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Youth Unemployment in Europe: What to Do about It?

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ABSTRACT

Youth Unemployment in Europe: What to Do about It?*

Youth unemployment has become a severe economic and societal problem in many European countries. This paper gives an overview of the current situation and assesses different policy options. It emphasizes the role of stronger intra-EU mobility of young workers, policies to make vocational training systems more effective and to adjust employment protection as well as activating labor market policies. However, short-term remedies are not available, despite the fact that the EU has announced massive European initiatives. Rather, European countries should take the opportunity of the crisis to implement forward-looking structural reforms.

JEL Classification: J24, J64, J13

Keywords: youth unemployment, vocational training, Europe, fixed-term contracts

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Strikingly high youth unemployment in some member states of the European Union is not only challenging national labor market policies, but also courts danger to Europe as a whole. In the long run an entire generation is running the risk to be without any employment perspectives in their own country and not without reason policy making is blamed for that. That is why the EU faces, besides massive economic losses, a serious lack of acceptance among young people who originally should shape its future. The long-term consequences—from social tensions and the danger of political radicalization to potential “brain drain” out of Europe—would be immeasurable. Although demographic change will bring relief to European labor markets in a few years and high qualified people will have better prospects than now, that is little comfort for today’s unemployed youths.

Alarming Statistical Evidence

The dimension of the problem can be illustrated by some statistics: Currently in Spain there are about one million people aged between 15 and 24 out of employment, in Italy more than 600,000. There as well as in Greece and Portugal the number of young people out of employment has significantly increased during the past five years (see Figure 1, p.3). Adding the figures of only these countries especially affected by the financial and economic crisis, one can observe an increase of nearly 800,000 persons to about 2 million unemployed people aged 25 or younger. The situation in the United Kingdom is problematic as well: The country is far away from its relatively low unemployment rates continuing just till the middle of the last decade. A persistent increase starting in 2004 has nearly doubled the number of unemployed young people from 500,000 to nearly one million in 2012; the growth was 250,000 people from 2008 to 2012 alone.¹ The increase of unemployed adolescents in France was in fact lower in the same period, but with a number of 700,000 young people without employment stagnating for already four years, the country faces severe problems, too.

Unemployment among young people in the Netherlands has significantly increased—albeit on a much lower level. In Sweden it has been persisting for already four years on a historic high level. Ireland recently managed to lower its youth unemployment, but the increase since 2008 was all the more rapid. Although unemployment among young people in Poland today ranges clearly below its peak during the period from 2000 to 2006, it continues to rise measurably since its low in 2008. In contrast, Germany is the only country in the EU—except from recently decreasing rates in the Baltics—where youth unemployment has been continuously decreasing. Actually, the number of unemployed young people was more than halved, from its peak in 2005 to less than 370,000 people today. Notwithstanding, in the “old”

¹ See, e.g., Bell and Blanchflower (2010, 2011a, 2011b) who analyze the situation of youths in the United Kingdom. Their analyses also involve comparisons to the United States.

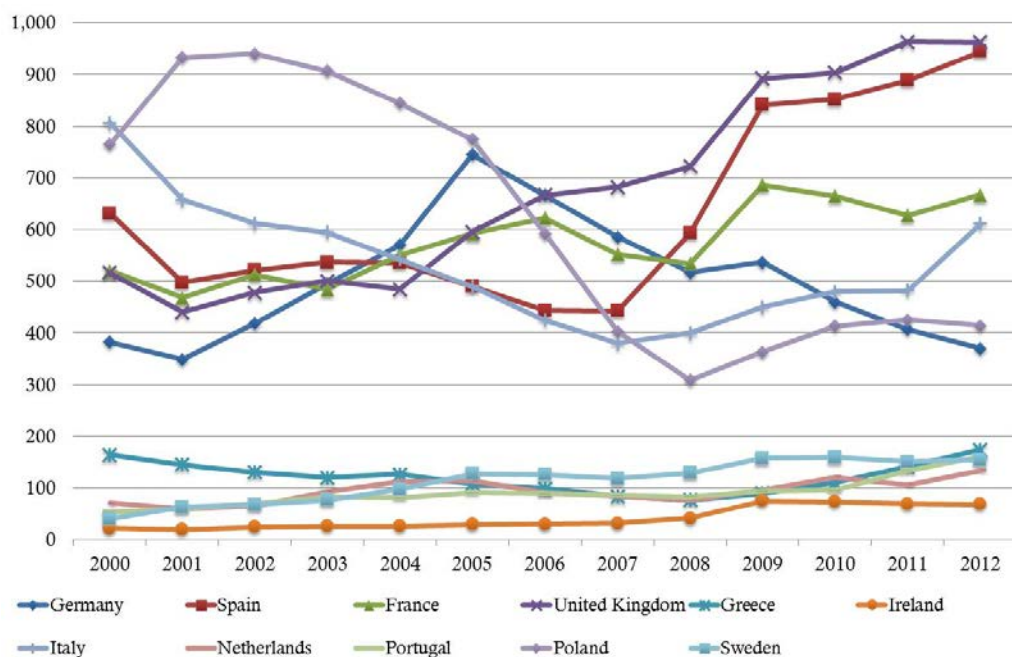
EU-15 alone at the end of 2012 there were 4.5 million young people out of employment, and more than 5.2 million in the 27 EU member states.

