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REPORT

The background features a series of parallel orange diagonal lines sloping downwards from left to right. Scattered across this background are several orange five-pointed stars, some of which are partially obscured by the lines.

# STATES OF UNCERTAINTY

YOUTH UNEMPLOYMENT IN EUROPE

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## ABOUT THE AUTHOR

**Spencer Thompson** is an economic analyst at IPPR.

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## ABOUT THE 'TACKLING YOUTH UNEMPLOYMENT' PROJECT

This paper is the second report from IPPR's project, 'Tackling youth unemployment: lessons from Europe'. This project is asking what lessons can be learned from the experiences of other countries about how best to tackle the short-term and underlying causes of rising youth unemployment. Following this paper, several in-depth country case studies will be published that look at how education and labour market policies help or hinder young people as they transition into work, as well as the role of other stakeholders such as businesses and employee representatives. While this paper provides a broad overview of trends across Europe as a whole, the case studies will dig deeper to unpick how policy functions in specific country contexts. We will also be publishing an in-depth study on the UK, drawing together the findings of the project and formulating a set of recommendations to inform the policy debate on youth unemployment.

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## EXECUTIVE SUMMARY

Youth unemployment is one of the biggest problems facing Europe. It has increased substantially in most countries since the 2008–2009 financial crisis, but has been rising relative to the unemployment rate of older adults for far longer. This report presents new statistical analysis of the problem, and uses the results to assess the different roles that education and training, business behaviour and labour market institutions play in young people's transition from compulsory schooling to a job suitable to their level of skills and qualifications. It concludes that policymakers need to focus on this transition in its entirety, rather than on narrow labour-market measures, if they are to reduce youth unemployment and improve the prospects of young people across Europe.

There were 5.5 million unemployed young people (15–24 year-olds looking for work but unable to find it) in the EU in the first quarter of 2013. Even more worryingly, there were more than 7.5 million young people not engaged in employment, education or training – over 13 per cent of the EU's youth population. While the EU, and in particular the group of countries that comprise the eurozone, has begun to recover from recession in economic terms, the outlook for youth unemployment is more uncertain. There is also little sign that rates of long-term unemployment among the young – the group most at risk of long-term 'scarring' from unemployment – have even begun to decline: in the UK, the proportion of unemployed young people who have been looking for work for more than a year stood at 30 per cent in the first quarter of 2013, and in Spain this number was almost 40 per cent.

Just as the recent brightening of European countries' economic fortunes has not yet driven an improvement in young people's labour market prospects, the surge in youth unemployment since 2008–2009 masks longer-term issues in the youth labour market. In fact in many countries, and for many years before the recession, youth unemployment was rising both in absolute terms and when compared to the unemployment rate for older adults (aged 25–49) even during the period of stable economic growth between 2000 and 2005.

It is clear, therefore, that a return to economic growth will not itself be enough to fix the problems of European youth labour markets. So what policy options are there? At a meeting of EU leaders in June 2013, €6 billion was pledged towards tackling the youth unemployment problem with a 'youth guarantee', intended to ensure that every young person has access to a job, training or apprenticeship within four months of leaving education. While action at this highest level of the EU is welcome, this paper demonstrates that the problems that young people face, and the root causes of them, vary substantially between different countries. The necessary solutions will be found at the country level, and not through a one-size-fits-all EU policy.

### Youth transitions in Europe

First of all we need to understand the nature of the problem. There are several distinct groups among the young unemployed. In particular, we can usefully distinguish between those young people who are still in education but are looking for a job to fit around their studies, and those who have left education (either permanently or temporarily) and are looking to make the transition from learning to earning.

Since this report is mainly concerned with whether young people are equipped with the skills and capabilities required to quickly gain a secure foothold in the labour market after they leave education, it is the second group that we should focus on. With that in mind, looking at the unemployment rate for youths who have left education is useful as a means of studying young people's successful 'transitions' into the labour market.

Using this measure, the picture of youth unemployment as it was in 2007 looks very different from what we might have expected. Spanish youth, for instance, had a lower unemployment rate (16.2 per cent) than their German peers (18.3 per cent), and French youth unemployment, at 23 per cent, was among the highest in the EU. The recession changed this pattern enormously. By 2011 there were very high unemployment rates among young people in southern and eastern Europe – up to 45 per cent in both Spain and Greece, for instance. By contrast, a small group of countries in Western Europe, including Norway, the Netherlands and Germany, had youth unemployment rates of less than 15 per cent.

Countries also differ in terms of the speed at which young people tend to find a job after they complete their education. In 2009, average ‘transition lengths’ in the UK were, at less than four months, very low. At the opposite end of the spectrum, in southern European economies like Spain, it took young people more than eight months on average to find their first job.

### Transition systems in Europe

Young people’s ability to successfully transition into work is determined by a wide range of interrelated factors. However, at its core the decline in the proportion of young people who are able to smoothly make this transition reflects a deterioration in the joint ability of education systems and labour markets to successfully match young people to jobs.

#### The education system

Young people with low-level or no qualifications face a particularly difficult transition from education to work – but their numbers are declining. In 2004, around 20 per cent of young people in the UK who were not in education had not completed upper-secondary schooling; by 2012 this was down to 15 per cent. While a similar pattern holds true in most other EU countries, in southern Europe a relatively large proportion of young people – over a quarter of Spanish youth in 2012, for instance – still leave school without completing basic education.

For those young people who do complete secondary education, unemployment rates and transition lengths still vary substantially. For instance, in 2007 German youths with full secondary educations faced an unemployment rate of 9.9 per cent, but for their counterparts in France this rate was 18.8 per cent.

Much of this variation can be accounted for by differences in educational institutions between countries, particularly in the size and nature of vocational pathways available to young people in secondary education. Broadly speaking, vocational training systems vary between different countries along two dimensions: the extent to which they foster skills specific to particular occupations and sectors (as opposed to general vocational skills), and the extent to which the vocational system is standardised – that is, the degree of uniformity in curricula and testing across schools, colleges and training institutions. More specific skills and highly standardised vocational qualifications are thought to make the vocational system more ‘transparent’ to employers, giving them greater certainty about the skill levels of young applicants and improving the process of labour-market matching between individuals and jobs.

In Germany and the Netherlands, young people with secondary-level educations perform better in the labour market if they have completed a vocational course than if they have completed a general academic certificate; however, the opposite is true in Spain, France,

Sweden and the UK. This suggests that, from a youth unemployment standpoint, the vocational systems of the latter group of countries are less successful.

The numerical size of the vocational pathway also varies substantially between countries. In the Netherlands, around 70 per cent of young people in upper secondary education are enrolled on a vocational course. However, many other countries have moved away from vocational qualifications and towards general education: in 1995, 57 per cent of UK upper secondary students were enrolled on a vocational course, but by 2011 this had fallen to 36 per cent. In Germany, vocational education greatly reduces the probability of being unemployed – but the size of vocational pathways is shrinking rapidly, with the share of students enrolled on vocational courses having fallen by a third over the same period.

In many countries fewer young people are developing direct links with the workplace through their education. This presents less of a problem for the increasing share of young people who transition into work through the higher educational route – their unemployment rates tend to be much lower everywhere. However, the outlook is much bleaker for those moving directly from school to work.

Working while studying is another means by which many young people can gain the employability skills that are vital to aiding their learning-to-earning transition. In the UK, those who did not have a job while in education are almost 9 per cent more likely to be unemployed afterwards. A similar pattern holds true in other countries.

However, the available evidence suggests that few young people take on a paid job while in education: less than one in 10 young Spaniards, and less than a third of Swedish, British and French youth, are both earning and learning. In the UK, the employment rate of students declined steadily from 45 per cent in 2002 to just over 30 per cent in 2011. In the Netherlands, on the other hand, while student employment has decreased slightly in recent years, it remains much higher at around 60 per cent. Low levels of employment-during-education is an important issue, particularly in countries where the vocational system is less directed towards providing formal on-the-job training – it means that many young people are not gaining vital employability skills during their education.

### **The changing structure of the economy**

In addition to education, young people's ability to move into work is also determined by the nature of the wider labour market and the job opportunities available within it. In the short-term, the poor performance of recessionary economies in Europe has undoubtedly had a negative impact on youth employment, by reducing business demand for workers in general and, therefore, the number of vacancies. This has had a disproportionately negative impact on the young, who are more likely than older workers to be looking for work, and are therefore more affected by any fall in vacancies. However, when comparing across countries it becomes clear that similar falls in GDP during the recession have resulted in very different changes to youth unemployment rates. This complicates the picture, and suggests that something deeper is at work. Furthermore, the evidence suggests that the relationship between GDP growth and youth unemployment may in fact have been stronger *before* the recession.

Over the longer term, the economy has undergone fundamental structural changes. The types of industries and occupations open to young people now are very different than they were in the past. In most labour markets there have been distinct shifts away from manufacturing and towards services, and away from jobs in the middle of the skill distribution and towards both low- and highly-skilled roles. Young people have led the

shift towards the bottom of the labour market, with much larger swings in the distribution of work among youths than among adults as a whole. This is most apparent in the UK, where the share of young people working in manufacturing halved between 1995 and 2007, and the share of young people working in low-skilled jobs – primarily in service industries – rose from 37 to 50 per cent.

While this shift may have helped young people by increasing the share of low-skilled entry-level positions in the economy, it has also affected older adult workers, albeit to a lesser extent. It may have brought the young into direct competition with more experienced workers for low-level positions, with the job prospects of the young adversely affected. Furthermore, the rising qualifications profile of the young has been accompanied by ‘over-qualification’ in some youth labour markets, particularly those of Sweden and the UK. This has led many with degree-level qualifications to take on lower-skilled service work, and many of those with upper-secondary educations to move into elementary occupations. Aside from highlighting a problem with education–work linkages, this phenomenon may have harmed the very lowest-skilled by sparking greater competition for jobs within the youth population in those countries.

The shifting structure of the economy has also had a direct impact on vocational education. In particular, the decline of those sectors that traditionally offered vocational training to young people before they fully entered the labour market – most notably manufacturing – is likely to have reduced business involvement in training. This has been shown to be the case in Germany.

Other aspects of youth work have also changed considerably. Part-time work is growing increasingly prevalent among the young unemployed. This is partly related to increased participation in education, with young people looking for work that they can fit around studying. But in some countries, such as Sweden, France and Spain, around half of young people who are working part-time would rather be in a full-time post. While in Spain this is largely a recessionary phenomenon, in Sweden and France it is a more long-standing feature of the youth labour market, suggesting that there is a substantial shortage of full-time opportunities for the young.

In many countries, the widespread use of temporary contracts has arisen as a way for employers to bypass the more stringent employment regulations that govern permanent roles. This change has been much more noticeable in countries such as France and Germany, which have relatively strict employment regulation regimes, than in the UK, which has relatively lax regulation across the board. Again, the young have borne the brunt of this change in employer behaviour. While the evidence on the long-term career impact of temporary employment is mixed, in the short term the recession had a severe impact on temporary workers. Businesses that needed to adjust their workforce in reaction to the drastic fall in economic demand during the recession did so largely through their temporary workforce. Young people were disproportionately affected by this, finding their fixed-term contracts ending but few job openings to move into.

