

IZA Policy Paper No. 80

Youth Unemployment in Mediterranean Countries

Werner Eichhorst
Franziska Neder

March 2014

Youth Unemployment in Mediterranean Countries

Werner Eichhorst
IZA

Franziska Neder
IZA

Policy Paper No. 80
March 2014

IZA

P.O. Box 7240
53072 Bonn
Germany

Phone: +49-228-3894-0
Fax: +49-228-3894-180
E-mail: iza@iza.org

The IZA Policy Paper Series publishes work by IZA staff and network members with immediate relevance for policymakers. Any opinions and views on policy expressed are those of the author(s) and not necessarily those of IZA.

The papers often represent preliminary work and are circulated to encourage discussion. Citation of such a paper should account for its provisional character. A revised version may be available directly from the corresponding author.

ABSTRACT

Youth Unemployment in Mediterranean Countries

In all Mediterranean countries youth unemployment has reached alarming record levels. This paper analyses the current situation in France, Greece, Italy, Portugal, and Spain. In all countries school dropout rates are high, returns to education are low and the transition from education to work is problematic and difficult. This is due to a poor working vocational training system, the dualization of the labor market and minimum wages that are set too high. The Great Recession deteriorated the situation of young people, but youth unemployment is mostly structural. To overcome this crisis the overall performance of the labor market has to be improved.

JEL Classification: J21, J23, J24

Keywords: youth unemployment, Mediterranean countries, Europe, vocational training

Corresponding author:

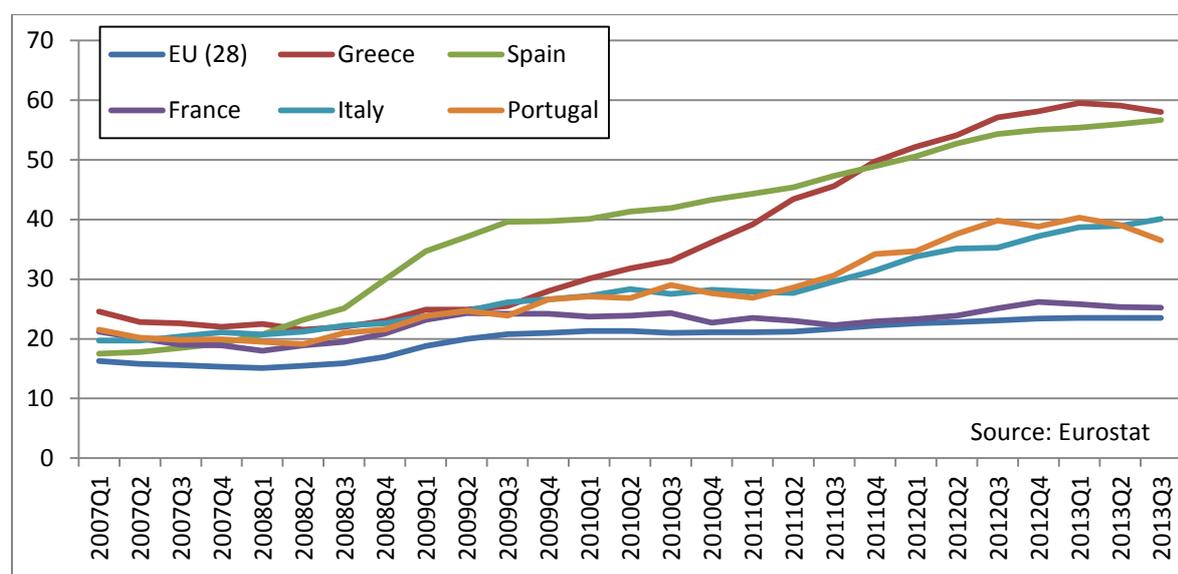
Werner Eichhorst
IZA
Schaumburg-Lippe-Str. 5-9
53113 Bonn
Germany
E-mail: eichhorst@iza.org

