unemployment is rising. It therefore becomes more difficult to service job seekers effectively. When unemployment is high, independent job-searching is more difficult, which implies that the

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<sup>3</sup> There is no specific data for youth-related programs.

unemployed may depend more on job-search assistance and other labor market programs (Immervoll and Scarpetta, 2012).

Some countries pursuing an activation agenda have tightened conditions, reduced benefit durations, or introduced more demanding behavioral requirements (see in particular Langenbucher 2015). The number of countries in which the unemployment benefit is conditional on certain requirements has grown significantly. But the degree of strictness varies and is country-specific. The eligibility requirements for young jobseekers are usually stricter than for adults. Also, the starting point of activation programs begins earlier or immediately after becoming unemployed. At the same time, national Youth Guarantees stimulated by the EU approach to combat youth unemployment are especially designed to protect and ensure support for unemployed young people. Thus, under these programs, unemployed youth have the duty and right to be employed.

Nevertheless, in many European countries, young unemployed people have no access to unemployment benefits, especially if they have never worked. Social benefits should be ensured where appropriate to provide social security. At the same time, effective and efficient activation measures and conditionality should ensure that benefits are only awarded if the young person is actively engaged in job search or in further education or training (Lahusen, Schulz and Graziano, 2013).

### 3.2 Assessing the Effectiveness of ALMPs and Activation

Given the broad range of available active labor market policy schemes that could be part of activation strategies, a crucial question is to determine what kind of measures are most effective; and if so, in which contexts. For example, are programs differently effective in times of crisis, or does their success depend on the institutional background? This section assesses the potentiality of different programs (in different contexts). However, this exercise should be viewed as an interim assessment of potential and actual effects and is based on currently available evaluation studies. Moreover, the currently available evidence mainly assesses the effectiveness of a single measure, i.e., a given program that is often part of a broader activation strategy.

Zimmermann et al. (2013) provide an overarching summary of the available empirical evidence which is in turn based on summaries included in different studies (e.g., Card et al., 2010; Martin and Grubb, 2001; Quintini et al., 2007). However, the program effects may not necessarily reflect the specific effects for the group of young individuals. In this context, Card et al. (2010) and, more recently, Card et al. (2015) and Kluve et al. (2016) note that most active labor market policy schemes that are specifically targeted at young unemployed individuals seem *less effective* than broader schemes targeted at the unemployed in general and that no general hierarchy of types of interventions can be established, at least in developed countries. However, they also point out that with proper targeting and in recessions, the effects of ALMP participation might be more positive (due to a different pool of participants). At the same time, there is compelling evidence pointing towards the important role of profiling, early interventions and following-up with those young people who are most vulnerable, both with respect to activation at an early stage of unemployment (e.g., Martin and Grubb, 2001; Quintini et al., 2007) and early in life (e.g., Heckman, 2000; Rodriguez-Planas, 2012).

Hence, in order to draw more specific conclusions, in particular for the group of young unemployed individuals, it is useful to review available evaluation studies of specific programs applied in specific contexts, i.e., mainly at the national level. This, of course, may have the disadvantage of only being able to draw conclusions that are not necessarily generalizable. On the other hand, it is likely more relevant to be able to rely on *specific* conclusions for a given context. The empirical evidence on the impact of youth interventions is vast; thus, we focus on a limited number of selected studies below. This exercise should nonetheless allow us to draw a comprehensive picture—at least to some extent.

For example, Caliendo et al. (2011) analyze the effects of participation on subsequent labor market outcomes in various active labor market policy measures for unemployed individuals below the age of 26 in Germany. When using a random sample of young unemployment entrants in 2002, the authors are able to assess the effects on short-term as well as on long-term employment probabilities for participants relative to non-participants. Results are as follows: First, they find that participation in public sector job creation schemes is harmful for employment prospects in the short run and ineffective in

the long run. Second, for the remaining active labor market policy measures, effects are generally positive. However, the strongest effects in terms of long-run employment outcomes are found for participants in wage subsidy strategies. In terms of the heterogeneity of effects with respect to skill level, the authors report that almost all programs improve the labor market prospects of high- and medium-skilled youth to a greater extent than those of low-skilled youth.

Similarly, Larsson (2003) investigates the effectiveness of two active labor market policy measures for youth in Sweden in the early 1990s, namely a subsidized work program in both the public and private sector (“youth practice”) and a training program. Her results indicate zero or negative short-term impacts of both programs on participants’ subsequent labor market outcomes and mostly zero or slightly positive long-run effects. She also reports that treatment effects are more positive the better the business cycle. In a comparative perspective, the youth practice program appears less harmful to participants than the training program. Finally, rather than to infer from her results that participants would have been better off had there been no programs at all, she points out that her results should be interpreted with the perspective that it was better to wait and postpone the decision to participate. As is the case in many countries (such as in Sweden or Germany), any individual can and probably will enter some active labor market policy measure after a sufficiently long unemployment spell.