### **Contrasting policies and institutions between countries**

Differences in transition systems are driven by long-standing policy and institutional differences between countries. On the surface, however, the substantial variation in labour-market policy, and in institutions such as labour market regulation, minimum wages and benefit systems, do not appear to be related to youth unemployment. While it is often argued, for instance, that high levels of employment protection legislation harm

youth employment, a cursory analysis of the data reveals that in some countries with relatively ‘inflexible’ labour markets, and in Germany in particular, youth unemployment is actually lower than in more ‘flexible’ labour markets such as the UK. However, digging a little deeper it becomes clear that there are important linkages between labour market institutions, business behaviour and the vocational education system that do have an effect youth labour markets.

Employment protection legislation can have a negative impact on youth job prospects by protecting labour market ‘insiders’ – those who are already securely in employment – at the expense of those without jobs, especially young jobseekers. But high-quality apprenticeships overcome this by fostering direct links between individual employers and young people, smoothing the transition between education and work. This is confirmed by the higher levels of youth unemployment in Germany among those who fail to secure an apprenticeship

Out-of-work benefits also vary substantially in their generosity and the degree to which they direct unemployed young people into employment support programmes – but across countries, overall youth unemployment rates bear little relation to the level of spending on such programmes. However, they also complement different vocational systems: countries with vocational education that leads to occupational and sector-specific qualifications tend to have more generous out of work benefits. They also tend to have fewer sanctions for those who turn down jobs that do not match their skills, which allows people with specific skills to ‘shop around’ for an appropriate job opportunity should they find themselves out of work.

Minimum wages for young people is another policy which is often linked to high levels of youth unemployment – but again, such assertions do not fit the facts. The benefits of minimum wages specific to youths, set below the adult rate, have been shown to offset any negative effects. In countries without national minimum wages, other aspects of wage-setting are equally important to youth unemployment.

## Conclusion

- The evidence supports the consensus view that a high level of company involvement in the vocational education system is good for youth transitions and employment;
- but overreliance on businesses’ involvement in vocational education and training leaves the system vulnerable to their potential withdrawal.
- This weakness has been exacerbated by a changing youth labour market that has moved away from the types of firms and industries that traditionally offer high-quality initial vocational education and towards lower-skilled and casualised employment.
- Experience of work combined, either formally or informally, with education is also good for youth employment and the transition from education to employment – but too few young people are currently working while they study.
- Helping the young to stay in work is just as important as helping them to move into work in the first place.
- The structure of youth employment has shifted towards lower-skilled work.
- Neither strict employment regulation nor youth minimum wages can be blamed for high levels of youth unemployment.

The nature of youth transitions is diverse across different European countries, and is not only affected by short-term changes in the economy such as those experienced in the last five years. There are much deeper structural differences in how the education system

prepares people for employment, the institutional underpinnings of the labour market, and the impact of the changing structure of the economy on both the types of job available and the workings of the education system.

In most European countries, youth unemployment rates have a long way to fall before they return to pre-crisis levels – and even then the problem of Europe’s malfunctioning transition systems will be far from solved. Fixing Europe’s youth unemployment issues therefore requires deeper reforms, not just short-term labour market programmes or changes to individual aspects of policy such as the dismantling of employment protection legislation (as is taking place in southern Europe). Specifically, Germany’s very low levels of youth unemployment, which are driven by the effectiveness of its ‘dual apprenticeship’ system, offer lessons for other countries.

# INTRODUCTION

Youth unemployment is one of the most serious economic and social problems facing Europe. This was true before the recession and eurozone crisis, and it is even more so now. The costs of persistently high levels of youth unemployment have been widely established: a growing body of evidence suggests that it will have a continuing and long-lasting ‘scarring’ effect on today’s jobless young people, leading to profound economic and social costs that will last well into the future. Looking beyond the need for a return to economic growth, policymakers across the continent are seeking ways to provide short-term support to young people and, over the longer term, to improve the institutions that govern the transition between education and work.

Why is Europe’s most highly qualified generation of young people finding it so difficult to move into work? To begin to solve Europe’s youth unemployment crisis, we first need to understand its underlying causes. This paper sets out the challenges facing European youth in the current labour market. It covers issues related to education systems, the changing structure of European economies, the short-term impact of depressed business activity, and other institutional and structural causes both of the general rise in youth unemployment and of the wide disparities in youth outcomes across different countries.

We conclude that the causes of youth unemployment are complex, and vary from country to country. Too often policymakers seek solutions to the problem of youth unemployment in the narrow context of the labour market – our argument is that they need to broaden their approach and consider all aspects of the transition from compulsory schooling to a job that is suitable to young people’s skills and qualifications.

## How to think about youth unemployment

Young people follow an array of different pathways as they move between education, training and employment. During secondary education they face a choice between different learning routes. While the exact age at which education systems diverge in this way varies across countries, young people can usually continue to study on a vocational or a general educational route within a school or college, or combine education or training with paid work. When they reach school-leaving age they face another choice: to continue studying, to leave education and move into the labour market or, again, to combine the two. Many young people also leave education but then return at a later date.

The sheer variety of pathways between education and work that are available to young people – both within countries and when comparing between them – means that education-to-work transitions are enormously complex, and makes it difficult to generalise about an ‘average’ transition. Many of the statistics that are used to monitor young people’s access to work, such as the youth unemployment rate, compound this difficulty by not offering any distinction between young people whose primary activity is education or training rather than participating in the labour market. Failing to understand this complexity can result in the wrong conclusions being drawn about both the extent of the youth unemployment problem and its fundamental causes.

A growing body of theory and evidence on ‘youth transition regimes’ attempts to provide a fuller account of these issues by looking at the processes by which young people move from education to work, and the deeper underlying structural and institutional bases of the variations in youth outcomes in different countries (Raffe 2008). This approach suggests that a range of indicators are useful in monitoring the ‘health’ of a country’s transition system:

- **Youth unemployment:** the youth unemployment rate tells us how easy it is for young people to find work, and is therefore useful in its own right. However, it is important to distinguish between the level of youth unemployment among people who have left education, and who are therefore transitioning into employment as their primary activity, and those who are still studying.
- **Long-term unemployment:** long-term youth unemployment is of particular concern, since extended periods out of work have been shown to have a negative effect on young peoples' future employment prospects and wages.
- **'NEET-hood':** the proportion of young people not in education, employment or training (NEET) records the level of youth disengagement from both the labour market and the skills system.
- **Length of time between leaving education and finding secure work:** while young people often move quickly between several jobs once they leave education, key to the transition process is how long it takes them to move into a more secure job, which is usually defined in terms of the length of time spent in the role.
- **How these indicators vary between different groups:** a final important dimension is the degree of inequality in outcomes between different groups, particularly those defined by gender, nationality and educational attainment.

This first chapter of this report looks at how different European countries have performed on each of these indicators over time, in order to diagnose where difficulties in youth transitions lie.

The literature on youth transitions suggests that three broad groups of factors determine the relative ease or difficulty of finding work as a young person:

1. **The education system:** educational institutions vary substantially across countries, and change over time. One key distinction is the extent to which vocational rather than general education is provided and accessed. For those young people who do not plan to progress on to higher education, vocational options can provide an alternative that prepares them for earlier entry into the labour market. A second important difference is in the content of vocational education – the degree to which vocational education imparts skills tied to a particular industry or occupation, as opposed to general or transferable skills.
2. **The labour market:** business behaviour affects young people's ability to transition in several ways. The level of job creation determines the number work opportunities available to youths, but the types of job being created are also important – to what extent they are part-time and temporary, and how they map on to the industrial and occupational structure of the economy.
3. **Policy factors:** there are many policy levers that can impact on young people's ability to find work – the degree to which the young unemployed are offered access to unemployment support, for example. The way in which policymakers regulate labour markets through rules governing employment protection and temporary contracts has an effect on business hiring behaviour, as do the methods by which wages are set in different economies.

Chapters 2, 3 and 4 of this report focuses on each of these groups of factors in turn, examining how they affect youth outcomes, how they vary across countries, and whether they have changed over time.

While this paper considers the youth unemployment situation across Europe, it focuses in particular on six European countries: France, Germany, the Netherlands, Spain, Sweden and the UK. These countries were chosen because they face different labour-market challenges, and present a variety of institutional and policy mixes, while being broadly similar in terms of their levels of economic development and income per capita.

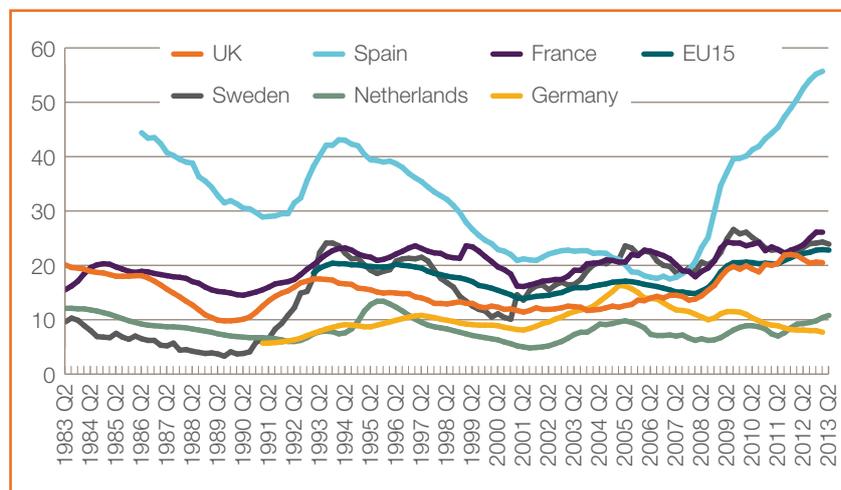
# 1. YOUTH TRANSITIONS IN EUROPE

## 1.1 Quantifying youth transitions

### 1.1.1 The youth unemployment rate

Analysts disagree about how best to measure and quantify youth transitions. The most widely reported measure is the youth unemployment rate – the proportion of economically active 15–24 year-olds who are not in work. ‘Economically active’ young people are those who are either in work, or out of work but actively looking for a job. Figure 1.1 shows the evolution of the youth unemployment rate since 1983 for a selection of European countries, and the EU15 average.

**Figure 1.1**  
Youth unemployment (%) in selected EU countries and EU15 average, Q1 1983–Q4 2012



Source: Eurostat 2013a

Note: In figures 1.1 through 1.4, data for Germany is only available post-reunification, from Q1 1991.

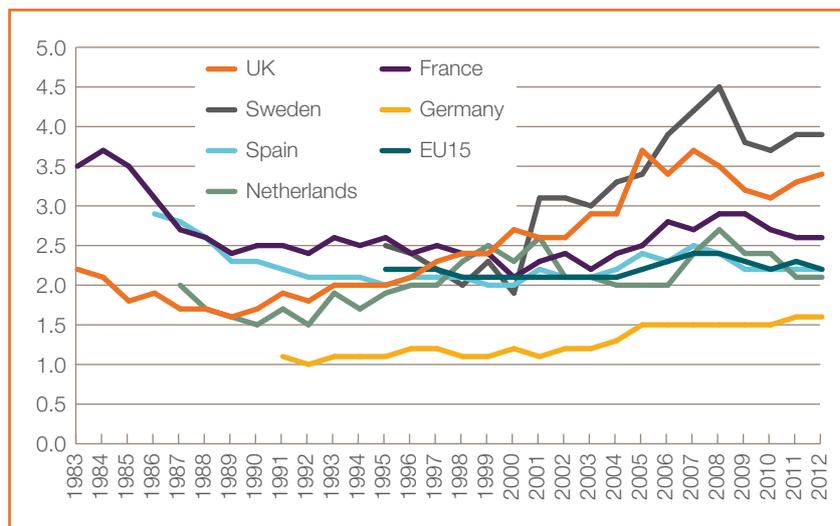
Youth unemployment rates tend to move in a similar direction internationally, at least among the countries shown in figure 1.1. Youth unemployment fell throughout the 1980s, before starting to rise at the beginning of the 1990s and peaking in the middle of that decade. While youth unemployment fell steadily from this peak in Germany, the Netherlands and the UK, in Sweden and France it remained high for much of the remainder of the decade before it began to decline.

