

Focus on Economics

No. 43, 31th January 2014

Youth unemployment in Southern Europe – Result of the crisis or a flaw in the system?

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High youth unemployment in Europe is a major issue for European economic policy. A solution is particularly urgent in the Southern European reform countries of Greece, Spain, Italy and Portugal.

The recession of the last several years is responsible for the increase in unemployment in the EU. In addition, there are two structural causes for the high level of youth unemployment in the reform countries: rigid labour markets and suboptimal education and training systems.

In the meantime, the most important labour market reforms have been implemented in most reform countries. As far as education and training are concerned, the first reform packages have been launched – for example, pilot projects to establish dual vocational training. It is still too early to evaluate the impact of these reforms; in fact, they will only have an effect in the medium to long term. In the short term, active labour market policies and increased international mobility by young people for training and employment purposes can provide some relief.

The youth unemployment rate in some Southern European countries currently lurches from one record to the next. Spain and Greece in particular, but also Italy and Portugal, are experiencing high and rising rates. In 2012, 7.5 million young people between the ages of 15 and 24 in the EUR-28 countries were not in employment, education or training (NEET); 5.6 million of them

were unemployed.

Youth unemployment – often misinterpreted

In the wake of the crisis, the traditionally high youth unemployment rates in Greece, Spain, Italy and Portugal rose even further (Figure 1). The further weakening of the economies in these countries, caused by excessive fiscal consolidation, has reinforced this trend. From 2006 until 2013, the rate in Spain tripled, and it roughly doubled in the other countries. While an improvement was noticeable in Greece, Spain and Italy prior to the start of the financial crisis, there had been a steady increase in Portugal since 2000, which has accelerated even more since the financial crisis. In addition to this increase triggered by the economic situation, there are also struc-

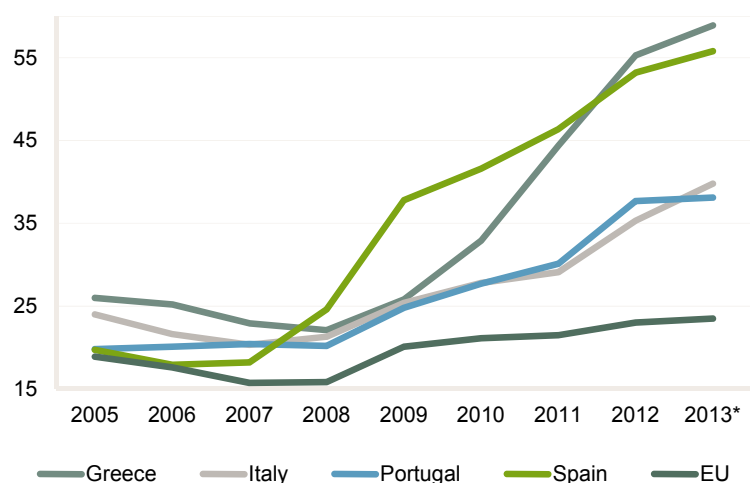
tural reasons for the high youth unemployment in all four countries.

The widely followed youth unemployment *rates* exaggerate the actual problem. The rate consists of the number of job-seeking young people aged 15 to 24 in relation to the number of people in the labour force (i. e. those people with jobs and those looking for work) in this age group. But this is only a small portion of the population between the ages of 15 and 24. Many young people are still in education or training and are not available to join the labour market.¹

The youth unemployment *ratio* is a better indicator for measuring youth unemployment. It consists of unemployed but job-seeking young people in relation to the overall population between the ages of 15 and 24. The youth unemployment ratio is therefore easier to interpret and considerably lower than the rate. For example, the youth unemployment rate in Spain was 53% in 2013, whereas the youth unemployment ratio was 21%. This means that one in five young Spanish people was unemployed, **not** one in two, as the unemployment rate suggests.

Yet even based on this indicator, youth

Figure 1: Youth unemployment rate in selected Southern European countries in percent



* Figures for Greece only until Q3 2013.

Source: Eurostat, own calculations.

unemployment has more than doubled in the reform countries – with the exception of Italy. Of course, a figure of 20% young unemployed people in Spain is still much too high, especially compared to the EU average of 9.7%.