These figures underline the urgency to introduce measures tackling youth unemployment both at the national and the European level. But the partly dramatically high unemployment rates (see Figure 2, p.3) are even more alarming: Amongst all European countries, only Norway (2012: 8.5%), Switzerland (8.4%), Austria (8.7), the Netherlands (9.5%) and Germany (8.1%) have presented single-digit rates for young people during the last three years or longer. Concerning the EU one can detect: Only three out of 27 countries exhibit youth unemployment rates of less than 10 percent. The average rate in the EU was nearly 23 percent in 2012. Significantly higher rates can be observed in Ireland (30%), Slovakia (34%), Italy (more than 35%), Portugal (nearly 38%) and, above all, in Croatia (43%), the former Yugoslavia (already for years 54% and higher) as well as in the widely discussed crisis countries Spain (53%) and Greece (more than 55%). Especially there—in Spain and Greece—the youth unemployment rate has rapidly increased during the last five years and, compared to 2008, it has doubled. There is little hope that it could be significantly reduced in a similarly short period of time. A differentiation by gender results in a very mixed picture for the EU. Across Europe, women and men are affected by the negative effects nearly to the same degree, but the relations in the certain countries did not change.

Considering increasing qualification requirements in highly competitive labor markets, it needs no further explanation for the fact that unemployment is especially high among low-qualified adolescents in all EU countries compared to the unemployment risk of young academics that is lower than the average of their age group. Nevertheless, the strong increase of unemployment among young academics is striking. The average unemployment rate of this group increased from “only” 12 percent in 2008 to nearly 18 percent in 2012 in the EU. Unemployment among academics in 2008 and 2012 for all age groups was only about 4 and 6 percent, respectively. These high figures for people younger than 25 are still whitewashing the severe situation of this age group in Greece (52% against 18% for all age groups), Spain (40% vs. 15%), Italy (33% vs. 7%), Portugal (39% vs. 12%), and Romania (29% vs. 6%). Further reason to concern is given by the fact that the share of long-term youth unemployed at any level of qualification and in all EU countries has sharply increased to a third of the unemployed in this group. Thus, after a significant but temporarily decrease it has returned to its level in 2012. Summing up all negative trends, one observes enhanced risks for labor market exclusion, human capital depreciation, and demotivation among youths in the EU.²

² The European Foundation for the Improvement of Living and Working Conditions assumes that the number of “discouraged” adolescents across the EU has doubled to more than 700,000 in the period from 2008 to 2011 alone (Eurofound, 2012). Because of complete inactivity they do not appear in any official unemployment statistics.

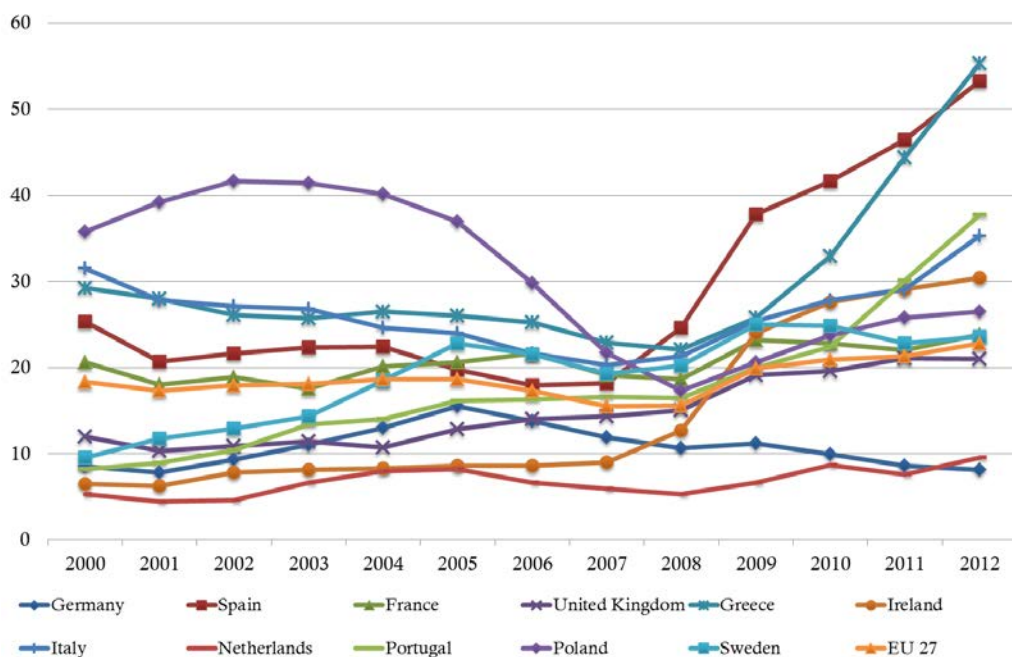
Figure 1: Youth unemployment (absolute numbers) in selected countries (2000-2012)



Source: Eurostat.

Notes: In thousands. Youth unemployed aged 15 to 24 years.

Figure 2: Youth unemployment rate in selected countries (2000-2012)



Source: Eurostat.