Around the turn of the millennium, youth unemployment rates began to increase again in each of the six focus countries. However, from the second peak – around 2005 – these countries began to follow divergent paths. In France, Sweden and the UK, youth unemployment recovered slightly, before worsening rapidly following the financial crash of 2008. In Germany, on the other hand, youth unemployment continued to decline steadily even until the most recent quarter. In the Netherlands, youth unemployment remained low, but the latest data suggests that it has started to rise. Spain has consistently had far higher levels of youth unemployment than the other focus countries, yet its youth unemployment rate was in steady decline from the early 1990s until immediately before the 2008 recession – when it was actually lower than those of France and Sweden. Since then, however, Spain’s youth unemployment rate has risen drastically and shows no sign of levelling off. The eight countries that joined the EU in 2004 (which are not shown on the chart) experienced large reductions in youth unemployment post-accession, but have again been hit hard by the recession.

While for much of the last three decades youth unemployment rates in the six focus countries have tended to move in parallel (though with Spain bucking the trend in some periods), there are persistent and sustained differences between their levels of youth unemployment. In the Netherlands and, for most of this period, Germany, relatively few economically active young people have been out of work. France, Sweden and, to a slightly lesser extent, the UK have tended to have higher unemployment rates. These ongoing differences suggest that there may be enduring causes for the different labour market performances of youths across countries.

While the youth unemployment rate is a useful measure of young people’s performance in the labour market, it is difficult to analyse in isolation from changes in the wider economy. The employment prospects of young workers, and all workers, are to a large extent determined by the economy’s impact on businesses, particularly their short-term hiring decisions. One way to try to isolate the particular issues that young people face is to look at changes in the youth-to-adult unemployment ratio. Figure 1.2 compares the performance of workers aged 15–24 to those aged 25–64. A value of 1 indicates that the unemployment rate is the same for both groups; the higher the ratio is above 1, the worse the unemployment rate of young workers compared to older workers. So, for example, the peak in the Swedish youth-to-adult unemployment ratio in 2008 tells us that the young were four-and-a-half times more likely to be unemployed than workers over 25. As such, there will be less change in the ratio where unemployment is rising consistently, across all age groups in the labour market, than there is where unemployment is rising for younger workers to a greater or lesser extent than for older workers.

**Figure 1.2**  
Youth-to-adult unemployment ratio in selected EU countries and EU15 average, Q1 1983–Q1 2013 (youths aged 15–24 versus adults aged 25–64)



Source: Eurostat 2013a

If we take the unemployment rate of older workers as an indicator of the overall health of the economy then it is clear that much of the change in youth unemployment rates in the 1990s was driven more by wider economic difficulties than by deterioration in youth labour markets specifically. While youth unemployment rates rose across most of the EU, and remained higher than adult unemployment rates, broadly speaking they moved in step with each other.

However, the situation in the period 2000–2008 was markedly different. The evolution of the unemployment ratio shows that youth unemployment was rising in most of the sampled countries, and in the EU15 as a whole, at a much faster rate than adult unemployment. What this suggests is that, even at a time of positive economic growth and little change in overall unemployment levels, the situation for young workers began to worsen well before the financial crisis. Something appears to have happened around the turn of the century that has made it relatively hard for young people to compete in the labour market. Interestingly, in Spain, the recent large rise in youth unemployment is not reflected in the youth unemployment ratio, which implies that the youth and adult unemployment rates have moved in similar directions throughout the crisis.

### 1.1.2 Long-term youth unemployment

One particular area of concern is long-term youth unemployment – those young people who have been looking for work for over a year but are still unable to find a job. Long-term youth unemployment is likely to have a greater ‘scarring’ effect on the young people concerned, which will affect their employment chances well into their adult lives. In a wider context, it also has a subsequent knock-on impact on future adult unemployment rates. In addition, having been unemployed while young has been shown to lower an individual’s wages up to 20 years later (Gregg and Tominey 2004). A history of unemployment may also make employers less likely to hire an individual, and more likely to offer them a lower wage (Arulampalam 2001).

For those who have lost their job, scarring may stem from the loss of experience that they have built up which is specific to that job and employer. However, more important for young people, who are likely to be looking for their first or first significant job, is the fact that long-term unemployment delays the point at which they start to develop experience, and consequently lower their initial and future earnings.

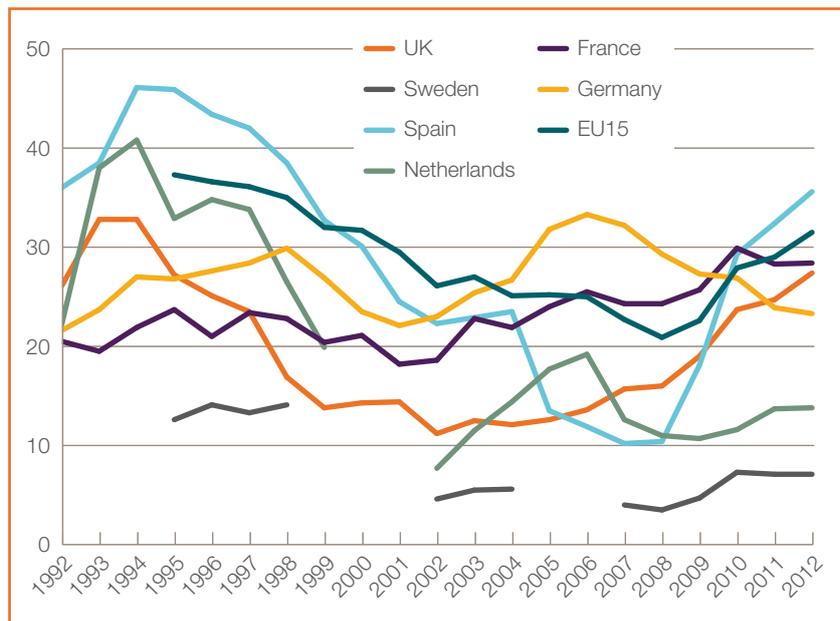
Figure 1.3 plots the proportion of the young unemployed who have been out of work for more than a year. It shows that, in general, long-term youth unemployment tends to follow a similar pattern to the unemployment rate, with initial rises in the number of jobless youths feeding into later growth in long-term youth unemployment. The growth in youth unemployment between 2000 and 2005 in most of the six focus countries is similarly reflected by the rising incidence of long-term youth unemployment.

Two countries in particular present interesting trends. Unemployed young Germans have a particularly high long-term unemployment rate. While the overall youth unemployment rate is low in Germany, those that do find themselves looking for work face a particularly difficult time finding a job. This concentration of youth unemployment in a small group tells us that while most German youth have little trouble finding work, there is a hard core in the labour market that is much more disadvantaged. More recent data shows that this situation is improving in Germany, just as initial recessionary job losses in other countries have started to translate into persistent unemployment.

Sweden, on the other hand, has had a very low rate of long-term youth unemployment given its high youth unemployment rate. While there are data availability issues with particular years, what the figures do tell us is that youth unemployment in Sweden might be driven more by a large number of young people cycling in and out of short-term employment than by a hard core of long-term unemployed youths as is this the case in Germany. While the Swedish situation appears more benign, the evidence on scarring suggests that repeated spells of unemployment do still incur a penalty in terms of future wages (Mooi-Reci 2008).

Not only that, but the higher rate of youth unemployment in Sweden means that its lower rate of long-term unemployment may still translate into a number of economically active young people out of work for over a year similar to that in Germany.

**Figure 1.3**  
Long-term youth unemployment as a percentage of all unemployed youth in selected EU countries and EU15 average, 1992–2012



Source: Eurostat 2013a

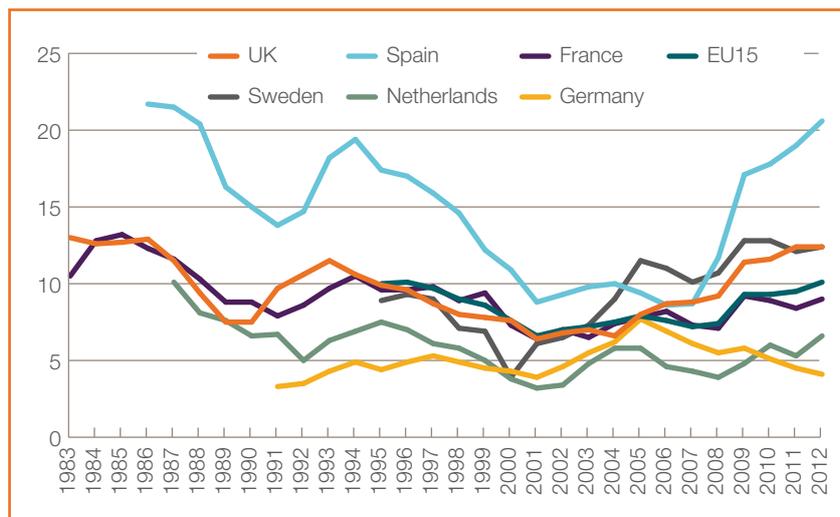
### 1.1.3 Youth unemployment-to-population ratio

The headline youth unemployment rate, described above, has come under criticism in recent years for not being an accurate reflection of the scale of youth labour market distress. There are two broad critiques. First, the youth unemployment rate includes many young people who are in regular education and not working, but who are looking for a job – usually part-time – to fit around their studies. Some have argued that, while this group is of interest, they are of less concern to policymakers than those young people who are not engaged in either regular education or employment, since they are the least engaged in skills acquisition (through education) which should increase their future ability to find work (Allen 2013). Therefore, the youth unemployment rate may overestimate the long-term impact of youth worklessness. It is often suggested that we should instead look at the number of unemployed young people as a percentage of the total youth population (figure 1.4).

While this is a useful indicator of the relative scale of the youth unemployment challenge, it does not tell us a great deal about either the difficulty of finding work, or about wider problems concerning youth labour-market exclusion. A similar critique argues that measures focused on youth unemployment rates actually underestimate labour market distress by not considering those young people who are not looking for work and not in education, but who are nevertheless not counted as being unemployed. While this group may include some youths who are not seeking work for reasons unrelated to the state of the labour market – they may be having a short break between periods of education, for example – it also includes those who may face barriers to working, such as inactive youths with disabilities or caring commitments, and ‘discouraged’ workers who are not looking for work because they believe there is none available. A more complete measure

of issues facing the young would take account of these groups, while also accounting for those young unemployed who are in education (Bivand 2011).