1. Introduction

It is now a well-known fact that in all Mediterranean countries (comprising France, Greece, Italy, Portugal and Spain) the current youth unemployment rates are at an alarmingly high level. Even before the economic crisis of 2008 each of those countries already had higher unemployment rates than the EU average. During and after the crisis youth unemployment increased sharply, especially in Greece and Spain. At the end of 2012 youth unemployment was above 50 percent in both countries, 55.0 percent in Spain and even 58.1 percent in Greece. The rate in Italy and Portugal was almost 40 percent, but in France it was only slightly higher than the EU average. In 2013 the youth unemployment rates continued to rise by 0.1 percentage points in the EU, as well as in Spain (+1.7 percentage points) and Italy (+2.9 percentage points). In Greece youth unemployment remained quasi stable at 58.0 percent (-0.1). In France the unemployment rate decreased in 2013 to 25.2 percent in the third quarter. The most significant decrease was observed in Portugal. First the youth unemployment rate climbed from 38.8 percent (2012Q4) to 40.3 percent in the first quarter in 2013, but then significantly fell to 36.5 percent (-2.3 percentage points).

According to Eurostat the share of pupils in upper secondary education enrolled in the vocational stream in the EU was 55.7 percent for males and 44.7 percent for females. In all Mediterranean countries the shares are lower than the EU average (Greece: 38.5 percent male, 24.3 percent female, Spain: 48.7 percent male, 41.8 percent female, France: 49.7 percent male, 39.3 percent female, Portugal: 46.5 percent male, 38.4 percent female) except for Italy (70.1 percent male, 49.2 percent female).

Figure 1: Youth unemployment rate (15 to 24 years old)



Compared to the unemployment rate of the over 25-year-olds, the unemployment rate of young people aged 15 to 24 is more than twice as high, both in the EU as a whole and in the Mediterranean Countries. This has been a long standing phenomenon however. Those statistics actually make the youth unemployment problem look worse than it really is, as those numbers must be interpreted more carefully because of two reasons (Barslund, and Gros, 2013). First, the group of 15-24-year-olds consists of two subgroups, the “teenagers” (15-19-year-olds) and the “tweens” (20-24-year-olds). Most of the “teenagers” are still in education or training or, if not, are likely to be very low skilled. Therefore even in normal times, they would have difficulties finding a job. The “tweens” normally have completed their secondary education or university studies early and are seeking a full-time job. Second, only a small fraction of young people are in the labor force, on average only about 10 percent. A youth unemployment rate of 60 percent does not mean that 60 percent of the whole cohort is unemployed. It means that 60 percent of young people in the labor force are unemployed. The youth unemployment rate is potentially misleading, and it is therefore preferable to look rather at the youth unemployment ratio. This is the percentage of the unemployed in the reference population. The youth unemployment ratio of young people aged 15 to 24 is only slightly higher than the unemployment rate of those older than 25, and somewhat less alarming.

In Italy and France the youth unemployment ratio has a similar level as the EU 28, around 7 to 10 percent. In contrast, Spain’s level increased extremely during and after the economic crisis from a similar level as the EU28 in 2006 to above 20.0 percent in 2012, which is twice as high. In Greece and Portugal the percentage of young people without a job and looking for one did not increase until 2009. After 2009 the ratio of both countries consistently went up, reaching 14.3 percent in Portugal and 16.1 percent in Greece in 2012.