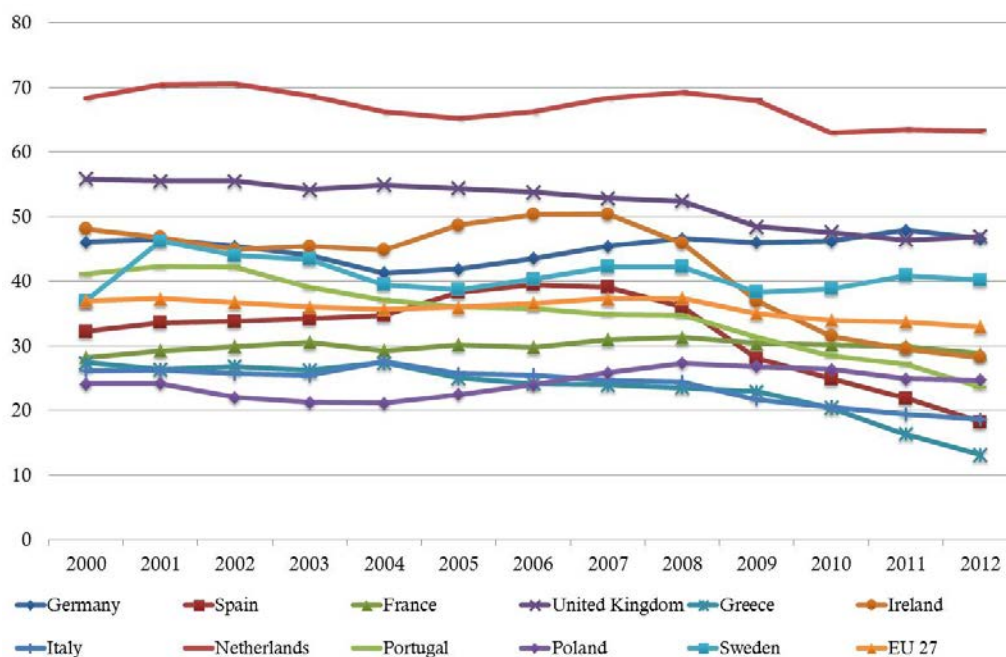
Notes: In percent of youths aged 15 to 24 years.

Of course, among persons aged 15 to 24, for whom unemployment figures are collected on the European level (Eurostat) as well as by the OECD, a significant share is still in training, studying without being employed at the same time or using extended and additional education to escape (potential) unemployment. Thus, they cannot really be assigned to the group of people generally available to work. But the common definition of the youth unemployment rate sees this group as a share of the overall working population (employed and unemployed). It is therefore likely to be too high compared to any other age group. Eurostat thus calculates an alternative measure by taking unemployed adolescents as a share of the overall population of the same age group (unemployment ratio). At a lower quantitative level this statistic also exhibits the same development: Youth unemployment, as described above, has significantly increased and only a few countries managed to stop the negative trend so far.

Latest employment rates confirm this overall picture. In countries where youth unemployment rates have risen, a significant decrease of employment in the same age group can be expected. Especially for Spain, Portugal, and Greece—where youth employment rates have been already low since 2000—one can observe a sharp drop particularly after 2008, which can be attributed to the impact of crisis (see Figure 3, p.5). In 2012 the youth employment rates in Spain, Italy, and Greece (there most striking) were even lower than 20 percent. Also Ireland suffers from a remarkable collapse in youth employment, whereas in the UK relatively high rates have decreased more moderately and are currently (2012) on par with Germany. In almost every EU country part-time employment in the group of people aged 15 to 24 grew slightly, whereas only in a few countries (Spain, Italy, Ireland, and Poland) fixed-term employment in temporary contracts increased. Across the EU, however, temporary employment remains rather stable when compared to its pre-crisis level (see Figure 4, p.5; see also Eurofound, 2012).

It is therefore not surprising that the share of young people in training or higher education has increased in many EU countries since 2008. A high risk of unemployment increases the “pressure for education” and leads in many cases to evasion in terms of extended periods of training and more demand for tertiary education. In which way this trend could lead to future advantages in human capital remains doubtful. To a significant extent those forced “education-extenders” include persons who probably do not even aim for an academic degree or who could—under different circumstances—bring their already achieved qualifications successfully to the labor market and therefore need no additional qualification. In countries with decreasing shares of young people in higher education during the pre-crisis years (e.g., Austria, Denmark, and Spain), the increase was even stronger during the crisis. The share of young people engaged in higher education while being employed at the same has also fallen conspicuously in many EU countries since 2008 (Eichhorst et al., 2013). Importantly, this share generally increased before the crisis.

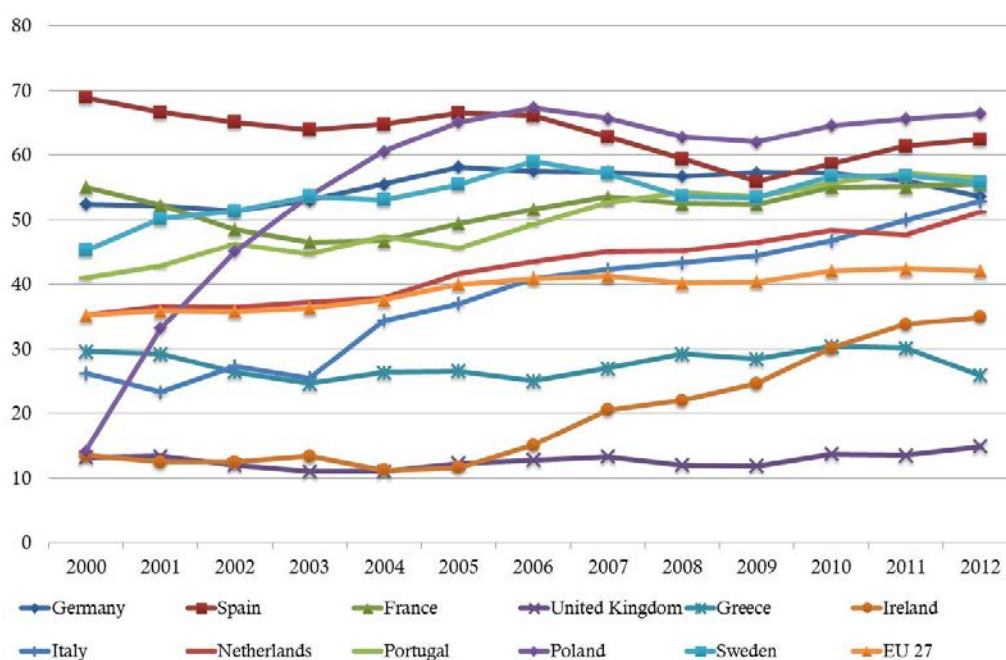
Figure 3: Youth employment rate in selected countries (2000-2012)



Source: Eurostat.