Similar trend during the crisis

The youth unemployment ratio rose considerably during the crisis in all four countries in question (see Figure 2). The increase of 12 percentage points in Spain was the most dramatic. But the change was less severe than in the youth unemployment rate because many young people also left the labour market, for example to enter university. The labour force participation rate² of young people declined between 3.2 percentage points in Greece and 9.4 in Spain.

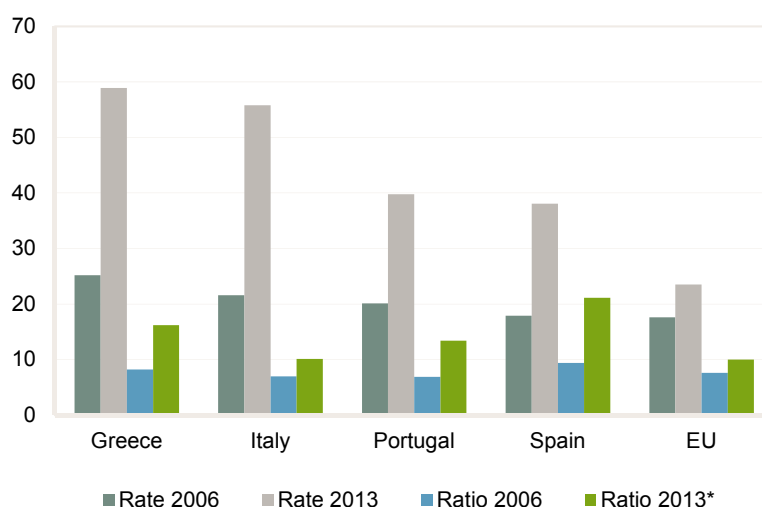
High youth unemployment has negative long-term consequences

For young people high unemployment has economic consequences that affect their entire working lives. Every additional day as a young unemployed person extends the period of unemployment in adulthood by 0.96 to 6.47 days.³ In addition, unemployment when a person is young results in lower wages even 20 years later.⁴

The social costs could be even higher, for example in the form of declining political participation. In addition, the current crisis leads to a lower birth rate⁵ and more cases of health problems in middle age,⁶ which may make early retirement necessary. Youth unemployment can therefore have very negative consequences in the long term.

Even just the short-term costs of non-integration of young people into the labour market are significant: according to estimates by Eurofound (2012), the annual costs for 15 to 24-year-old NEETs in the four countries considered total more than EUR 30 billion. Across Europe, the annual cost of NEETs aged 15 to 29 amounts to as much as EUR 153 billion, and these costs take into account only the corresponding economic costs in terms of lost economic growth and increased government transfer payments, and not the social costs, such as potential health problems or increased crime.

Figure 2: Youth unemployment rate and ratio in 2006 and 2013 for selected countries (in percent)



* Figures for Q3 2013.

Source: Eurostat, own calculations.

Root causes

The high levels of youth unemployment are due in part to the recessions following the global financial crisis and the sovereign debt crisis. But, in addition, structural aspects play a major role, too, because the level of youth unemployment was already very high prior to the crisis. Two reasons stand out in this regard: firstly, the need for improvements in education and training systems and, secondly, rigid labour market regulation, which ensures that few new permanent jobs are created.

Cause 1: Education system

The rise in unemployment due to the crisis between 2008 and 2011 was greater, the lower the level of education (see Table 2). Greece was the only country where unemployment among young people aged 25 to 34⁷ increased equally for all skill levels. Unlike in the EU as a whole, people who are more highly educated in Greece, Italy and Portugal even

had a slightly higher risk of unemployment than those with a medium level of education.