Figure 2: Different EU 28 indicators on youth exclusion

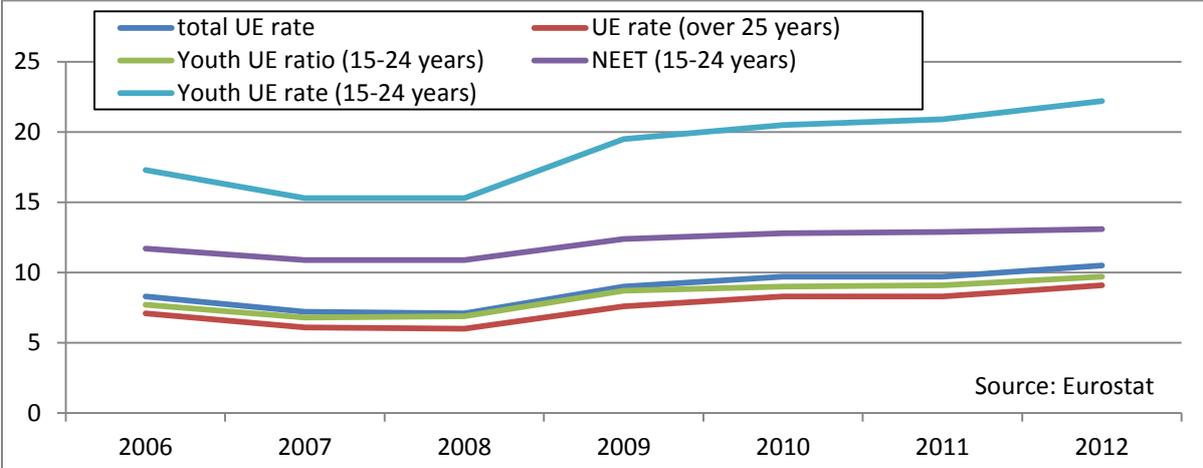
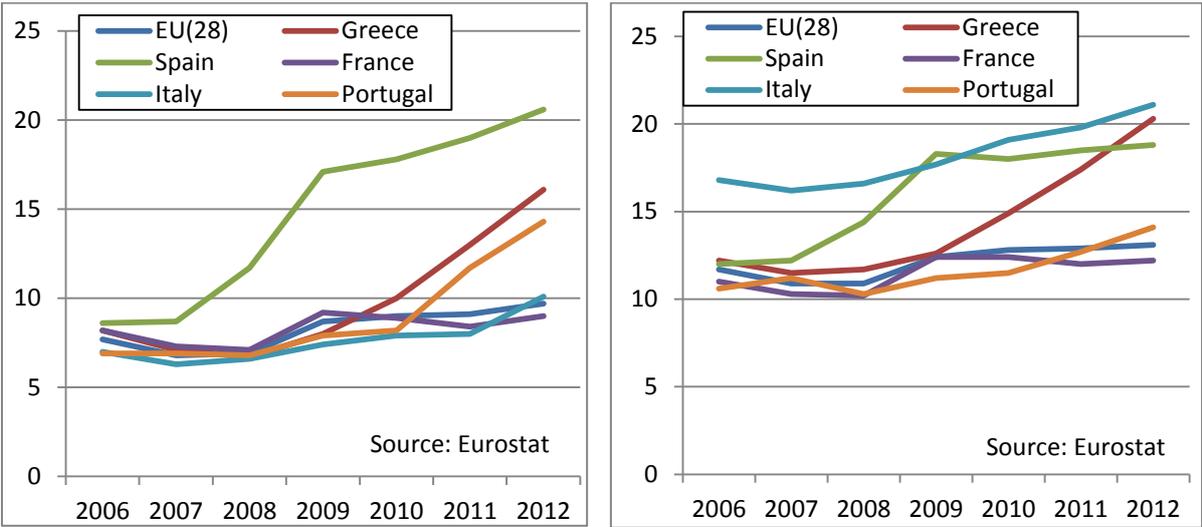


Figure 3: Youth unemployment ratio (15-24) Figure 4: NEET rates (15-24 years)



An alternative indicator is the NEET rate. This includes all young people aged 15 to 24 who are not in education, employment, or training -- the critical mass of the young population. The NEET rate of “teenagers” is usually much lower than the NEET rates of “twens” and the whole age group because most of them are still in education or training. The NEET average of the EU is lower than the youth unemployment rate. Especially in Italy, Spain, and Greece the size of the NEET rate is much higher than in the EU. In Spain the amount grew tremendously during and after the recession from 12.2 percent in 2007 to 18.3 percent in 2009 and has stayed at a high level of about 19 percent. The NEET rate in Italy before the recession was already at a higher level of about 17 percent. It continued to grow during and after the crisis to a value of 21.1 percent in 2012. In Greece the value started to increase in 2009 and reached a similar level as in Italy in 2012 (20.3 percent).

2. Macro vs. Institutions

In addition to the cyclical effect of youth unemployment increase, there had already been high youth unemployment rates in all Mediterranean countries even before the crisis. This clearly reflects a structural problem with respect to the training of youth and other institutional aspects of the labor market. The successful transition to a stable first job is difficult in all Mediterranean countries. The first problem is the dualization of the labor market between permanent and fixed-term contracts. While permanent employment has strict dismissal protection, temporary employment reduces protection. Therefore, the transition to a permanent job is difficult because it is quite costly for the employer. Furthermore, the educational structure of young people is highly polarized. The NEET rates are above the EU average; however, it is not only low-skilled young people but also university graduates that have significant problems finding work. This is due to the marginal role of vocational training, which is mainly school-based. Better integration of employer-provided training could improve this situation. ALMPs which focus on hiring subsidies for apprentices have only limited impacts (Zimmermann et al 2013).