Notes: In percent of youths aged 15 to 24 years.

Figure 4: Youth temporary employment rate in selected countries (2000-2012)



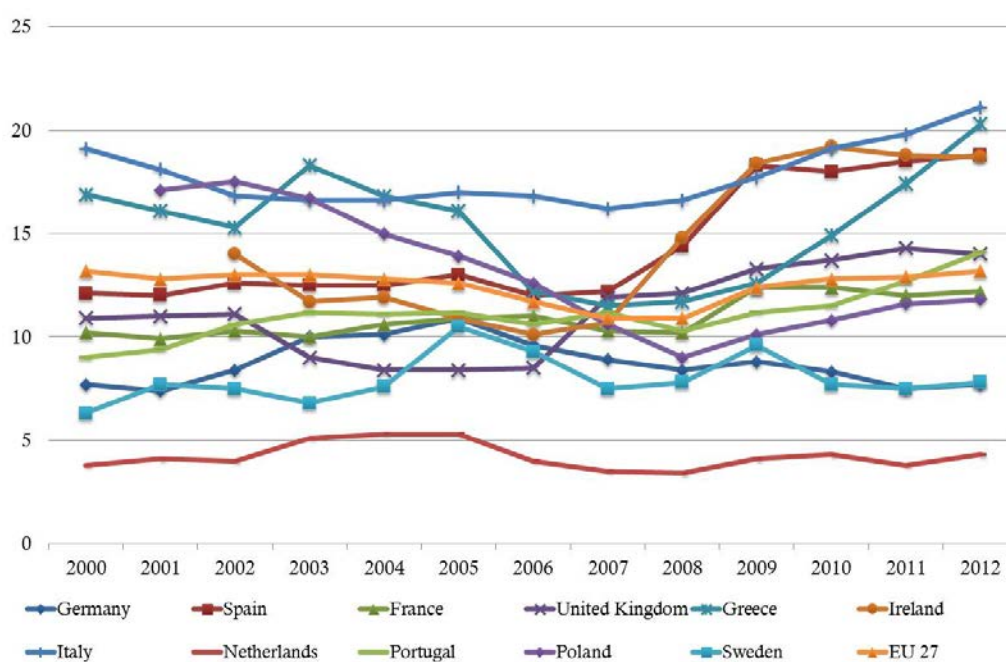
Source: Eurostat.

Notes: In percent of youths aged 15 to 24 years.

In addition to traditional unemployment statistics, due to efforts of the OECD and the European Commission, people aged between 15 and 24 (and other age groups) that are neither in employment nor in school/training/higher education or qualification programs are counted as “NEETs” (NEET: *not in employment, education or training*). By doing so, policy-relevant information about a particularly vulnerable group is gathered (Eurofound, 2012, p.19-27). Concerning the evaluation of raging youth unemployment in Europe this concept delivers valuable complementary data. Although this group still includes a certain share of people that is permanently or temporarily not available for the labor market or the education system (either voluntarily or due to physical and mental disabilities) and would therefore needed to be deducted, this group is in any case by far too large in many EU countries.

Recent data shows that this group’s share increased in 20 out of 27 EU countries between 2008 and 2012—and in many cases very significantly (see Figure 5 below). The situation is particularly worrying, with shares of around 20 percent, in the crisis countries Greece, Cyprus, Spain, and Italy, but also in Bulgaria and Croatia. In other words: About a fifth of all youths in these countries are effective labor market and qualification outsiders. According to Eurostat data, in 2011 all across the EU about 7.5 million people aged between 15 and 24 and 6.5 million aged 25 to 29 were furthest from qualification and the labor market. The NEET risks were especially high for low-skilled individuals and migrants. These are highly alarming results (Eurofound, 2012, p. 27-41).

Figure 5: Youth NEET rate in selected countries (2000-2012)



Source: Eurostat.

Notes: In percent of youths aged 15 to 24 years.

The Risk of a “Lost Generation”—and what is to be done

Persistently high youth unemployment causes considerable economic costs. Eurofound estimates these costs to amount to more than €150 billion for NEETs in the EU-27 aged 15 to 29 years in 2011 alone. This figure corresponds to approximately 1.2 percent of the European GDP. And “social costs” in terms of a loss of trust and exclusion are not yet taken into account in this estimation. Even though this rough estimate assumes in a quite simplistic manner that every individual in this group could be successfully integrated into the labor market, the economic losses remain severe in any case. In purely mathematical terms already a reintegration of only 20 percent of all non-employed young people could lead to a relief of public budgets in order of €30 billion per year and to considerable economic gains because of additional employment (Eurofound, 2012, p.65-81). Furthermore, it needs to be pointed out that young people who are not able to come into employment or training are marked by the “scars” of this experience for their whole working life. According to a recent study one additional day in unemployment accounts for up to six additional days of unemployment in the young person’s further working life (Schmillen and Umkehrer, 2013).