Despite significant progress in recent decades, the educational level of the population in all four countries is below average compared to similar highly developed industrial countries. This can be seen, firstly, in terms of the level of educational attainment (Figure 3), and secondly, in international student assessments such as PISA, which tests fifteen-year-old pupils, or the new PIAAC study, which assesses the skills of the working-age population, both of which show a low level of education quality compared with other OECD countries (see Table 1). Although Greece, Italy and Portugal were able to catch up significantly between 2003 and 2009 in the PISA study, all four countries are still well below the OECD average in the latest PISA study from 2012. However, Italy, Spain and Portugal were at least able to maintain the 2009

Table 1: Performance in mathematics in PISA and PIAAC*

	PISA 2003	PISA 2006	PISA 2009	PISA 2012	PIAAC 2012
Greece	445	459	466	453	-
Italy	466	462	483	485	247
Portugal	466	466	487	487	-
Spain	485	480	483	484	246
OECD	500	498	496	494	269

* PISA: Programme for International Student Assessment; PIAAC: Programme for the International Assessment of Adult Competencies (24 participating countries).

Source: OECD.

level in the 2012 PISA study, whereas there was a deterioration in Greece.

Spain: Deficits in secondary education, too many dropouts

In Spain, when compared internationally, a very high percentage of young people have completed lower secondary education at most⁸ (Figure 3). Spain has the highest school dropout rate in Europe, as well as the highest ratio of pupils who have to repeat classes (35%).

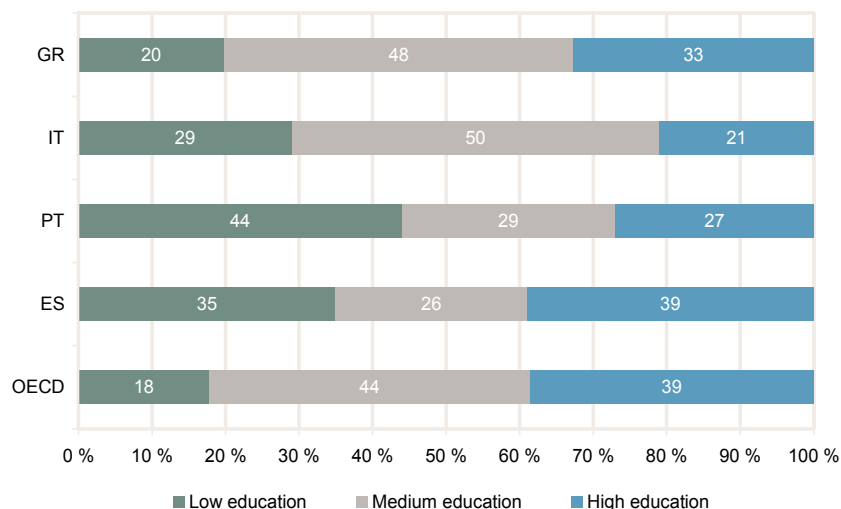
Prior to the crisis there were still many employment opportunities for low-skilled people in the construction industry and in the hotel, restaurant and tourism sector. Since the onset of the crisis, these sectors of the economy have been particularly hard hit, resulting in a disproportionately sharp increase in unemployment among the low-skilled.

It is striking that despite a substantial 35% increase in spending on education since 2003 and numerous national and regional educational reforms, the cognitive skills measured in the PISA study linger at below-average levels compared with other OECD countries and that there are no signs of improvement (see Table 1).

Portugal: Deficits in secondary education, educational level too low, limited equal opportunities

The educational level of Portugal's population is still relatively low. 44% of 25 to 34-year-olds do not complete upper secondary level education. One positive to

Figure 3: Educational level of 25 to 34-year olds



Low education: below upper secondary level (ISCED 0-2, e. g. lower secondary education certificate); medium education: upper secondary level or post-secondary, non-tertiary education (ISCED 3-4, e. g. completed vocational training or upper secondary education certificate); higher education: tertiary education (ISCED 5-6, e. g. university degree or completed master craftsman training).

Source: OECD (status 2011).

mention is that past educational reforms have resulted in considerable improvements in the cognitive skills of pupils (see Table 1); the improvements appeared mainly between 2006 and 2009, i. e. before the crisis (+21 PISA points in mathematics); since 2009 the PISA results have stagnated. In addition, the dropout rate has declined by more than half since 2000 (see Table 3), although a dropout rate of one fifth is still unacceptably high.

In Portugal, the family background has a stronger influence on the dropout rate and on the attainment of higher educa-

tion than in other countries. This contributes to a high level of educational inequality, ultimately leading to high income inequality.