In Italy, which represents a typical example of the Mediterranean system, the school-to-work transition is very problematic. In this system the presence of the state is marginal compared to the central role played by the family, which primarily bears the costs of the transition to adulthood. The Italian education system is rigid and sequential. Although the labor market has become more flexible through two-tier reforms, the educational system fails to close the youth experience gap. In Italy more than 60 percent of the unemployed belong to the category of new labor market entrants, and the share of long-term youth unemployment (more than 12 months) is also significant. This is due to the excessively rigid educational system, particularly in the tertiary stage, which results in very late entry into the labor market. Furthermore, Italy has extremely high dropout rates at all stages of schooling. Economic returns for tertiary education have fallen, and the number of university enrolments is higher than the number of graduates. The level of secondary and tertiary education is low, and the contact between education and the labor market is insufficient. By focusing mainly on theoretical rather than practical applications, young people do not learn to develop problem-solving skills and competencies required by potential employers and have hardly any possibility to gain early work experience. Moreover, the task of filling the youth experience gap has been left to the market, which has resulted in inadequate solutions such as temporary employment. Also the lack of an adequate vocational training system and the absence of links during post-graduation, like job placement activities, are problematic. Reforms such as the Moratti school reform and the so-called "Testo Unico", which focused on apprenticeships, passed in September 2011 are a step in the right direction. However, there is still a need for more action (Pastore, 2012). Furthermore, the significant mismatch of human capital generated by disparities in demand (technical) and supply (humanistic) is a problem in Italy. Because of the lack of demand for their particular

type of qualification, young people are forced to accept jobs designed for candidates with lower qualifications. This phenomenon is called overeducation. McGuinness and Sloane (2010) report that overeducation is normally below 10 per cent in the EU, but in Italy the percentage of graduates employed in posts designed for those with a secondary high school diploma is one of the highest (23 percent for first-time hiring) in the EU countries. With a total of 13 percent, Italy is the third lowest in terms of performance five years after graduation, just marginally ahead of Spain.

In Spain the educational structure is also deeply polarized. It exhibits the highest rate of both early dropouts (almost 25 percent in 2012) and university graduates in the EU. For both groups the transition into the labor market and permanent work is problematic. University graduates have the same problem with mismatches as their Italian counterparts. More than 40% of young Spanish university graduates work in occupations requiring only low or medium skills (Garcia, 2011). This results in relative low returns to education, especially for the tertiary educated. Prior to the crisis, the construction boom and bust cycle combined with a large job growth of low-knowledge intensive services raised the wages for unskilled jobs during this long expansion, therefore discouraging participation in education. As a consequence, during and after the crisis there has been a strong reduction of employment rates among the unskilled. Since the crisis, participation in education has risen again (Dolado et al. 2013). Furthermore, there is a lack of specific occupation skills and practical experience with employers. Most of the vocational training in Spain is school-based. Only four percent of vocational training combines school- and work-based training. Introducing dual training in Spain could facilitate firms screening for potentially good job matches and would provide youth with occupation-specific work experience, therefore easing the transition into permanent work. Instead, youth employment policies have concentrated on offering training contracts, which mainly reduced the employer's cost of hiring young worker via subsidies. This did not increase firms' investment in the youth population's specific human capital because training is not work-based. They instead increased the youth employment turnover, shifted the occupational distribution toward less qualified jobs, and because these contracts did not lower entering wages, they have provided the wrong incentives that encourage dropping out of school at young age (Zimmermann et al. 2013).

In France, vocational trainees can either enroll in full-time vocational schooling or in on-the-job apprenticeships combined with part-time study at training centers. Apprenticeships in France suffer from the perception that this training path is an inferior alternative to full-time vocational schooling (Cahuc et al. 2013). Employers receive some support for training provision. To address young people who failed to enter the training system, there is a long tradition in France to subsidize temporary employment and training contracts as part of ALMP. During the crisis, additional apprenticeships as well as the conversion of temporary into permanent contracts were also supported. Yet the effectiveness of these measures is questionable (Zimmermann et al. 2013).