**Figure 1.4**  
Youth unemployment as a percentage of the youth population in selected EU countries and EU15 average, 1983–2012



Source: Eurostat 2013a

Both of these criticisms of the youth unemployment rate are entirely valid, but they do not render it redundant. Comparing the youth unemployment rate over time and across countries gives us a crucial understanding of how hard or easy it is for young people to find a job if they are looking for one, and so it can be thought of as a measure of how ‘youth-friendly’ labour markets are.

#### 1.1.4 Youth participation and inactivity

What the youth unemployment rate does not do is present a complete picture of the issues which face the youth population as a whole when they make the transition from education to work; it also fails to include those young people who are neither working and nor looking for work. The best way to analyse all these issues together is to compare the youth population in its entirety over time by its participation in employment, education and training, and by the reasons behind any inactivity.

Figure 1.5 illustrates, for the EU15 and for the six sample countries, the proportion engaged in different activities in 2007 and 2011 respectively. It shows that the vast majority of young people, both in 2007 and in 2011, were either employed, or in some form of education and training and not looking for work. Furthermore, within the ‘unemployed’ bracket there tended to be a small share of people who are also in education or training (although this proportion is significantly greater in both Sweden and the Netherlands).

There are large differences between countries in the proportion of young people who are in work. The Netherlands and the UK, and to a lesser extent Germany, have higher youth employment rates than France and many other EU countries. In the case of Germany, this largely reflects the importance of apprenticeships – young people undertaking them are counted as employed. Similarly, the high youth employment rate in the Netherlands reflects the fact that more young people combine study with part-time work than elsewhere (see chapter 2). In the UK, because young people tend to leave education at an earlier age than in many other European countries, a greater proportion of the youth population is

economically active.<sup>1</sup> In France, Spain, and in many southern European countries, young people tend to remain in the education system for longer, and are less likely to combine work with study, which results in significantly lower youth employment rates. In Sweden, the majority of unemployed youth – 8 per cent of the youth population – are in education or training.

**Figure 1.5**  
The youth population of selected EU countries and EU15 average, by participation in employment, training and education (%), 2007 and 2011



Source: IPPR analysis using Eurostat 2013b

## 1.2 Measuring transition systems

### 1.2.1 NEETs

In considering countries' education-to-employment transition systems, we are particularly interested in two groups of young people: those not engaged with skills acquisition through education, training or work; and the employment prospects of young people once they have left regular education.

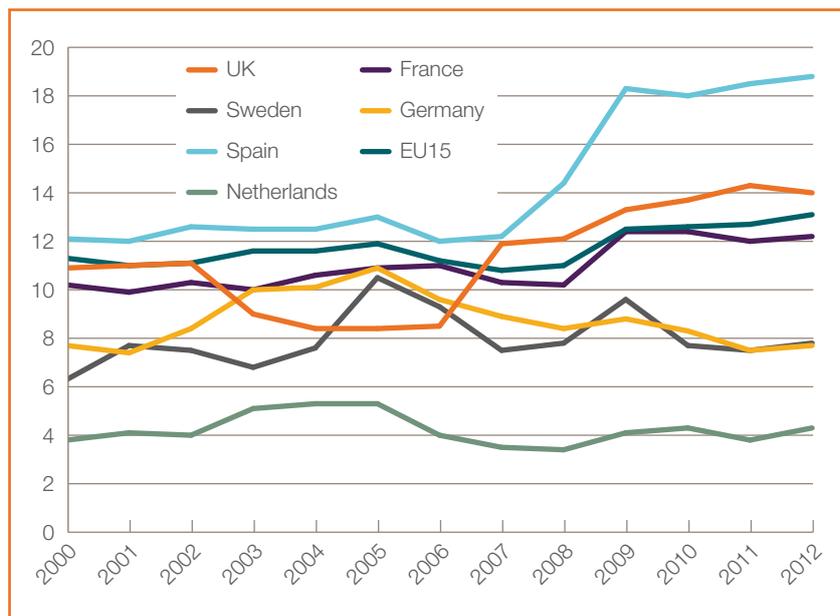
The first group can be captured by looking at the proportion of young people not in employment, education or training (NEET) (see figure 1.6). This group is most at risk of disengagement from the labour market, with the NEET rate providing an indicator of exclusion both from the labour market and from education and training opportunities. The OECD suggests that 'having few individuals who are [NEET] is a sign of a healthy transition from school to work' (OECD 2013a).

The NEET rate appears to be more stable than the youth unemployment rate, and has not risen as severely either post-2000 or since the 2007–2008 recession. This is partly because many young people are likely to respond to difficulties finding work not by

<sup>1</sup> The school leaving age in the UK is 16, whereas in the Netherlands, for example, it is 18.

becoming inactive, but by withdrawing from the labour market and moving into education and training as a means of improving their future job prospects.

**Figure 1.6**  
Percentage of the youth population (aged 15–24) not in employment, education or training (NEET) in selected EU countries and EU15 average



Source: Eurostat 2013c

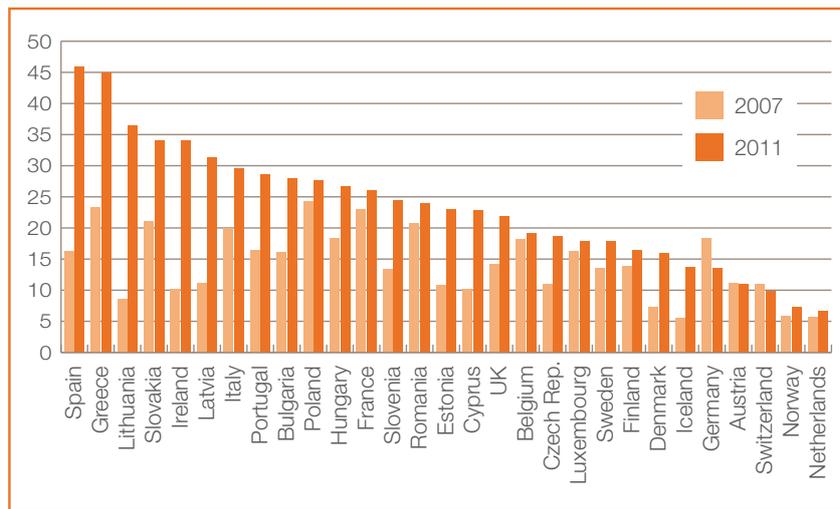
Germany presents an interesting case. The fact that its internationally low unemployment rate has not translated into an equally low NEET rate suggests that what education-to-employment problem there is in Germany might be more related to inactivity and labour-market exclusion than to unemployment.

### 1.2.2 Post-education employment outcomes

The employment outcomes of young people who have completed their education are also important. These represent an important measure of how effective a country's transition system is at moving young people into work.

Figure 1.7 illustrates this by plotting the unemployment rate of young people not enrolled in education or training for European countries in both 2007 and 2011. Again, there is wide variation between countries. In the Mediterranean economies of Spain and Greece the unemployment rate for this group was around 45 per cent in 2011, having increased enormously since 2007. The lowest unemployment rates are seen in the Netherlands, Norway, Austria, Switzerland and Germany, each of which have unemployment rates of below 15 per cent for this group. The relationship between Sweden and France, two countries whose overall youth unemployment rates are very similar, appears quite different when focusing solely on the post-education group. At 18 per cent, Sweden's unemployment rate is relatively low for this demographic, but in France the same figure is 26 per cent. This disparity is due to different experiences among students: in France the unemployment rate among young people in education is 11 per cent, whereas in Sweden it is 29 per cent. This suggests that there may be a lack of part-time jobs that fit around education in Sweden, whereas in France a lack of entry-level vacancies for those beginning their careers may pose the greater problem.

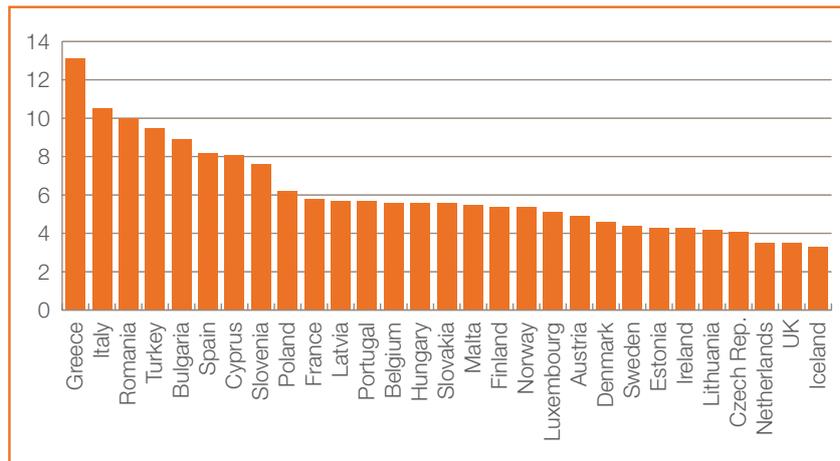
**Figure 1.7**  
Unemployment rates (%) of young people who have left education in selected European countries, 2007 and 2011



Source: IPPR analysis using Eurostat 2013b

Another way of measuring the outcomes of youth transition systems is to track how quickly young people move into work after completing their education. While data in this area is limited, the EU carried out a one-off survey on youth transitions in 2009 which recorded the length of time it took a young person leaving regular education to secure their first job (which lasted for more than three months). Figure 1.8 presents the headline results from this question, for all the countries included in the survey, for 18- to 34-year-olds who left education in the five years to 2009.<sup>2</sup>

**Figure 1.8**  
Average length of time (months) between leaving education and finding first job (of more than three months' duration) among 18–34 year-olds in selected European countries, 2009



Source: Eurostat 2013c

Some of the best performers on this measure are not those that one might expect. While the UK does not have particularly low unemployment rates for young people who have left education relative to other countries, the average length of time it takes for a young people to move into work is less than four months – the second shortest average timescale after Iceland. Though this might be surprising, it does fit with the findings of the literature on school-to-work transitions which are discussed at greater length later in this

<sup>2</sup> Data for Germany was not collected for this variable.

paper. It has been shown that, while transitions tend to be short in the UK, the average duration of first jobs is also short. Young people in the UK and other countries such as Ireland face a patchy start to their careers, whereas in other countries such as Spain and Greece initial transitions take longer (as is shown in figure 1.8), but first jobs also tend to be more secure and longer-lasting

### 1.3 The situation for different groups

The data presented above focused on the youth population as a whole, and on participation in education and training. However, another important dimension to youth transition systems is inequality in outcomes between different demographic groups within the youth population. Some groups are at greater risk of worklessness than others, and there are clear differences in their unemployment and NEET rates. These differences are important to explore, since they tell us the extent to which overall increases in youth unemployment or ‘NEET-hood’ are driven by specific groups, and point to where governments should focus their resources in order to tackle these issues.

#### 1.3.1 Age

The performance of 15- to 19-year-olds in the labour market is very different to that of 20- to 24-year-olds. While 15- to 19-year-olds are much more likely to be in regular education, and therefore be out of the labour market, in most countries they have also been growing as a proportion of NEETs.