Italy: Educational level too low, duration of studies too long

In Italy, the educational level of the population is likewise low when compared internationally. There is also a need to catch up in terms of the quality of the overall school system, as can be seen, for example, in the PISA study: like Portugal, between 2006 and 2009 Italy achieved significant improvements in the skills measured in the PISA studies (+21 PISA points in mathematics). The high rate of school dropouts is a problem in Italy, too (see Table 3).

There are significant deficits in the tertiary sector: compared internationally, Italy has a very low level of university graduates (see Figure 3), even though a disproportionately large number of young people, roughly three out of four pupils in the class, achieve a qualification to enter university. Although the total number of students entering university has increased sharply over the last decade, interest in tertiary education appears to have declined again in the last five years. The long duration of the studies and the high rate of university dropouts are among the central deficits in tertiary education. Very few students complete

Table 2: Unemployment rate among 25 to 34-year-olds in 2008 and 2011

	Educational level	2008	2011	Change 2008–2011
Greece	Low	10.0	25.1	+15.0
	Medium	10.4	23.4	+13.0
	High	12.0	25.6	+13.6
Italy	Low	11.3	14.8	+3.6
	Medium	7.2	10.2	+2.9
	High	9.4	11.5	+2.1
Portugal	Low	9.2	16.1	+6.9
	Medium	7.5	12.2	+4.7
	High	9.0	12.7	+3.7
Spain	Low	17.4	33.4	+16.0
	Medium	11.2	24.0	+12.8
	High	8.0	16.2	+8.2
EU-21	Low	15.5	22.3	+6.8
	Medium	6.5	11.0	+4.4
	High	4.7	7.6	+2.9

Source: OECD.

Table 3: School dropout rates

	2000	2005	2008	2009	2012
Greece	18.2	13.6	14.8	14.5	11.4
Italy	25.1	22.3	19.7	19.2	17.6
Portugal	43.6	38.8	35.4	31.2	20.8
Spain	29.1	30.8	31.9	31.2	24.9
EU-28		15.7	14.7	14.2	12.7

* percentage share of 18 to 24-year-olds who have completed lower secondary education at most and are no longer participating in general or vocational education measures.

Source: Eurostat.

Cause 2: Rigid labour markets

The sharp rise in youth unemployment in the affected countries during the crisis is a result of the dualisation of the labour market: older workers have well-paid jobs that are nearly impossible to terminate, with generous severance arrangements, whereas younger workers are hired, if at all, only on a temporary basis. In addition, the collective bargaining agreements of a sector usually apply nationwide, without the possibility of adapting them at individual company level in order to react flexibly to a crisis. The necessary flexibility is therefore established by limiting the duration of employment contracts for younger employees. Fixed-term contracts usually contain few rights regarding protection from dismissal or continued employment, meaning that in a downturn the younger employees hired with these contracts are the first ones to lose their jobs.

Labour market reforms

There are two ways to reduce the dualisation of the labour market: make temporary employment more unattractive to employers by, for example, establishing the right to a permanent position after a certain period of time, or make permanent employment more attractive. This can happen, for instance, by adjusting the rules on dismissal protection and severance arrangements so that a permanent position, particularly for a small company, does not become an existential threat; or by making collective bargaining agreements more flexible so that companies and their employees are able to conclude company-level agreements that allow for mutually acceptable solutions during times of economic hardship apart from the elimination of jobs.

In Greece and Portugal, corresponding labour market reforms are among the conditions of the aid programmes, and Italy and Spain have likewise initiated reform measures. Portugal and Spain have already implemented numerous reforms, and Greece has taken big steps, too. Italy, on the other hand, is still at the beginning of its implementation process (Figure 4). In its first evaluation of the Spanish labour market reforms, the OECD has already found initial positive effects, particularly for young people.¹¹

their studies within the normal period, and more than half (55%) abandon their studies completely.

Greece: An overly centralised and inefficient education system

Although the formal educational level in Greece is relatively close to the OECD average (see Figure 3), the cognitive skills actually attained in Greece are still considerably below the OECD average and also significantly (i. e. by about one school year) behind those of Portugal, Italy and Spain (see Table 1). Greece also performs relatively poorly in the PISA study when compared to countries with similar GDP and per-capita spending on education.