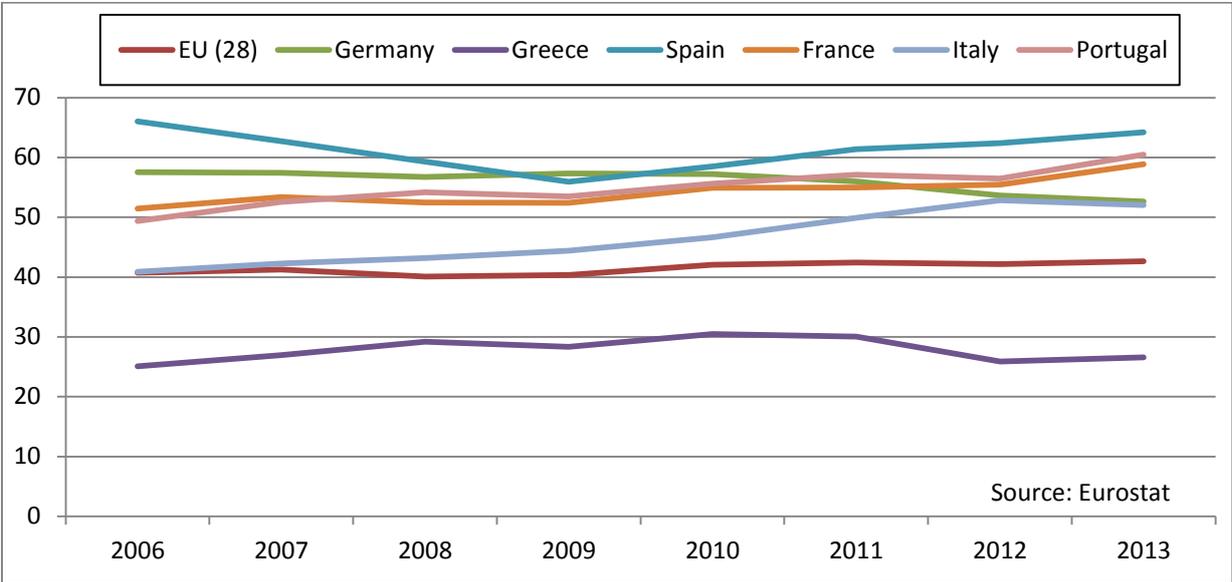
As a general observation, Portugal, Spain, Italy, and Greece have only limited provisions for training. The relatively marginal role of vocational training can be explained by the limited interest of employers in more formal vocational training (given the dual employment structure) but also by strong expectations of upward social mobility on behalf of young people and their families, which creates a strong preference in favor of academic training (Planas 2005). In contrast Germany, Switzerland, Austria, and Denmark have maintained a highly successful dual education and training system through apprenticeships. In all four countries, over 40 percent of young people who leave school when it ceases to be compulsory take up apprenticeships (EEAG 2013). A dual vocational training connects with the changing needs of the economy and gives young people the opportunity to gain specific knowledge and preliminary job experience. Firms contribute alongside the government to the costs and the co-management of the overall system (Eichhorst et al. 2013). In this system, the transition from education to work is smoothed and young people have better opportunities to end up in a permanent job.

In the last few years, the importance and the share of public expenditure for ALMP's have risen in all Mediterranean countries. According to Eurostat, in 2010 the highest share of ALMP expenditure in percent of GDP was found in France (1.1 percent), followed by Spain (almost 0.8 percent) and Portugal (around 7 percent). The lowest shares are found in Italy (almost 0.4 percent) and Greece (0.2 percent). The share of public expenditure spent on training is high in Portugal, modest in France and Italy, but only small in Spain and almost non-existent in Greece. In Spain most ALMP consist of wage subsidies and reductions of non-wage labor costs in order to encourage hiring the unemployed or maintaining staff (Zimmermann et al 2013). The same pattern can be found in Italy and Greece. This is not a good bridge into regular employment. Subsidized forms of employment should be combined with substantial job-related training by employers to increase the employability and productivity of young people. Furthermore, startup support, which is small in all Mediterranean countries, can be a useful tool to create jobs for young people and contribute to a more dynamic development of the economy.