**Table 1.1**  
Youth unemployment rates (%) for teenagers (15–19) and older youth (20–24) in selected EU countries and EU15 average

	15–19			20–24		
	2000	2005	2012	2000	2005	2012
<i>EU15</i>	17.9	19.9	27.0	15.3	15.3	20.6
Germany	7.8	15.0	9.2	8.9	15.7	7.8
France	26.1	26.1	32.7	19.2	19.2	21.8
Netherlands	7.8	10.5	12.7	3.3	6.5	7.1
Spain	34.3	29.1	72.6	22.6	17	49.1
Sweden	10.1	33.4	36.3	9.3	17.5	18.8
UK	15.8	17.9	30.2	9.5	9.5	16.7

Source: Eurostat 2013a

Teenagers who are participating in the labour market also tend to face a much higher risk of unemployment than older youths. As of 2012, this is true of each of the six countries focused on in this report, although in 2000 the risk faced by teenagers in Germany was dramatically lower than elsewhere. In some countries, particularly France, Sweden, and the UK, the unemployment rates for teenagers are more than 10 percentage points higher than for older youths.

Between 2000 and 2005 the risk of teenage unemployment increased drastically in Sweden and Germany. But relatively few teenagers participate in the labour market for anything other than a part-time job to fit around their education. This is apparent in the proportion of the total youth population who are NEET (see table 1.2) – teenagers have a significantly lower risk of NEET-hood.

**Table 1.2**  
NEET rates for teenagers (15–19) and older youths (20–24) as a percentage of the total population in each group, in selected EU countries and EU15 average, 2000, 2005 and 2012

	15–19			20–24		
	2000	2005	2012	2000	2005	2012
EU15	6.9	7.3	7.2	15.7	16.2	18.4
Germany	2.8	4.2	4.2	13.1	17.6	10.6
France	5.1	5.7	6.3	15.8	16.1	17.9
Netherlands	2.2	3.1	2.0	5.5	7.5	6.4
Spain	8.7	10.7	10.5	14.9	14.9	26.1
Sweden	3.0	8.0	4.1	9.1	13.3	11.2
UK	7.5	6.3	7.8	14.4	10.5	19.4

Source: Eurostat 2013c

The high unemployment rate of teenagers is therefore a problem which mainly confronts early leavers from school – a small group relative to the total population, but one that tends to have fewer qualifications and therefore faces a particularly high risk of labour-market exclusion.

### 1.3.2 Gender

The increased risk of youth unemployment post-2000 and post-financial-crisis has broadly been shared between genders, although with some persistent differences. In 2012, men faced a higher risk of youth unemployment than women, except in the Netherlands.

**Table 1.3**  
Youth unemployment rates (%) in selected EU countries and EU15 average, by gender

	Male			Female		
	2000	2005	2012	2000	2005	2012
EU15	15.1	16.4	23.1	17.2	16.9	21.3
Germany	9.5	16.8	8.8	7.4	14.0	7.3
France	19.0	19.5	23.9	22.6	21.9	23.7
Netherlands	4.7	8.0	8.9	5.9	8.4	10.0
Spain	19.6	16.7	54.4	32.1	23.4	51.8
Sweden	10.8	23.3	25.0	8.1	22.4	22.2
UK	13.5	14.3	23.6	10.4	11.0	18.0

Source: Eurostat 2013a

This is partly related to the kinds of job that young men tend to do: construction, for example, which employs more men than women, has been particularly badly hit by the economic downturn. Another explanation for the higher risk of long-term youth unemployment that young men face is that young women are more likely to leave the labour force following a spell of unemployment.

Where young women do work, they are more likely to work in the public sector which, while initially shielded from job losses in the private economy, has become more at-risk of job destruction following national programmes of fiscal consolidation (Lodovici and Patrizio 2013).

This is reflected in the NEET rates in many, but not all, countries (see table 1.4). In Germany, France and the Netherlands women are more likely to be NEET, although in both Sweden and the UK the opposite is true. In Spain, women faced a considerably higher risk of NEET-hood prior to the recession, but since the recession they have been overtaken by men.

**Table 1.4**  
NEET rates (%) by  
gender in selected EU  
countries and EU15  
average

	Male			Female		
	2000	2005	2012	2000	2005	2012
EU15	9.5	10.7	12.9	13.2	13.1	13.3
Germany	6.5	10.1	6.9	8.9	11.6	8.4
France	8.8	10.1	12.5	11.5	11.7	12.0
Netherlands	2.4	5.0	3.9	5.3	5.5	4.7
Spain	10.2	11.1	19.6	14.1	15.1	17.8
Sweden	6.8	11.0	7.9	5.8	10.1	7.8
UK	8.6	7.3	12.9	13.3	9.5	15.1

Source: Eurostat 2013c

### 1.3.3 Country of birth

In general, foreign nationals face a much higher risk of youth unemployment than nationals. Across the EU15, the disparity between the unemployment rates of these two groups has widened considerably, from less than 3 per cent points in 2000 to 9 per cent in 2012. This pattern varies between countries – while the unemployment rates of nationals and non-nationals has converged in the UK, they have widened substantially in other countries, including Sweden.

**Table 1.5**  
Youth unemployment  
rates (%) by nationality,  
in selected EU countries  
and EU15 average

	Foreign country			Reporting country		
	2000	2005	2012	2000	2005	2012
EU15	16.6	21.6	30.5	13.8	16.4	21.5
Germany	11.8	24.4	14.4	8.1	14.6	7.5
France	32.7	29.3	34.9	20.1	20.3	23.4
Netherlands	12.8	25.4	22.6	5.0	7.7	9.1
Spain	25.9	19.7	56.7	25.2	19.6	52.3
Sweden	-	32.9	40.9	9.0	22.4	22.9
UK	18.6	16.4	20.1	11.8	12.6	21.0

Source: Eurostat 2013a

Note: Swedish data not available for 2000 due to small sample size.

While many foreign national youths in Europe are economic migrants, the barriers to employment that face migrant youths more widely – particularly those in minority ethnic groups – are widespread. Many are geographically and socially segregated into economically disadvantaged areas and communities with weaker employment networks. They also face a higher risk of discrimination, and there are often cultural barriers between employers and young migrants which increase their distance from the labour market (Froy and Pyne 2011).

## 1.4 Conclusion

Youth unemployment has increased in most European countries over the last six years, largely as a result of recession and weak economic growth. However, there is clear evidence that youth unemployment was already increasing relative to adult unemployment for several years before the financial crisis. It is therefore unlikely that economic recovery alone will be sufficient to bring youth unemployment back down to acceptable levels. There are also signs that the group of unemployed youth that is most at risk of long-term scarring and continued disengagement – those that have been out of work for more than a year – is continuing to grow.

However, a narrow focus on headline measures of youth unemployment is not enough to provide a full understanding of the problems that currently face young people. Youth unemployment rates must be seen in the wider context of the numbers of people in education and training, including those not in, or not actively seeking, employment. From this perspective, it is apparent that young people's transition from compulsory education to employment has become more difficult in recent years.

This suggests that deeper changes in the structure of transition systems are at work. While the proportion of young people who are NEET has not increased to the same extent as unemployment rates, this is likely to be driven by rising numbers of young people staying on in education as a response to difficulties in the labour market. While this may be encouraging in terms of the resultant increase in the youth population's skills base, unemployment rates among those young people who have left education and fully entered the labour market have increased dramatically since 2007. This suggests that the process of matching young people to jobs and careers continues to be dysfunctional.

Measures to improve the lot of young people will, therefore, have to encompass a range of areas, including education and training, business behaviour and labour market institutions. The existing situation in each of these areas differs from country to country, and so any responses also will have to be tailored to specific national circumstances.

## 2. EDUCATION, TRAINING AND YOUTH UNEMPLOYMENT

Beyond the short-term impact of recession, the evidence discussed in chapter 1 suggests that high youth unemployment is the result of a longer-term structural phenomenon which emerged around the turn of the millennium in many European economies. One factor often cited as an explanation for this change is a deterioration in the skills of individual young people. It is suggested that an increasing number of young people lack the ‘employability skills’ needed to both find and remain in work; and, furthermore, that the content young people learn in education and training has become increasingly divorced from the needs of employers, meaning that they enter the labour market without skills that are relevant to the jobs available (CBI 2011). However, the impact of education, as well as its institutional arrangements, differs widely between countries. While education can’t explain all of the cross-border variation in youth unemployment, it does appear that the characteristics of a country’s education system – particularly on the vocational side – are highly significant.

Education affects youth unemployment in two ways. First, the majority of young people withdraw entirely or partially from the labour market for a number of years in order to engage with regular education. Shifts in the number and characteristics of young people who stay on in post-compulsory education therefore have an impact on aggregate unemployment and NEET rates.

Second, by engaging in skills acquisition through education, informal on-the-job training and experience of work, young people increase their chances of subsequently finding and staying in work. While ‘skills’ can refer to a wide variety of individual characteristics, in the employment context it refers to a combination of educational attainment (in the form of qualifications) and the accumulation of either general or firm-specific employment experience and capabilities. There are two primary ways in which young people gain these skills: through education and training, and by gaining experience of work. Both have been shown to be significant determinants of individuals’ ability to find work, to find more secure work, and to earn a higher wage. The precise nature of the link between these factors and employment outcomes has, however, been the subject of debate.

Some argue that studying for qualifications, engaging in training and gaining work experience directly increases individuals’ productivity, thereby enabling them to complete more complex, higher-value tasks with less supervision; they may also attain a greater aptitude for job tasks associated with specific occupations or firms. Others suggest that, rather than directly increasing productivity, educational qualifications and work experience act primarily as signals to employers of the inherent ability of individuals. This theory suggests that individuals enter education with a predetermined level of skill, but that they can only communicate their skill level to employers through accreditation, or by building up an employment history (Weiss 1995).

Whatever the mechanism by which education and experience translates into employment, the existence of a positive link is broadly accepted – empirical studies have demonstrated that those with higher-level qualifications tend to experience a much lower unemployment rate (OECD 2013b). However, the distinction between the two positions outlined above becomes important when considering the fact that first, the skill levels of individuals with a similar level of qualification level may vary, and second, that there may be differences between those of different skill levels which go beyond qualifications. These points need to be borne in mind when considering the impact of educational attainment.

### Comparing qualifications internationally

It is notoriously difficult to compare qualifications across different national contexts. Education systems and the content and length of study programmes vary considerably, and therefore have different impacts on young people’s education-to-work transitions. In this paper we use the 1997 version of the International Standard Classification of Education (ISCED), an internationally-agreed system used to standardise and compare levels of education between countries.

While they are broken down into many levels, ISCED statistics fall into three broad categories:

- **0–2: Up to lower-secondary education (early school-leavers).** Pre-primary to lower-secondary education. In England, Wales and Northern Ireland this is equivalent to achieving less than five GCSEs at A\*–C, or an NVQ level 1 or lower.
- **3–4: Upper-secondary and post-secondary non-tertiary education.** Equivalent to five GCSEs at A\*–C, A-levels and HE access courses.
- **5–6: Higher education.** The first and second stages of tertiary education. Equivalent to qualifications at NVQ level 4 and above, including degrees.