Besides all statistical facts it must be stated as a rule that during an economic crisis, young persons in work or job-seekers are the weakest group on the labor market and need special attention in terms of forward-looking labor market policies. Limited work experience, low social capital, less distinctive company-specific knowledge and short years of service and resulting low dismissal costs making them the first to be dismissed when companies respond to recession-induced overcapacities of staff. At the same time, when it comes to new hiring, risk assessment is weighted relatively strong and experienced candidates are privileged. Furthermore, institutional conditions like high starting salaries or a distinctive dismissal protection could encourage firms to be reluctant concerning the hiring of younger applicants.

This gives rise to the question which successful ways national and European labor market policymakers can go in order to tackle the problem of youth unemployment more (and most) effectively. Measures to reduce the large number of dropouts from education and training and that of low-skilled young workers in Europe are by far not sufficient against the backdrop that also highly skilled young people face above-average unemployment risks in many EU countries. Economic policies that support medium-sized businesses ensure the creation of new employment, for which in turn not only young people will be hired. Hence, the following policy options should additionally be considered: Besides incentives for education and labor mobility in Europe especially the reform of training systems based on the highly successful German dual apprenticeship system, reforms regarding a better social partnership as well as new regulations for permanent and temporary employment need to be mentioned.

However, substantial reform impacts in the short run should not be expected—in particular not in countries where the importance of structural reforms is high. That is why innovative migration strategies should have special importance acting as a valve solution. After generally bad experiences with job creation schemes, it would certainly be wrong to count on this costly and ineffective—and thus inefficient—instrument when looking for immediate success.³ Also a return to the unsuccessful policy of early retirement in the hope of creating new demand for youth employment would not be favorable. As a recent study shows, there is no relevant competition between young and old on the labor market (Eichhorst et al., 2013). They rather complement each other in the production process. Therefore, the aim must be to improve the employment prospects of young people and at the same time keep older people in work, instead of playing them off against each other. Not least, it is an imperative of fairness concerning the financing of social security schemes which will develop to a (soon unbearable) burden for young workers without extending working life.

Supporting temporary migration and labor mobility

From the available policy options aimed at tackling youth unemployment, primarily a stimulation of temporary migration and labor mobility, also for the purposes of training and education, is supposed to bring about positive effects immediately. Beyond issues of stimulating regional mobility by setting certain incentives—e.g., in Germany regarding the shortage of skilled labor in the Eastern part of the country—especially cross-border migration offers enormous potential to solve problems. For example, the latest German-Spanish government agreement (May 2013) on training and employment opportunities for about 5,000 young Spaniards who are supposed to come to Germany until 2017 points into a possible direction. However, although being symbolically important, this initiative will unlikely make a relevant difference in quantitative terms. Despite of significantly and currently even more severe economic imbalances, the development of labor mobility within “old” Europe is still too weak to balance regional fluctuations on the labor markets and to avoid unnecessary unemployment. Although legal obstacles are being reduced and information provision is improved this accounts also for young generations. Companies and associations that try to hire workers abroad are confronted with that problem as well.

The example of Spain underlines this nicely: Although the prospects of young job seekers in Spain have massively worsened, the current role model in terms of labor market performance—Germany (Rinne and Zimmermann, 2013)—registers only few Spanish immigrants. Although the relative figure of a 45 percent increase in immigration from Spain between 2011 and 2012 is indeed quite impressive, in absolute terms, according to data from the German Federal Statistical Office, that number stands for

³ See for international evidence Card et al. (2010). For an evaluation of job creation schemes in Germany, see Caliendo et al. (2008). Using such measures for young people is also seen very critical (Caliendo et al., 2011).

only 9,000 people; among them young labor immigrants, but also older age groups and family relatives. A similar situation can be observed in the crisis countries Greece, Portugal, and Italy. For the strong German labor market that is already disturbed by a beginning shortage of skilled labor, this influx is not sufficient—and for labor markets in the source countries, the reliefs are not yet detectable. New burdens both for the economy and the social systems will even occur if not primarily young unemployed workers decide to leave the crisis countries, but instead established workers do so.

However, every country being involved would benefit if—for example, in the context of EU-supported initiatives like “Youth on the Move”—a more intense migration of young people for reasons of training and employment can be established within the European Union. Regarding the European labor market it is definitely not about poaching certain member states their “brightest and youngest brains”, but rather about preventing—to say it economically—scarce human capital from being unexploited, becoming depreciated during youth or, in cases of trainees without prospects, even not being developed in the first place.

That is why the latest German-Spanish initiative for hosting young Spaniards in Germany should be soon followed by governmental agreements with other countries. At the same time, the existing European Portal for Job Mobility (EURES) should be established as the central information portal for workers and potential trainees interested in moving. Furthermore, every country has to create more transparency for foreign job seekers. National online portals should not only be run by governmental institutions, but also by employer associations and companies. Besides a subjectively reported language barrier there are still easy to solve information deficits that adversely affect migration decisions. The willingness to migrate among young people can be specifically supported by more transparency during the searching process for suitable training or employment opportunities.⁴

Meanwhile the bureaucratic hurdles concerning the recognition of educational qualifications obtained abroad have been significantly reduced and the comparability of degrees has been made easier by standardizations in the context of the European Qualifications Framework. A continued legislative alignment in this field and a further expansion of the European ERASMUS program could have an additional impact on increasing cross-border (educational) mobility.⁵

Young educational and labor migrants from the crisis countries can contribute to welfare gains in other member states and therefore support Europe as a whole. Losses of human capital would be prevented and additional qualification and working experience abroad would be gathered. The source countries would definitely benefit when “their” expatriates return. Countries like Germany should not assume to keep these young immigrants permanently in their country. After a few years and a hopefully successfully

⁴ See Constant and Rinne (2013) for an analysis of information deficits in the German context.