A high level of employment protection for permanent jobs makes dismissing employees expensive. In contrast, firing costs are much lower in fixed-term contracts. As especially marginal workers, in general young people and less qualified and are often employed in temporary contracts. On the one hand fixed-term contracts can help workers to accumulate human capital and experience, potentially resulting in a permanent job. On the other hand there is the danger that young people move from one fixed-term contract to the next without any improvement in their job situation. Therefore the effects on workers are ambiguous. The dualization between permanent contracts and temporary contracts is crucial. The stronger the dismissal protection of permanent contracts is, and the more flexible fixed-term contracts are, the more young people enter the labor market with temporary contracts. The transition to a permanent position is very hard because employers are reluctant to convert the fixed-term contracts into permanent jobs due to cost. It is

cheaper to renew the fixed-term contract or to replace the worker by another temporary worker. Fixed-term employment has been highly responsive to the crisis. Most employment adjustment took place via termination of fixed-term contracts and was concentrated on the young (Zimmermann et al. 2013). In countries hard-hit by the crisis, young people stay in school longer because of the lack of any employment options. At the same time more youths fall into the NEET category. In countries like Spain, France, and Italy non-standard employment has been an alternative for jobseekers and for taking up an apprenticeship. Non-standard employment provides learning opportunities, but at the same time young workers are confined to the lower segment of a dual labor market, which leaves them to bear the brunt of labor demand shocks (EEAG 2013).

Figure 5: Temporary employees aged 15 to 24 years as a percentage of the total number of employees



The share of temporary employment is high in all countries except for Greece. In the EU Spain has the highest share of temporary jobs in all sectors and occupations (Dolado et al. 2013). Spain has a long history of very high and volatile unemployment. The Spanish labor market is an extreme case of a dual labor market with a highly pronounced insider-outsider divide. Young people move from one temporary contract to the next with hardly any prospect of permanent employment. A high share of temporary jobs results in a lack of employment stability and increasing job insecurity (Dolado et al. 2013). The strong concentration on temporary employment in conjunction with structural change problems caused the current disaster in youth unemployment (Eichhorst et al. 2013). There have been recent labor market reforms in Spain, but they seem to have been relatively ineffective so far (EEAG 2013). The share of temporary employment is also very high in Germany. But the vast majority (94.4 % in 2010) of teenagers is covered by a training period as an apprentice or through training which ends up in a permanent employment. In contrast, the majority of

teenagers in Spain (60% of teenagers and 77% of the young adults in the age group 20-24) accept a fixed-term contract because they failed to find a permanent job and are therefore involuntary on a fixed-term contract (Dolado et al. 2013).

	Monthly Minimum Wage second half 2013	Special rule for young people
France	1430.22 EUR ¹	Workers below 17 years: 80% MW Workers aged 17-18 years: 90% MW ²
Greece	683.76 EUR ¹	Workers aged 15-18 years: 70% MW First entrants aged 19-21 years: 80% MW First entrants aged 22-25 years: 84% MW ²
Portugal	565.83 EUR ¹	no ²
Spain	565.83 EUR ¹	no ²

¹Eurostat and ²Eurofound 2011

The existence of a minimum wage raises the payment of the least well-paid workers, who are generally young individuals and less qualified. There are minimum wages in France, Greece, Portugal, and Spain. According to Eurostat the monthly minimum wage rose slightly after 2009 in France and Portugal. In contrast, in Greece the monthly minimum wage decreased from EUR 862.82 in 2009 to EUR 683.76 in 2013. In Spain there was a slight increase from EUR 728.00 in 2009 to EUR 752.85 in the first half of 2013 followed by a drop to EUR 565.83 in the second half of 2013. Some countries employ a special rule for the young workforce, normally a fraction of the prime-age minimum wage rate. Without a provision like this, young workers can be squeezed out of the labor market. In general, young people are less experienced, and those young people who are affected by the minimum wage are mostly less qualified and therefore less productive. In consequence the minimum wage is too high in some countries to hire young people. For example, in Greece a relatively high minimum wage with no special rule for young workers has raised youth unemployment in the past. But reforms introduced in 2011 have begun to remedy this. Now anyone between 18 and 25 can be employed on fixed-term contracts for up to 24 months at a wage that is 20 percent below the applicable collective agreement, whether national or sectorial. This is a step in the right direction, but it needs to be linked to the provision of more training to improve skills (EEAG 2013).¹

In France the monthly minimum wage is very high. This creates a substantial barrier to accessing employment for low-skilled, young and inexperienced job seekers. A large number of young people in France are not sufficiently qualified to be as productive as the minimum wage requires them to be. Actually there is a special rule for young people aged below 19

¹ At the same time, employment protection legislation was relaxed in 2010.

and for apprentices, but these provisions remain marginal (Cahuc et al. 2013). There are no special rules for young people aged 19 or older. Also in this age group you find many first job seekers who recently graduated from school or university or are even drop outs. Without a special rule the transition from education to work is very difficult for them. Because of the lack of experience, they are too costly for employers who would prefer to hire a more experienced worker. In Greece the exception to the minimum wage is broader and includes a higher share of young people. Until 1998 the Spanish distinguished between employees under and over 18 years, but now there is no special rule for young people in Spain. In Portugal apprentices and stagiaires can have a reduction up to 20 percent for a period that cannot exceed one year.