The idiosyncratic nature of education systems in individual countries often means that the ISCED classification generates strange equivalences. The fact that very few young people in Germany, for instance, are categorised as having high-level qualifications is partly caused by the fact that the German dual apprenticeship is recorded as a mid-level qualification in the ISCED 1997 schema – yet it seems odd to compare a German apprenticeship to five GCSEs. While within this report we do recognise this issue of equivalency, we believe that the discernible differences between the employment prospects of individuals with different levels of educational attainment as defined by the ISCED 1997 offers sufficient justification for their use.

## 2.1 Educational attainment

The impact of qualification levels on youth unemployment is clear in the recent experience of European youth (table 2.1). In the EU15 the gap between the employment rates of those with low or no qualifications, mid-level and higher education qualifications has widened considerably, especially between 2000 and 2005.

**Table 2.1**  
Youth unemployment rates (%) by ISCED 1997 level of education, in selected EU countries and EU15 average

	ISCED 0–2				ISCED 3–4				ISCED 5–6			
	2000	2005	2007	2012	2000	2005	2007	2012	2000	2005	2007	2012
<i>EU15</i>	19.4	20.8	19.8	30.3	14.2	14.1	12.2	18.7	12.4	12.4	10.7	17.1
Germany	9.7	17.8	15.7	12.2	7	13.6	8.8	5.7	6.8	6.8	6.5	4.4
Spain	24.6	21.8	20.4	59.9	25.7	17.2	16.6	49.7	26.6	26.6	13.6	39.8
France	31.2	30.4	30.2	37.8	17.7	17.9	16.1	21.4	11.4	11.4	12.5	14.7
Netherlands	7.4	11.2	8.4	13.3	2.8	5.7	3.9	6.8	-	-	2.7	5.1
Sweden	11.4	33.2	32.9	38.6	9.4	16	12.9	18.1	-	-	11.6	14.1
UK	21.5	22.6	26.4	37.2	8.6	9.5	11	18.8	5.6	5.6	7.5	12.6

Source: Eurostat 2013a

Looking at youth unemployment rates by qualification level, while useful, is nevertheless still subject to the same caveats about headline unemployment figures set out in the previous chapter. Since many of those with low- or intermediate-level qualifications are

still in education, and therefore progressing towards the next level of it, these figures do not tell us much about how qualifications impact on the transition between education and work. Therefore, table 2.2 shows our analysis of the unemployment rates of those who are no longer in regular education, split by their highest level of qualification, across the six focus countries in both 2007 and 2011.

**Table 2.2**  
Unemployment rates (%) of youth who have left education by level of highest qualification, in selected EU countries, 2007 and 2011

	ISCED 0–2		ISCED 3–4		ISCED 5–6	
	2007	2011	2007	2011	2007	2011
Germany	42.1	32.3	9.9	8.3	4.4	4.4
Spain	18.4	51.8	14.2	40.1	11.9	34.8
France	40.0	44.3	18.8	22.5	13.0	15.4
Netherlands	10.3	10.5	3.7	4.9	1.9	4.2
Sweden	22.0	33.3	10.2	15.8	9.0	9.9
UK	25.7	37.3	11.1	18.1	6.5	13.4

Source: IPPR analysis using Eurostat 2013b

In France, Sweden and the UK, unemployment rates increased across the board between 2007 and 2011 for those who had left education, particularly for those with low or no qualifications. This is even true of graduates – notably so in the UK, where the unemployment rates of those with degrees increased by around 6 percentage points during that four-year period.

In Germany, those with low- or mid-level qualifications actually saw their situation improve between 2007 and 2011, and in the Netherlands there were only small rises from very low initial rates. It is also worth noting that German young people who had left education with low or no qualifications fared very poorly – Germany had the highest unemployment rate among low-skilled youth of the six focus countries in 2007. Although the situation for this group has improved markedly in recent years compared to their peers in other countries, their unemployment rate remains high.

While the international disparity between the employment outcomes of higher education graduates is less stark, it is worth noting that graduates make up a relatively small proportion of the youth population in most countries, and they therefore only have a small effect on aggregate unemployment and NEET rates. Only 10 per cent of Europe’s unemployed youth, and 7 per cent of its NEETs, are graduates (Eurostat 2013a and 2013b respectively). This is not to say that the rising rate of graduate youth unemployment in some countries, Spain in particular, is not an issue: it has important implications for the economy in terms of the demand for and supply of skilled workers. However, graduate youth unemployment is not a significant component of the high levels of youth unemployment across Europe.

Examining the length of time it takes for young adults to make the transition from education to employment, when subdivided by qualification level as in table 2.3 the data suggests that those with higher levels of educational attainment experience shorter transition lengths than those with mid- or low-level qualifications. Just as important, however, are the substantial differences between countries: on average it takes longer for a Spanish higher education graduate to make the transition than even the lowest-skilled brackets of young people in the Netherlands, Sweden and the UK.

**Table 2.3**  
Average length of time (months) between 18–34-year-olds leaving education and finding first job of more than three months' duration, by education level, in selected EU countries and EU27 average, 2009

	ISCED 0–2	ISCED 3–4	ISCED 5–6
EU27	9.9	7.3	5.1
Spain	10.2	8.8	7.0
France	9.8	6.6	4.6
Netherlands	6.4	3.3	3.0
Sweden	5.6	5.0	3.5
UK	6.4	3.2	3.0

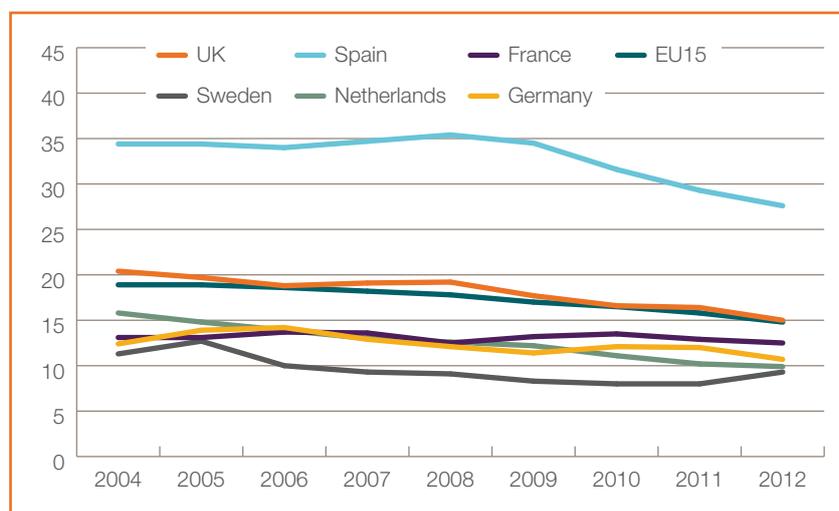
Source: Eurostat 2013c

Since those with low or no qualifications face a particularly difficult transition from education to work, the trend over time in the numbers of people who do not progress beyond ISCED level 2 may be an important driver of the differential performance of youth labour markets across countries.

Figure 2.1 plots the share of 18- to 24-year-olds who have left education with low or no qualifications. Encouragingly, it shows that in most of our focus countries the proportion has fallen in recent years – in 2012, between 10 and 15 per cent of recent education-leavers fell into this group. Spain, on the other hand, has a particular issue with low educational attainment, with over a quarter of its young people leaving education with low or no qualifications, although this proportion has fallen rapidly during the current economic crisis. It is likely that the difficulty of finding a job in Spain has encouraged more young people to stay on in education and attain intermediate- or higher-level qualifications.

This data suggests that rises in aggregate youth unemployment rates are not being caused by growth in the shares of young people leaving education with very low qualifications. However, the poor performance of those left behind is still worrying. In fact, it is likely that rises in the average level of educational attainment in the school-leaver population mean that possessing very low qualifications sends an even more negative signal to employers about an individual's ability than it might have done in the past.

**Figure 2.1**  
Proportion (%) of 18- to 24-year-olds not in education with low or no qualifications (ISCED 0–2), in selected EU countries and EU15 average, 2004–2012



Source: Eurostat 2013c

## 2.2 Educational institutions

It is clear from the evidence above that those with intermediate or higher-level qualifications tend to perform better in the labour market than those with low or no qualifications, both in general and once they have left education. However, there are also substantial differences across countries between the employment rates of young people with similar educational levels. For instance, the post-education unemployment rates in 2011 for those with intermediate-level qualifications were 18 per cent in the UK and 23 per cent in France, in contrast with 8 per cent in Germany and 5 per cent in the Netherlands.

While these striking disparities also relate to the wide variety of other factors which affect aggregate youth unemployment discussed elsewhere in this report, a large body of research has found that differences in educational institutions – and in particular differences in how mainstream, and how high-quality, vocational education and training routes are – between countries may be important. In the EU27 as a whole, 75 per cent of 20- to 24-year-olds who have left education with an upper-secondary vocational qualification are in employment, compared to 68 per cent of those with a general education qualification. This effect appears to be enduring: 79 per cent of 25- to 29-year-olds and 81 per cent of 30- to 34-year-olds with a vocational qualification are employed, whereas only 75 per cent and 77 per cent respectively of those with a general qualification are in work (CEDEFOP 2013).

Clearly, the shares of young people enrolled in vocational education and training relative to those in general education is likely to have an impact on aggregate measures of youth transitions. Figure 2.2 illustrates the proportion of young people studying at upper-secondary level who are enrolled in a vocational (as opposed to general) qualification, for a selection of OECD countries.<sup>3</sup> There is considerable variation between countries, with east Asian and Anglo-Saxon economies such as Canada, Korea, Ireland and the UK tending to have the lowest levels of vocational education.

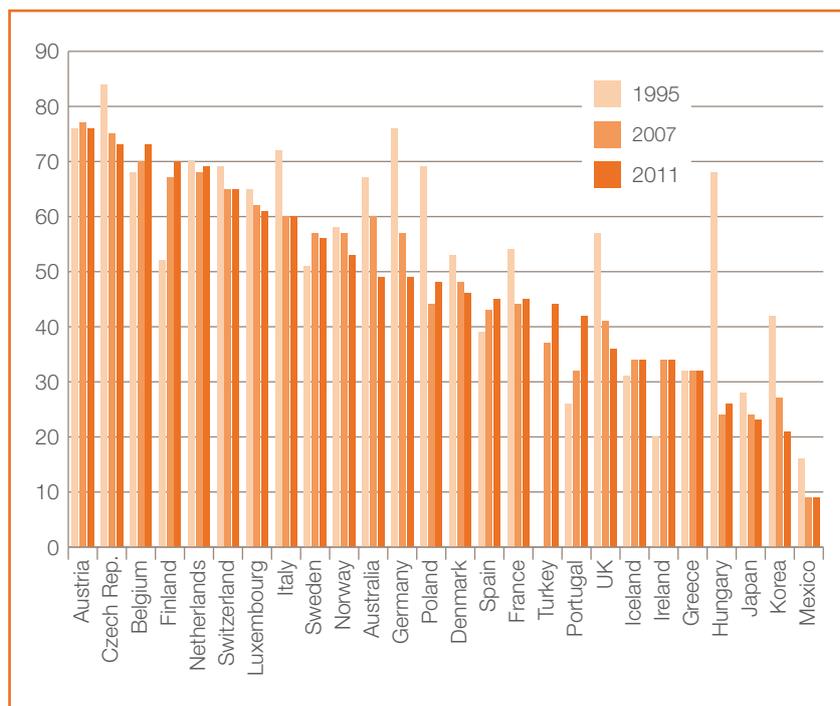
Countries also differ in the extent to which their vocational education and training offerings have expanded or retrenched over time. In the UK, over half of upper-secondary students were enrolled in vocational education in 1995, but in 2011 this had fallen to less than 40 per cent. Similarly, while Germany is often noted for its high-quality vocational system, the data presented below indicates a rapid decline in the proportion of German students taking the vocational route, from almost 80 per cent in 1995 to less than half in 2011.