⁵ See Parey and Waldinger (2011) for mobility enhancing effects of the ERASMUS program.

mastered crisis the majority will return to their home country, but maybe in the long-run they work again in Germany and keep links and ties with the German labor market.⁶

Developing dual vocational training and social partnership

Focusing on youth unemployment in Western Europe, it is most striking that those countries with vocational training systems and certified, transferable occupational skills have the lowest unemployment rates. Not only Germany, but also Austria, the Netherlands, Denmark and Switzerland do practice forms of vocational training with a strong focus on firm needs and involvement of employers. Its advantages are obvious. Different from pure general or vocational schooling, it connects with the changing needs of the economy and allows trainees to gain specific knowledge and first job experience by a close connection to their training company. Firms, in turn, make a significant contribution to the costs and the co-management of the overall system and do not leave the government alone.

Despite some problems of such dual apprenticeship systems in coping with quick changes in qualification requirements, this concept has proven itself and secures a high level of acceptance among employers, unions, young people and their parents. But dual training systems require a cooperative partnership between all parties involved—government, companies as well as the social partners. When an effective cooperation is part of tradition, like for example in Germany, dual apprenticeship systems are easier to establish or even already exist. However, if the social partners face each other with suspicion, chances for a successful establishment of dual training are much worse.

Current economic developments have strengthened Germany's dual apprenticeship system. It can serve as a role model for other countries although its specific, historical and culturally grown arrangement is only in parts applicable to other economies. In recent years several EU countries, among others also Spain, have taken steps to put up a dual apprenticeship system, but it is too soon to evaluate their success. A current study also recommends France to take steps for an establishment of a dual apprenticeship system (Cahuc et al., 2013). It is quite obvious that this is only manageable in well-considered individual steps. Therefore, it seems appropriate to first try a dual system on a sectoral or regional level in close cooperation with a group of involved companies with similar interests. This makes it easier to design dual vocational training modules and to evaluate their feasibility in practical terms. The social partners, in particular employers, should organize sectorally or regionally in certain working groups and establish uniform standards and certifications. It would be unrealistic to expect a broad and extensively regulated training system like in Germany to be built up within short time—but this is not even necessary to carry out dual vocational training. It could even start with vocational schooling or academic education that is combined with some firm-based periods such as internships in a more structured way. Such measures to strengthen the

⁶ Hence, they would become “circular migrants” (Constant et al., 2013).

practice-orientation of training will have an effect on the labor market only with a considerable delay, of course. Short-term effects to relieve the current crisis are not achievable with training reforms. However, the crisis offers the opportunity to depart from old paths.

Employment protection, temporary employment, and ALMP

Temporary employment contracts have been liberalized in many European countries since the 1980s to create new job opportunities—without questioning the often extensively developed individual dismissal protection. Regarding the experiences in Spain, France, Italy, Portugal, or Greece, especially young people were hired with temporary contracts and transitions into permanent employment have been considerably difficult. Whereas in Germany transition rates have continuously risen up during the last years to at least 39 percent in 2012 (IAB, 2013), other countries have suffered massive drops in temporary employment during the crisis—therefore young people bear a particularly large part of the economic costs.

This is particularly evident in Spain. There, the legal base for a massive extension of temporary employment had already been set in the 1980s. This employment form currently accounts for about two thirds of all contracts among the people aged 15 to 24 years. The strong focus on temporary employment in Spain with at the same time distinctive problems of structural change may have thus contributed to the current disaster in youth unemployment, in particular given the fact that fixed-term contracts are hardly accompanied by training provided by firms. Therefore, caution is required when it comes to assessing temporary employment. This instrument likewise spreads its desired effects only in interaction with the specific institutions of national labor markets, in particular with the respective training system.

The example of France can illustrate the issue as well. Labor market segmentation has increased since the early 1990s and nowadays more than 90 percent of employees are hired on fixed-term contracts.⁷ It moreover affects young people more than elsewhere. In 2009 fixed-term employment was five times higher for young people than for adults. This ratio is around 3 in Denmark, the United Kingdom and on average in OECD countries. The main problem, however, is the fact that fixed-term contracts only act as stepping stones towards permanent contracts for some qualified workers, if at all (Junod 2006). This causes related problems. For example, it is difficult to find accommodation or to get a mortgage for workers on fixed-term contracts—workers with permanent contracts are preferred.

Strong employment protection is generally seen as a serious impediment for labor market entrants. On the one hand, these regulations stabilize jobs of employees with many years of tenure in times of crisis more than young employees without claims for severance payment. On the other hand, firms are more reluctant when it comes to hiring

⁷ See Cahuc et al. (2013) for a broader discussion.

young and inexperienced applicants during a crisis due to strict employment protection regulations. Otherwise, weak dismissal protection tends to strengthen the demand for (young) workers, albeit only on a temporary basis, as well as to cause higher unemployment during a recession (Boeri, 2011).

Firms in strictly regulated labor markets increasingly use temporary employment as a flexibility measure and in case of very strict employment protection legislation it may be even a substitute for permanent employment. Today, fewer and fewer labor market entrants can assume that they—like former generations—are able to secure a permanent employment at short notice or at least in medium-term. Although demographic change will lead to more “employee power” and therefore likely to more permanent employment, for the generation that is threatened by the current financial and economic crisis this turnaround will come too late.