3. Outlook and Policy Conclusion

In Mediterranean countries youth unemployment is mostly structural and has deteriorated during the Great Recession. Therefore, well organized strategies to fight youth unemployment should improve the overall performance of the labor market. The goal is to reduce the high unemployment level, the volatility of employment and the risk of the exclusion of specific groups from the labor market. Reforms have to be introduced which try to reconcile the security, efficiency, and fiscal aspects of labor market policies. To be effective, reforms need to understand what policies and institutions do in different contexts.

In order to improve the employment prospect of future entrants, it is important to set the right incentives to cut high dropout rates, smooth the transition from education to work, and also increase the possibility of securing a permanent job. At the same time, returns to (vocational) education have to be as high such that investing in all varieties of education is worth it. Further, the match between supply and the demand of skills has to be improved. A better interaction between the education system and the world of work would be a landmark in this development. There are various ways: Germany has a dual model; in Japan schools and universities place qualified students directly in firms; and there is also the Anglo-Saxon job placement model where both young people and individual firms play important roles (Pastore, 2012). The gap between high employment protection and the high firing cost of permanent contracts with hardly any protection and security for fixed-term contracts has to be narrowed. The limits on the widespread use of fixed-term contracts must be stricter. A single type of employment contract would be a possible way forward, in particular if combined with job-related training. There would no longer be any distinction between fixed-term and permanent contracts. Each employment contract could be seen as unlimited, and the longer it persists, the more claims could be granted (Eichhorst et al. 2013). Also more flexible wages are needed. In some countries minimums wages are set too high to employ inexperienced and especially low skilled young workers.

Still, structural reforms of this kind will need some time to show effects and improve the situation for young people in the labor market in a sustainable way. Of course they will also

interact with the overall macroeconomic environment and labor demand. But the losers of the Great Recession and the labor market cannot be left alone. The state has a responsibility and must give financial and active support to activate young people in the current situation.

References

Barslund, M. and D. Gros (2013): "Unemployment is the scourge, not youth unemployment per se", CEPS Policy Brief No. 294, 26 June 2013.

Cahuc, C., Carcillo, S., Rinne, U., and K. F. Zimmermann (2013): "Youth Unemployment in Old Europe: The Polar Cases of France and Germany", IZA Journal of European Labor Studies, 2013, 2, Article 18.

EEAG (2013): The EEAG Report on the European Economy, "Labour Market Reforms and Youth Unemployment", CESifo, Munich 2013, p. 73–94.

Eichhorst, W., Hinte, H., and U. Rinne (2013): Youth Unemployment in Europe: What to Do about it?", Intereconomics, 2013, 48 (4), 230-235.

Dolado, J. J., Jansen, M., Felgueroso, F., Fuentes, A., and A. Wölfl (2013): "Youth Labour Market Performance in Spain and its Determinants: A Micro-Level Perspective", OECD Economics Department Working Paper No. 1039, OECD Publishing.

García, J. R. (2011): "Youth unemployment in Spain: causes and solution", BBVA Research Working Paper 11/31.

McGuinness, S. and P. J. Sloane (2010): "Esiste overeducation? Un'analisi comparata, in AlmaLaurea" (ed.), XII Rapporto sulla condizione occupazionale dei laureati. Investimenti in capitale umano nel futuro di Italia ed Europa, Bologna: Il Mulino.

Pastore, F. (2012): "Youth Unemployment in Italy at the Time of the New Great Depression", Friedrich Ebert Stiftung.

Planas, J. (2005): "Vocational training in Spain: Changes in the model of skill production and in management modalities".

Zimmermann, K. F., Biavaschi, C., Eichhorst, W., Giulietti, C., Kendzia, M. J., Muravyev, A., Pieters, J., Rodríguez-Planas, N., and R. Schmidl (2013): "Youth unemployment and vocational training", Foundations and Trends in Microeconomics, 2013, 9 (1-2), 1-157.