Vocational education and training systems vary considerably, but from the perspective of youth unemployment two dimensions are particularly important (Bol and van der Werfhorst, forthcoming). The first is the extent to which vocational education is standardised within countries. For employers to reliably assess the quality of potential applicants when hiring, they need to have confidence in both the content that is taught to those on vocational courses, and the ways in which they are assessed. This confidence can be fostered by regulating the content of curricula and the way in which they are taught, and by ensuring that students who take the same course in different institutions are assessed against the same criteria, through externally regulated examinations. Without this standardisation, employers lack vital information about jobseekers, and qualifications become less useful as tools for young people to signal their skills and get matched to jobs.

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3 'Upper secondary education' would cover GCSEs and A-levels, or NVQ levels 2 and 3, in England, Wales and Northern Ireland.

**Figure 2.2**  
Proportion (%) of upper-secondary students enrolled in vocational education in selected OECD countries, 1995, 2007 and 2011



Source: OECD 2013

The second important dimension is the extent to which vocational education imparts skills that are specific to certain occupations or sectors. Some vocational systems, such as Germany's, run 'dual apprenticeship' programmes that combine training in a firm alongside education in schools and colleges, which lead to a qualification that signals proficiency in a narrowly defined occupation. Some other countries, such as the Netherlands, offer a smaller proportion of apprenticeships alongside courses based primarily in schools but which have a small workplace component linked to specific roles and sectors. It has been argued that the acquisition of specific skills help young people by directly signalling their proficiency to potential employers and, in the case of dual apprenticeships, by helping them acquire experience of the workplace and links with individual employers. Other vocational systems like that of Sweden instead offer broader vocational qualifications that cover much wider areas of employment. Finally, vocational education in the UK and Ireland includes some school-based vocational education, alongside smaller apprenticeship routes that are weighted more towards experience of the workplace than training in a school or college.

Across the EU, graduates of joint school- and workplace-based vocational courses who have left education appear to enjoy the lowest unemployment rate – 11 per cent – relative to their peers. By comparison, unemployment rates are 17 per cent among those who completed workplace-based vocational education, and 22 per cent among school-based vocational graduates (data refers to 2009) (Eurostat 2013b).

One way to assess the success of each country's vocational mix is to compare the post-education unemployment rates of those completing general qualifications at an upper-secondary level with those of people completing vocational qualifications, and of people who have low or no qualifications (see table 2.4). Since the idea behind general

academic qualifications at this level is that they are primarily a progression route into higher education, we can expect that they will therefore be less effective at facilitating immediate labour-market entry than vocational qualifications.

**Table 2.4**  
Unemployment rates of young people who have left education, by orientation of qualification and level of education, in selected EU countries, 2009

	General education at ISCED level 3–4	Vocational Education at ISCED level 3–4	Education at ISCED level 0–2
Germany	21.2	9.6	43.1
Spain	27.8	30.0	44.7
France	21.7	25.5	44.2
Netherlands	7.5	4.7	13.1
Sweden	17.6	18.1	38.0
UK	15.3	16.4	30.0

Source: IPPR analysis using the EU Labour Force Survey and CEDEFOP 2013

Note: Data refers to all youth with qualifications below the level of higher education (defined as ISCED levels 5–6).

Of our six focus countries, only Germany and the Netherlands have a lower unemployment rate for graduates of vocational rather than general education at the secondary level. Vocational study does not guarantee any improvement in the employment prospects of youth in Spain, France, Sweden and the UK relative to general education. On the other hand, vocational education does appear to improve youths’ job prospects compared to those with low or no qualifications in each of the countries.

The system of joint vocational education and work, commonly known as a ‘dual apprenticeship’ model, is relatively widespread in Germany because many employers and unions are strong supporters of the system. Aside from ensuring the continued provision of apprenticeship places, it has been argued that this high buy-in also helps to ensure that the skills young people learn from vocational qualifications are aligned with business needs, and that young people learning on the job fosters direct links with employers. While the Dutch vocational system is more focussed on schools and off-the-job training, it is believed to achieve similar outcomes largely because of significant private sector input into the funding and organisation of training (Casey 2013).

The intermediate system of school-based vocational education, typified the systems in France and Sweden, is less highly regarded than either the dual apprenticeship or Dutch models. It is commonly criticised for not making students sufficiently ‘job-ready’, for operating at a distance from business, and for not updating its content in-line with the changing needs of the economy. Where systems of this type operate, apprenticeships are either not widespread – as is the case in Sweden – or are a popular but small part of the system, as in France (Steedman 2010).

In the case of the UK, where the majority of young people go into general education, only some of those on a vocational education track pursue a workplace-based route. Many of these are apprenticeships, but they are very different from those of the German ‘dual model’. In the UK the apprentice tends to spend less time engaged in off-the-job learning, the length of the apprenticeship tends to be shorter, and most final qualifications are ranked at a lower level (ISCED level 2) than in Germany (ISCED level 3) (Steedman 2010). Furthermore, prospective students and employers view the school-based vocational track as a lower-status pathway than the general academic route. This weakens the labour-market signals of vocational qualifications, many of which do not generate a significant employment return (Wolf 2011).

While the data appears to back up the widely recognised strong performance of German-style dual apprenticeships in terms of their employment effects, it should nevertheless be noted that the system may bring longer-term disadvantages with it. Hanushek et al (2011) looked at how the orientation of an individual's qualifications affects how their employment chances evolve over their life-course. They found that those who have completed vocational education do initially perform better in the labour market, but as a cohort ages, general education appears to provide better insulation against unemployment – particularly in countries with a large proportion of vocational students in apprenticeships. They suggest that rapid technological change may expose the low adaptability of specific vocational skills. Indeed, one of the advantages of a school- or college-based system of vocational education is that it can teach general skills which are not tied to firms' immediate interests. This gives young people an increased capacity to switch careers and learn new job tasks (ibid).

Similarly, Korpi et al (2003) looked at the impact of vocational education over the longer term in the UK, Sweden and the Netherlands, three countries with very different education systems. They found that at the beginning of a career, vocational qualifications tended to be more useful than general qualifications of a similar educational level, but that over time this difference disappears: once young people have started out on a stable career path, they suggest, general qualifications allow for more retraining. Interestingly, they found little difference between the three countries in this regard.

The evidence presented above seems to suggest that, while broad qualification levels do matter, the *orientation* of qualifications – particularly among the large number of youth who gained their highest qualifications during secondary education – is just as important. This means that differences in vocational systems between countries are strongly linked to the varying performances of their youth labour markets.

### 2.3 Employment experience

Aside from those young people who formally combine work with education as part of a work-based vocational route, holding a paid job while studying may increase young people's chances of finding work post-education. By helping to provide the 'soft' employability skills demanded by employers, it is thought that employment makes young people better able to look for and secure some form of employment after completing their education, even if the work they undertake is not related either to their course of study or subsequent career.

Table 2.5 illustrates this point using data from 2009. Work experience appears to be associated with a lower risk of unemployment: there is a clear disparity between the youth unemployment rates of those with and without work experience in each of the countries shown. While there are substantive differences in the scale of this disparity between countries, the general relationship holds well.

**Table 2.5**  
Unemployment rates for youth who have left education by whether they worked alongside study, selected EU countries, 2009

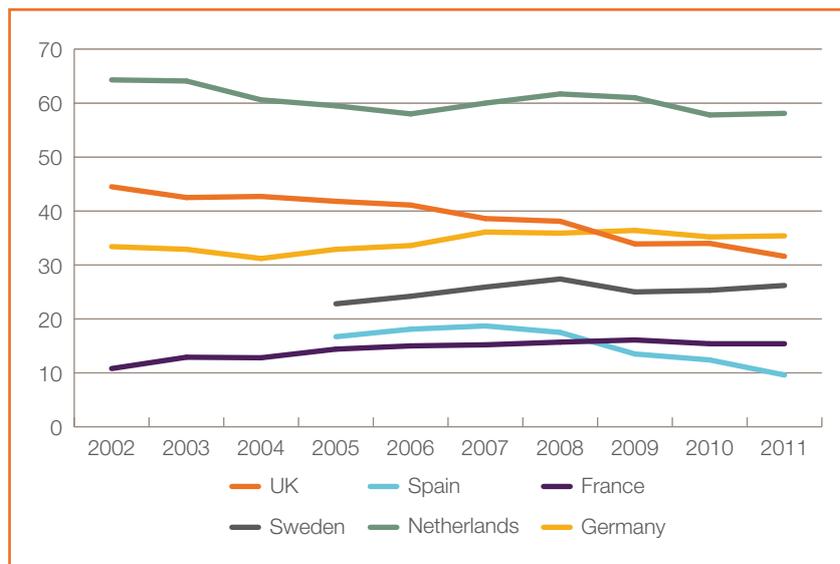
	No employment during education	Employment during education
Spain	39.9	28.3
France	37.0	18.8
Netherlands	11.3	6.3
Sweden	29.3	15.1
UK	22.7	14.0

Source: IPPR analysis using the EU Labour Force Survey  
Note: data not available for Germany.

Since work experience has such a clear relationship with employment prospects, one partial explanation of growing youth unemployment over the last decade or so might be the decline in the proportion of young people who combine education with work. The data (illustrated in figure 2.3) presents mixed evidence on this front. In the UK, there appears to be a distinct downward trend in working while studying – it fell by around 10 percentage points between 2002 and 2011. There is actually little sign that students in other countries are withdrawing from the labour market, although the level of student employment differs substantially between countries, with the Netherlands having by far the highest employment rate for this group.

In some countries the proportion of young people in education who are both learning and earning is very low: less than 10 per cent of Spanish and 15 per cent of French students are also in work. Given the large impact that experience of work during study appears to have on post-education employment prospects, the low rates of student employment in these countries is a concern.

**Figure 2.3**  
Employment rates (%)  
of young people in  
education or training in  
selected EU countries,  
2002–2011



Source: IPPR analysis using the EU Labour Force Survey

## 2.4 What factors are associated with being employed after education?

The discussion in this and the previous chapter has focussed on a number of individual-level factors and their association with the employment or unemployment among young people once they leave education. Demographic characteristics such as gender, nationality and age – as well the level, quality and orientation of the qualifications young people gain during their education – are all strongly related to an individual’s post-education job prospects.

In order to separate out these specific individual-level factors, we carried out probability modelling using the EU Labour Force Survey (Eurostat 2013b) for the periods 2005–2007 and 2008–2011 (see table 2.6 below). We chose these ranges in order to observe how the importance of some factors may have changed post-recession and during the eurozone crisis, and because consistent data is available for each of the six focus countries in both periods. Our modelling of the years 2005–2007 shows how European labour markets function for young people in relatively ‘normal’ times, although, as the evidence in chapter 1 suggested, labour markets had by then already turned against young people. On the other hand, our 2008–2011 model illustrates how, during and after the economic crisis,

young people's risk of NEET-hood might have become even more strongly determined by certain factors.