Although there is a relatively large number of teachers per pupil in Greece, Greek teachers spend comparatively few hours a week in the classroom actually teaching. This explains the high level of per-capita spending on education despite relatively low teacher salaries.

The Greek education system is highly centralised. As there are no external evaluations of schools and / or teachers, there is a lack of important information for quality control purposes.⁹ In order to offset the lack of quality in the public school system, it is customary to invest in private tutoring (so-called “frontistiria”).

Education reforms

Besides these country-specific problems, the transition from the education system to the labour market needs to be improved in all four countries. This takes – with the exception of Portugal – a very long time when compared with other EU countries (see Table 4). As far as vocational training is concerned, a greater commitment by employers is needed, as well as improved on-the-job training. The countries under consideration are currently investigating ways of strengthening of their vocational training system and the introduction of a dual system similar to the German model. In some cases they have already launched pilot projects in this regard.¹⁰

But it is doubtful whether the highly acclaimed dual vocational training system can easily be exported to other countries. After all, the system in Germany was developed and enhanced over decades and is therefore adapted to the structure of the German economy.

In addition, reforms in the education system have an impact on the labour market only in the medium to long term. Nevertheless, from an economic perspective it makes sense to eliminate the aforementioned structural problems in the education system, which existed even prior to the financial and economic crisis.

Table 4: Transition from education to the labour market*

	Rate of labour market participation up to 5 years after the end of education	Average duration between end of education and first job (in months)
Greece	67.3	13.1
Italy	59.2	10.5
Portugal	78.6	5.7
Spain	59.8	8.2
EU-27	72.9	6.5

* related to 15 to 34-year-olds.

Source: Eurostat, EU-LFS Supplementary Module 2009.

But visible, lasting success can only be expected when the economy has recovered enough that it is even able to generate new jobs.

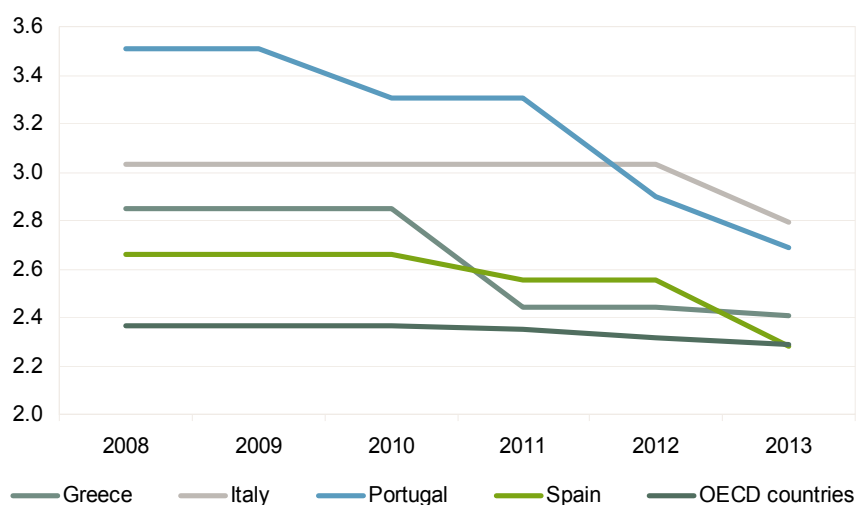
The aforementioned reforms of both the labour market and the education system are therefore appropriate to address the significant structural problems in the labour market of the countries concerned. But none of these reforms can lead to a rapid alleviation of youth unemployment in the near term.

Active labour market policy

Active labour market policies are a sensible approach to alleviate youth unemployment in the near term. To that end the countries concerned are primarily using incentives for employers to hire unemployed young people by, for example, having the government make the social security payment or assume a portion of the young person's salary. Training and unpaid internships are also being offered to improve the qualifications of young people. Policy makers in Greece are even considering the possibility of implementing a public job creation programme similar to the American "New Deal" of the 1930s.

The EU is supporting active labour market policies with the employment initiative for young people that was agreed in 2013. This includes establishing a new EUR 6 billion fund for the period from 2014 until 2020. This fund is to be made available to those EU countries whose youth unemployment rate exceeds 25%.¹² Under the so-called "youth guarantee", all member states will be expected to offer young people up to 25 years of age a suitable job, continuing education, an apprenticeship or an internship within four months after completing education or after losing a job.