During the current crisis it is therefore obvious to establish a new regulation of temporary and permanent employment contracts like it was already begun in some countries with segmented labor markets. These new regulations should be pushed because the current situation offers a window of opportunity for structural reforms. However, this will only have an effect in the medium term, especially when the private sector’s labor demand in the affected countries increases again. A solution discussed in Italy, France, and Spain tries to create a uniform labor legislation that works without distinction between temporary and permanent employment (“single contract”).⁸ It assumes every contract to be generally permanent and intends increasing severance payments with longer job tenure. At the same time requirements to a dismissal should be simplified. Such a system would improve the hiring and employment prospects for young people significantly since it removes the need for employers to decide about continued employment under a permanent contract at a certain point.

The example of Spain illustrates how in case of economic crises large decreases in employment occur in a dual manner in the presence of extensive employment protection. In such a context, institutional reforms cannot bring immediate relief. A loose employment protection alone will not result in a short-term increase of youth employment (Bentolila et al., 2012; Balakrishnan and Berger, 2009). A quite similar situation can be observed in Italy: A bureaucratic and expensive employment protection combined by worsening economic conditions led to a large share of young people in temporary work and at the same time high youth unemployment. The 2012 reform of employment protection still needs to develop its impact, whereas the question remains whether and to what extent young people could benefit from that. Corrections of employment protection will largely fail if they are not embedded within additional labor market reforms, in particular within an improved training system.

⁸ For more details on the “single contract,” see Cahuc and Kramarz (2005) for France, Dolado and Felgueroso (2010) for Spain, and Boeri and Garibaldi (2008) for Italy.

Germany's labor market reforms („Agenda 2010“) have proven that an outdated labor market environment can be modernized in relatively short time if the process does not end with the implementation of partial reforms. In this regard, a “promoting and requiring” strategy is absolutely crucial, also for young people. In the case of Germany rigorous scientific evaluations of active labor market policies (ALMP) have led to significant modifications within short time. Inefficient programs were corrected or stopped and resources were generally used more effectively. Also the timing of certain measures was improved. For example, immediate program participation after unemployment entry is not always most efficient, because often threat effects already result in intensified job search effort.

Besides a reform of the transfer system with increased labor supply incentives and a professionalization of the public employment service that today in Germany treats job seekers more like “clients” and claims unambiguously their own initiative, furthermore the support of vocational training programs was intensified. In addition, under certain circumstances temporary wage subsidies are paid to employers if they employ difficult to place (young) applicants and keep them for a minimum duration. Also start-ups out of unemployment were temporarily but intensively subsidized.

According to evaluations these three instruments have proven effective in the German context and brought more young people into employment.⁹ One should, however, warn in the context of wage subsidies against windfall gains. Such models are expensive and they can set uncontrollable disincentives in terms of a reduced labor supply to attain eligibility to the benefits. Importantly, job creation schemes or similar programs directly providing of employment in the public sector are generally ineffective. They do not only intervene between market forces, but also lead to a stigmatization of participants and therefore make their return to employment potentially more difficult.¹⁰

German experiences with ALMP are not necessarily applicable to other European countries. The same approach may lead to contrary results in a different labor market setting. For example, studies from France, the United Kingdom, Sweden, and Denmark show that vocational training programs for low qualified young people do not have any positive impact on their labor market outcomes. However, to what extent this is due to a different program design, a different target group or less practically-oriented contents remains to be analyzed.

According to studies for France, the United Kingdom, Belgium and Sweden, temporary wage subsidies for employers hiring young people seem to be a reasonable instrument in general. Among others, also Spain has activating instruments to subsidize wages and training for employers at its disposal. This approach uses a crucial element to

⁹ See Heyer et al. (2012) for a general overview. Schneider et al. (2007) and Caliendo et al. (2011) provide assessments of measures to promote vocational training in Germany. Caliendo and Künn (2011) evaluate start-up subsidies for the unemployed in Germany.

¹⁰ See Card et al. (2010) for international evidence and Caliendo et al. (2011) for evidence from Germany.

on which the success of a dual apprenticeship system critically depends: “true” professional experience on the (primary) labor market. In this way young people are brought to firms’ needs and accumulate knowledge, skills and qualifications that can hardly be learned otherwise. However, temporary wage subsidies in countries with strongly segmented labor markets offers little chances for acting as a stepping stone into permanent employment—in particular if training elements are missing or neglected in practice (Dolado et al., 2013).

Also Spain supports today, like also Greece, Portugal, the United Kingdom or Ireland, young founders.¹¹ Furthermore, today many countries establish or develop programs to promote regional mobility and to assess and recognize non-formal qualifications that were gathered on-the-job. The range of policy measures is already quite broad. The more and the better these measures are linked to activating programs and additional labor market reforms and rigorously evaluated, the better their chances of medium-term success.

„Youth on the Move“? Answers at the European Level

Within its abilities the European Commission tries to fight youth unemployment by targeted stimulus and to support reforms in the member states. First and foremost the program “Youth on the Move,” existing since 2010 as a part of the Commission’s strategy for a “Europe 2020”, needs to be mentioned. This program aims at improving the general education, vocational training, higher education, the mobility of young apprentices and job seekers as well as to support start-ups and the labor market entrance of young people in EU countries with youth unemployment rates above average (European Commission, 2010).