Centeno et al. (2009) analyze the effects of participation in two different job search programs that were implemented in Portugal in the late 1990s. In particular, one of the two programs was specifically targeted at the younger unemployed (less than 25 years old) at an early stage of their unemployment spell (i.e., before they had been registered as unemployed for 6 months). This program provided job search assistance to its participants, which in turn included mandatory participation in vocational guidance, counselling, monitoring, and training. Results indicate that the program targeted at the younger unemployed had negative effects, i.e., it prolonged the unemployment durations of participants compared to non-participants. The authors argue that this “modest” result could be explained by the lack of wage subsidies as an additional element of assistance.



Hohmeyer and Wolff (2012) analyze the effects of participation in the so-called “One-Euro-Jobs” in Germany, a program following a welfare-to-work or workfare approach to activate welfare recipients on a larger scale. When separately assessing effects for different socio-demographic groups, they find negative employment effects for welfare recipients younger than 25 years and welfare recipients whose last job ended during the year prior to program start. In contrast, positive employment effects are found to be relatively strong for some older age-groups and for people who were not regularly employed for more than one year. The authors conclude that this particular program is effective for the longer-term and older unemployed, but appears harmful for other groups – including the youth unemployed.

In stark contrast, De Giorgi (2005) reports positive effects for a related program in the United Kingdom: the New Deal for Young People, a major welfare-to-work program. Explicitly targeted at 18 to 24-year-old unemployed youths, the specific design of the mandatory program – a combination of job search assistance, training, wage subsidies and job experience – increases the employment of its participants by about 5 percent. The author argues that this specific program is one of the few examples of an effective welfare-to-work policy because of: the nature of its participants (which are not particularly disadvantaged), the incentives set through significant sanctions for non-compliers, and the particular combination of different measures aimed at improving participants’ human capital.

Finally, Caliendo and Künn (2013) study the effectiveness of two different start-up subsidies for unemployed individuals in Germany under different economic conditions by comparing the labor market outcomes of the program participants with those of other unemployed individuals. While businesses run by participants in the first subsidy program experience slightly longer firm survival, higher income and more job creation in favorable areas, businesses run by participants in the second subsidy program experience a negative relationship between business success and economic conditions. The authors argue that limited job opportunities in areas characterized by deprived economic conditions probably encourage participants in the second subsidy to remain self-employed. Participants in the first subsidy program appear quite similar to general business founders, while participants in the second subsidy program are rather atypical

and different from general business founders. Still, a regression analysis shows that both programs are effective policy tools and increase future employment probabilities and earnings of participants. Hence, their results confirm the promising evidence of the effectiveness of start-up subsidies for the general population of the unemployed. In addition, they find that start-up subsidies are especially helpful for young and/or low-educated workers.

Taking into account the available findings regarding the effectiveness of active labor market programs specifically targeting young people, we can clearly see that these instruments cannot solve massive youth unemployment alone – especially when labor demand is weak and when larger structural reforms are needed. Furthermore, not all active programs are equally effective, and their effectiveness also depends on the general functioning of the labor market. Attention should also be paid to paving the way for a medium-term integration of young people into gainful and productive employment. Here, evaluation findings that deal with subsidized temporary employment suggest that it is not necessarily a good path into regular employment as it can lead to repeated fixed-term employment – particularly in segmented labor markets and when training is underdeveloped. Subsidized employment, preferably located in the private sector, should be combined with substantial job-related training with employers to increase the employability and productivity of young people. Start-up support can be a useful tool to create jobs for young people and to contribute to a more dynamic development of the economy, particularly in a difficult economic environment. Structural reforms lowering institutional barriers to employment facilitate the working of activation policies.

When initial education has been completed, activation policies can play a certain role in promoting youth employment. Activation schemes in terms of job search assistance, monitoring and sanctioning should also not be suspended in a situation of crisis and high unemployment when labor demand is weak. Even in such a situation, which can generate long-term benefit dependency that will be hard to overcome regardless of an improving economic environment, early intervention makes sense.

For example, job search assistance can be relatively effective in the short run, and it is often combined with monitoring and sanctioning. While monitoring and sanctioning certainly have to play a crucial role in any activation strategy as necessary ingredients of

actual benefit conditionality, sanctioning should not be too excessive, but well-balanced and complemented with suitable supportive measures – in particular in the case of young people as they might otherwise leave the labor force (see also Caliendo and Schmidl, 2016).

Monitoring and sanctions during periods of benefit receipt are central policy tools allowing public employment services to keep track of young people, but also to check (and potentially react on) compliance or noncompliance of the unemployed through introducing obligations as part of activation policies. Such obligations can, for example, be defined in terms of accepting suitable job offers, participating in offered active labor market policy schemes, sending out a specific number of applications, or being present at meetings with the caseworker. Non-compliance with any of such obligations may result in a sanction. This could imply, for example, that welfare benefits are reduced for a specific time period, or even completely withdrawn. Sanctions therefore set incentives to comply with job search requirements, and they ultimately aim at increasing the transition rate from unemployment into employment (by combatting moral hazard).