Figure 4: Level of labour market regulation of permanent employment



Source: OECD (status 1 January 2013). Shown here is the EPL indicator, which measures the costs of labour market regulation for the employer. A falling index value is an indication of flexibilisation of the labour market.

Promoting labour mobility

Higher training and labour mobility can also contribute to reducing youth unemployment in the short term. The current level of mobility, however, is far from adequate. Comprehensive bilateral or EU level support for the mobility of unemployed young people for educational or employment purposes would be useful; after all, mobility is greatest among young people anyway, and the preservation and expansion of their human capital promises the greatest benefit for themselves and their homeland.

Room for German support is available

Germany is providing targeted support, particularly through the promotion of training mobility and skilled worker mobility for unemployed young people from other EU Member States. For example, a bilateral German-Spanish intergovernmental agreement was reached in May 2013 for the training and employment of

5,000 young Spaniards. In addition, the International Placement Services (ZAV) of the German Federal Ministry of Labour and Social Affairs (BMAS) participates in the MobiPro EU initiative, which promotes the vocational mobility of both young people seeking training and unemployed skilled workers from EU countries.

Conclusion

The problem of high youth unemployment must be addressed as a high priority in the countries concerned. Even though the first positive changes are already apparent, further reforms are still necessary in both the education systems (see overview in Table 5) and the labour markets. But an essential prerequisite for the reduction in youth unemployment is also economic growth in these countries, and, in this respect, lending to SMEs in the countries concerned is crucial because SMEs generate growth and create jobs. ■

Table 5: Summary of the main problem areas in education

	GR	IT	PT	ES
Raise the formal educational level of the labour force				
• Lower the share of low-skilled people	o	+	++	++
• Raise the share of highly skilled people	+	++	++	o
Improve the quality of education	++	+	+	+
Improve the transition from education to labour market	+	+	+	+

Note: ++ high priority, + medium; o low priority.

¹ Cf. Eurostat, "Messung der Jugendarbeitslosigkeit – wichtige Konzepte im Überblick" (Measuring youth unemployment – an overview of important concepts), press release from 12 July 2013.

² The labour force participation rate describes the percentage of an age group that is available to the labour market. It is defined as the share of employed and unemployed people as a percentage of the resident population of a particular age group.

³ Cf. Schmillen, A. and M. Umkehrer (2013). The scars of youth – Effects of early-career unemployment on future unemployment experience, IAB Discussion Paper 6/2013.

⁴ Cf. Kahn, L. B. (2010). The long-term labor market consequences of graduating from college in a bad economy, *Labour Economics* 17, 303–316, and Mroz, T. and T. Savage (2006). The Long-Term Effects of Youth Unemployment. *Journal of Human Resources* 41, 259–293.

⁵ Cf. Goldstein, J. R., Kreyenfeld, M., Jasilioniene, A. and D. K. Örsal (2013). Fertility Reactions to the Great Recession in Europe: Recent Evidence from Order-Specific Data, *Demographic Research* 29, 85–104.

⁶ Cf. Bell, D. and D. Blanchflower. (2011). Young People and the Great Recession. *Oxford Review of Economic Policy* 27, 241–267.

⁷ The 25 to 34 age group is reviewed here because most people at this age have only just finished their tertiary education.

⁸ In Germany, this corresponds to successfully completing lower secondary education without subsequent vocational training.

⁹ But there are university entrance exams.

¹⁰ Cf. the Memorandum on Cooperation in Vocational Education and Training in Europe, which was signed in Berlin in December 2012 by Germany, Portugal, Greece, Spain, Italy, Latvia and Slovakia.

¹¹ OECD (2013). *The 2012 Labour Market Reform in Spain: A Preliminary Assessment*. Paris: OECD.

¹² Greece (54.8%), Spain (57.7%), Croatia (49.7%), Italy (41.6%), Cyprus (40.0%), Portugal (36.8%), Slovakia (33.3%), Bulgaria (28.5%), Poland (27.9%), France (25.6%) [status: January 2014].