Quite rightly, the EU Commission criticizes high school dropout rates and claims preventive measures. At the same time it advises to strengthen the recognition of informally acquired qualifications, to dually modernize training systems and specifically offer internships to push the early acquisition of labor market experience in countries in whose systems this element is missing. Against the backdrop of increasing qualification requirements the Commission also calls for stronger efforts to modernize higher education to increase the number of graduates across Europe significantly.

In direct link to this concept and its implementation there are certain recommendations and decisions of the Commission and the Council of Ministers that helped to clearly define the planned supportive measures and provided the respective EU funds. At the same time the program “Youth on the Move” intends to implement a European “Youth Guarantee” that enables every EU inhabitant aged 15 to 24 to claim the right for employment, vocational training, or participation in a training program. This proposal stems from similar approaches in a number of EU countries (e.g. Austria, the Netherlands, Sweden, and Finland). After the European Parliament had joined this

¹¹ See for detailed descriptions Eichhorst et al. (2013), p. 35-39.

proposal and called for its legal implementation in January 2013, the “Youth Guarantee” was decided by the EU Ministry Council for Employment and Social Policy (EPSCO) in February 2013 (Eichhorst et al., 2013). In late June 2013, the EU summit decided to go forward with this concept. If it is indeed converted into national law, EU labor market policy will face the huge challenge to provide every young person with (regular or subsidized) work, training, or an internship within four months after graduating or registering as unemployed. This would force government authorities in many countries to cooperate more closely with public and private placement services, schools, universities, vocational training providers, employers and unions.

However, there is great danger that this program will lead to instances of disappointment (blamed on the EU) and substantial economic mismanagement. In view of about seven million unemployed youth across the EU, the member states would have to go to great lengths in terms of designing and coordinating large-scale national programs to fulfill the “Youth Guarantee” even though (or perhaps because) at least eight billion euros have been allocated for this purpose. Experience has also shown that authorities are tempted to set up extensive public employment and training programs in order to “bring down” unemployment statistics without necessarily creating concrete and sustainable employment prospects for the target group. Instead of devoting organizational efforts and scarce financial resources to this “Youth Guarantee,” the key features of the “Youth on the Move” strategy should be pursued. Additionally, the current crisis states should be encouraged to reform their labor markets in a way that would reduce structural disadvantages for young people and promote the creation of new employment. Ultimately only such structural reforms in the respective countries can substantially improve young people’s employment prospects. European politics should thus maintain the pressure to reform, but not give “guarantees” and therefore arouse expectations that cannot be kept.

Conclusions

Against the backdrop of the crisis, youth unemployment has developed into a dangerous threat in many European countries. There is little evidence for high unemployment rates to decrease quickly and easily. On the contrary: Rigid labor markets, the impacts of the Great Recession and tight budgets are likely to result in enduring youth unemployment. This poses serious risks for Europa: A great share of the young generation is running the danger to become labor market outsiders and socially degraded.

Besides large direct costs of youth unemployment and substantial indirect costs in terms of long-lasting “scars” for those that are affected, costs for society are even greater. Continuous “systemic” discouragement may lead to eroding political participation or even to distancing from democratic values. A European Union that is already in a legitimacy crisis (Ritzen and Zimmermann, 2013) has to respond to that by focusing on bringing much more young people into employment. But with a “Youth Guarantee” the EU raises more expectations than it can fulfill—to guarantee employment, training, or

qualification to every young person will bind resources in questionable ways, entices to mismanagement and distracts from the core tasks.

At this point the individual states are in demand. The leeway at the European level is limited when necessary labor market reforms fail to come. In many countries, public employment services could be more professional and more customer-oriented. Elements of “flexicurity” and the not only in Germany successfully established concept of “promoting and requiring” can provide stronger incentives for increased job search efforts. An extension of temporary employment is no option in several crisis states because it already dominates the labor markets there and has actually contributed to the current crisis in youth employment. New transitions from temporary into permanent contracts by, for example, providing additional employment security over the course of the job duration can contribute to more stable youth employment, but cannot work immediately. In the medium and long term modernizations of training systems similar to the successful German model of dual apprenticeships are particularly promising.

To rely on job creation schemes or even early retirement schemes would be economically absurd. Temporary wage subsidies to employers that hire young people are often common practice and should be extended because they are most likely able to lead to positive effects in the short run. They are more effective if combined with training requirements that can eventually constitute a nucleus for more systematic employer involvement in vocational training. This is also true for the promotion of start-ups subsidies for young individuals. In this context additional European programs for low-interest or even interest free loans to finance education and mobility need to be considered.

Last but not least, initiatives to encourage geographic mobility can help ensure that valuable human capital resources are accumulated and exploited where they are needed. Temporary intra-EU migration for the purpose of training or work should be stimulated by improving the availability of relevant information – this would also help prevent a new emigration wave to the United States, Canada, Australia or other alternative destinations. Countries like Germany could make an important contribution by training and employing young job-seekers from other EU countries until their prospects at home have improved. The EU could facilitate this process through legal harmonization, the establishment of a genuinely European labor market and the expansion of policy programs to promote mobility within Europe. Effective incentives could at least mitigate the paradox of massive youth unemployment, particularly in Southern Europe, coinciding with skilled labor shortages in other parts of the EU.

The key to cope with the European youth unemployment crisis lies in structural reforms of the respective labor markets. However, such reforms will occur too late for the currently affected young people. The process to be induced needs to be accompanied by suitable measures for them. Even though such measures entail significant costs, these costs have to be compared with the long-term costs of a “lost generation.” The overall balance will be positive for measures that create employment in the private sector and increase mobility within Europe.

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