Monitoring is a necessary tool to detect noncompliance of the unemployed with their obligations. However, the effect of monitoring alone is usually not analyzed. Instead, the empirical literature mainly focuses on the effects of sanctions on various outcomes, most importantly on the transition from unemployment to employment. Additionally, the implementation of a system of monitoring and sanctions generally requires a specific level of capacity in the public employment service.

The available empirical evidence on the effects of sanctions can be summarized as follows (see van den Berg et al., 2014, and references therein): First, most studies detect a positive impact of sanctions on job-finding rates. Second, evidence also points towards an increased probability of leaving the labor force and welfare receipt. Third, some studies suggest negative impacts of sanctions on job match quality, i.e., wages are lower and/or jobs are less stable. Fourth, findings suggests that an increased use of sanctions reduces their effectiveness (van der Klaauw and van Ours, 2013). Finally, although the vast majority of empirical studies do not explicitly focus on youth, some research indicates

that the effectiveness of sanctions increases with age (at least up to a certain age; van den Berg et al., 2004; van der Klaauw and van Ours, 2013).

A recent study, however, explicitly analyzes the effects of sanctions for youth. Van den Berg et al. (2014) study the impacts of sanctions on transition rates into employment for the young unemployed in Germany. Based on an inflow sample of young male welfare recipients in Western Germany in 2007 and 2008, their results confirm the positive impacts of sanctions on the transition rate into employment. When distinguishing between mild and strong sanctions, they find that each type of sanction leads to an increased transition rate to work, but that this effect is higher for strong sanctions. However, as part of the sanctioning effect is due to the fear of intensified monitoring after the punishment, the authors argue that in the case of a first punishment during an unemployment spell it is not necessary to give the maximum possible sanction. Finally, van den Berg et al. (2014) also find that the effects of sanctioning do not depend on their timing within the welfare spell, i.e., on the moment they are imposed.

## 4 Conclusions and Policy Issues

Youth unemployment has become a major issue in Europe with remarkable differences across EU member states, pointing to the fact that institutional features such as labor market regulation, minimum wages, vocational training systems, but also benefit regimes and activation strategies play a major role in facilitating, or hampering, a smooth transition of young people into the labor market. We can see that countries with more generous benefit systems tend to have larger active labor market policy programs in general, but also some specifically targeted for young people, as well as more systematic activation schemes that are implemented to make the receipt of benefits conditional upon proactive participation in activation measures and job searches. Access restrictions embedded in benefit systems tend to affect young unemployed people in particular, and in some countries activation policies are stricter and more demanding for young people than for the prime-aged unemployed.

In general, and despite some variation in programs and implementation, benefit conditionality is a generally accepted principle in the design of unemployment protection

schemes in mature emerging economies; and requirements to access and remain within the benefit system are quite restrictive for young people in many countries. Where unemployment benefit systems are more limited or lacking, active labor market policy programs usually have different intentions as they are often implemented as a means to transfer income to poor regions and groups in society.

Against this backdrop, and when taking into account the available findings regarding the effectiveness of active labor market policy programs and activation strategies specifically targeting young people, we can clearly see that ALMPs and activation cannot solve massive youth unemployment alone – especially when the macroeconomic environment generates weak labor demand and when larger structural reforms are needed to revive the economy. Furthermore, not all ALMPs are effective, and their effectiveness also depends on the general functioning of the labor market.

Nevertheless, activation policies can play a certain role. First, activation schemes in terms of job search assistance, monitoring and sanctioning should not be suspended in a situation of crisis and high unemployment when labor demand is weak. Even in such a situation, early intervention makes sense. Access of young people to benefit systems also enables the public employment service to keep track of youth before they become long-term unemployed or inactive. In countries with well-developed benefit systems, establishing operative delivery agencies is an essential contribution to the effective delivery of activation strategies. This, of course, also calls for an appropriate regional presence of agencies. They should not only monitor and sanction jobseekers but also organize suitable support programs from the ALMP toolbox tailored to the needs of the target population. ALMP programs, when used to test the availability of job seekers for work, should always be designed in a way that they generate added value in terms of improved employability. Monitoring and sanctioning certainly have a crucial role in activation as they are necessary ingredients of actual benefit conditionality – however, sanctioning should not be excessive, but fair (and combined with supportive services), in particular in the case of young people.

Rather, in the current situation, the focus should be placed on encouraging a medium-term integration of young people into gainful and productive employment so that they

can benefit from and contribute to a more dynamic economy. As has been shown by the evaluation literature, temporary employment does not usually provide a smooth transition into regular employment, especially in segmented labor markets and when training is underdeveloped. Therefore, subsidized forms of preferably private sector employment should be combined with substantial employer-provided job-related training to increase the employability and productivity of young people. Furthermore, start-up support can provide a useful option for young people and help to contribute to a more dynamic development of the economy, particularly in a difficult economic environment. Of course, structural reforms lowering institutional barriers to employment facilitate the working of ALMPs and activation. This calls for reforms that will ease the dualization of labor markets (temporary vs. permanent contracts), lower the barriers for self-employment and will create closer interaction between schools and employment, specifically via dual vocational training.

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