Table 2.6 below illustrates the impact of individual characteristics on the probability of entering employment after leaving education, relative to reference values. A number of points stand out:

- In 2005–2007, German youth with low or no qualifications were half as likely to be employed as graduates. This is the largest negative impact for this variable across each of the six countries examined. While low educational attainment has a substantial negative effect on employment in all countries, the degree of inequality between qualification levels is largest in Germany. In Spain, educational attainment has a much smaller impact.
- Teenage youths (aged 15–19) face a substantially higher risk of worklessness than older youth (aged 20–24), even when holding qualifications constant. This disparity appears to be particularly pronounced in France and Spain.
- Female youths face a higher risk of worklessness in all the sampled countries. This is likely to be related to the higher levels of economic inactivity among younger women than younger men.
- EU non-nationals tend to perform worse in terms of employment rates than nationals, but better than those born outside of the EU. Since the recession, however, EU non-nationals have started to perform better. This phenomenon is particularly evident in the UK, where nationals of other EU countries are 7.4 percentage points more likely than UK nationals to be employed.

## 2.5 How does qualification orientation influence employment outcomes post-education?

It is not only the level of qualifications that is important – their orientation, in terms of whether they were attained through a vocational route, and the extent to which on-the-job training was involved, are also significant. Using data on vocational education and employment outcomes from the 2009 EU Labour Force Survey, we estimated the probability of post-education employment according to educational orientation, and to whether education was combined with work either informally or as part of a course (table 2.7).

In both the UK and France, upper secondary vocational education is associated with a lower probability that an individual will find employment after education than general education at the same level – by 5.0 per cent in the UK and 4.2 per cent in France. This suggests that vocational education in those countries is less successful than elsewhere at smoothing the education-to-work transition and adequately preparing young people for the labour market. It might also be the case that vocational education has a low status in those countries, meaning that it is a route normally taken by those of lower educational attainment. However, in both the UK and France this employment penalty is reversed for individuals whose qualification combines work with education. In the UK, young people on a joint vocational–work programme have a 7.0 per cent higher chance of finding a job than those with a general educational qualification; in France, their chances are increased by 16.7 per cent.

In Germany, vocational education at upper-secondary level greatly increases an individual's chances of moving into employment – by almost 50 per cent. This tells us just as much about those who do not secure a vocational place, as they are consequently at a much greater disadvantage when it comes to securing employment.

In all of the countries sampled, informal work experience is shown to improve employment prospects. This effect is greatest in Sweden, where young people who worked informally while studying enjoy a 15.3 per cent higher likelihood of finding work. Given that less than one-third of Swedish youth in education are also working (see figure 2.4), this suggests that Sweden should prioritise increasing the employment rate of students.

The Netherlands is characterised by similar employment chances across all educational orientations and levels of work experience. While those with only low-level or no qualifications do suffer an employment penalty of over 10 per cent compared to those with an upper-secondary education, within those leaving education at ISCED level 3–4, the probability of finding employment is similar for those with general, vocational and combined work–vocational educations. This contrasts with the other countries included in our study, all of which have much wider gaps between groups separated by different educational orientations.

**Table 2.6**  
Impact of individual-level factors on probability of employment after education (%) in selected EU countries, 2006–07 and 2008–11

	Germany		France		Netherlands		Sweden		UK		Spain	
	2006–2007	2006–2011	2006–2007	2008–2011	2006–2007	2008–2011	2006–2007	2008–2011	2006–2007	2008–2011	2006–2007	2008–2011
<b>Age (20–24 ref)</b>												
15–19	-9.8	-11.7	-25.9	-25.8	-12.5	-11.1	-2.8	-4.9	-7.4	-11.5	-27.4	-25.0
<b>Gender (male ref)</b>												
Female	-3.4	-6.2	-13.1	-8.3	-6.8	-4.4	-3.6	-2.7	-10.0	-7.1	-14.8	-6.1
<b>Qualification (ISCED level. 5–6 ref)</b>												
ISCED level 3–4	-12.4	-7.9	-7.8	-11.1	-6.6	-3.9	-4.8	-8.2	-8.9	-4.6	0.4	0.04
ISCED level 0–2	-48.9	-44.6	-31.7	-36.0	-18.8	-21.9	-24.9	-32.6	-34.1	-27.9	-3.2	0.12
<b>Nationality (national ref)</b>												
Non-EU	-9.5	-8.1	-22.9	-18.4	-31.9	-29.7	-18.7	-23	-16.6	-17.0	-10.4	0.07
Other EU	-2.8	0.5	-1.7	2.7	-18.8	-14.1	-9.4	-10.2	4.1	7.4	2.7	0.04

Source: IPPR modelling using Eurostat 2013b  
Note: modelled using probit (dprobit) modelling techniques.

**Table 2.7**  
Impact of vocational education on probability on employment after education in selected EU countries 2009

	Germany	France	Spain	Netherlands	Sweden	UK
<b>Age (20–24 ref)</b>						
15–19	-6.1	-25.0	-26.6	-10.6	-7.7	-11.3
<b>Gender (male ref)</b>						
Female	-2.3	-6.9	-7.5	-3.9	-3.2	-7.4
<b>Qualification (general ISCED level 3–4 ref)</b>						
ISCED level 0–2	1.5	-15.2	-7.5	-13.4	-22.3	-17.2
ISCED level 3–4 vocational	46.5	-4.2	3.9	1.8	2.3	-5.0
<b>Work during studies</b>						
Informal work	7.9	12.9	10.9	5.5	15.3	9.8
Work as part of vocational education	-5.9	20.9	12.6	5.5	12.5	12.0
<b>Nationality (national ref)</b>						
Non-EU	-9.0	2.9	-7.2	-8.4	-7.0	0.7
Other EU	6.7	-4.9	-1.6	-17.9	-10.2	-4.0

Source: IPPR modelling using Eurostat 2013b  
Note: modelled using probit (dprobit) modelling techniques.

## 2.6 Conclusion

The characteristics of a country's education system – and the nature of its vocational education and training system in particular – appear to be highly significant factors in determining the nature of its youth unemployment problems. However, there is no evidence to support the supposition that higher relative and actual rates of youth unemployment are the result of a decline in the number of young people who hold qualifications. In fact, the share of young people leaving education without having completed a full secondary education qualification is declining in most countries.

As a rule, young people in all countries who have higher qualifications tend to have lower unemployment rates. However, for those with no higher than an upper-secondary qualification, the orientation of qualifications matters too. Vocational qualifications lead to better results if they offer young people occupation-specific as opposed to general skills, and if they foster direct linkages between education and work. The German-style dual apprenticeship system, which includes both of these features, appears to be a key reason for that country's relatively low rate of youth unemployment.

Young people's contact with the labour market during their studies is also important, regardless of whether or not it is a formal part of their education. In all the countries focused on in this report, young people who leave the education system with a full secondary-level qualification enjoy a substantial increase in their chances of finding employment if they had some experience of paid work while studying. In most countries, however, the employment rate of students is low and falling – which suggests that increasing the share of students in paid employment should be a key priority for policymakers.

### 3. BUSINESS BEHAVIOUR AND YOUTH UNEMPLOYMENT

The second group of factors that determine young people's prospects in the labour market are those that affect business behaviour – and specifically those that determine hiring decisions. If businesses are unable or unwilling to hire, and if an increasing take-up of temporary contracts among young people leads to higher numbers of young people moving out of work, then this is likely to increase both the overall unemployment rate and the youth unemployment rate in particular. Both during and after their education, younger workers are more likely to be looking for work, and tend to cycle through jobs of shorter duration, than older workers.

One of the most important factors that govern businesses' hiring behaviour is economic growth. An expanding economy will reduce slack in the labour market, thereby increasing business demand for workers and reducing unemployment across the board. Conversely, economic contraction – as has been experienced in most European countries in recent years – has the opposite effect.

While the performance of the economy clearly has an impact on employment in general, there are many reasons why it has a particularly significant effect on the employment of young people. First, the young have less experience of looking for work, which reduces their ability to find a job quickly. Second, they are more capital-constrained than older workers, so the capacity of most young people to either travel or move to find work is lower. More importantly, young people have less work experience, both in general and in specific occupations and sectors, which impairs their ability to find work compared to the majority of prime-age workers. Finally, falls in hiring are likely to have a disproportionate impact on young people, many of whom are entering the labour market for the first time.

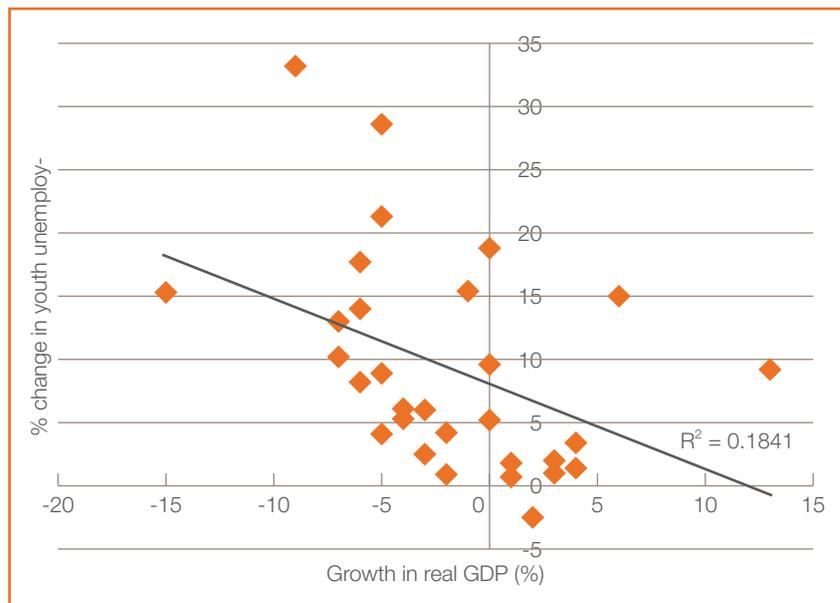
In fact, the strength of the relationship between recent GDP growth and changes in the youth unemployment rate is negative, but fairly weak (figure 3.1). Several countries that weathered the recession well in terms of GDP growth (as measured by the total change in real GDP between Q1 2008 and Q1 2012), including Poland and Slovakia, experienced substantial *increases* in their youth unemployment rate. Conversely, in some countries which experienced similar levels of GDP contraction, unemployment levels changed in wildly different ways. The GDPs of both Finland and the UK fell by 3 per cent, for instance, but the UK unemployment rate rose by 6 percentage points against only 2.5 per cent in Finland.

A similar picture emerges when looking at the pre-recession pattern (figure 3.2), although it appears that youth unemployment actually had a stronger relationship with GDP growth in 2000–2005 than it did in 2008–2012. While this suggests that GDP growth or contraction might have been an important factor in the post-millennium rise in youth unemployment, the relationship is in fact largely driven by the strong GDP growth and rapidly declining youth unemployment of the A8 countries<sup>4</sup> during this period. Conversely, within the cluster of western, northern, and southern European countries to the left of the chart, the relationship is fairly weak. This is to be expected – we know that youth unemployment increased or failed to decline over this period in some of these countries even as their economies expanded.

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4 The eight countries that joined the EU in 2004 – the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.

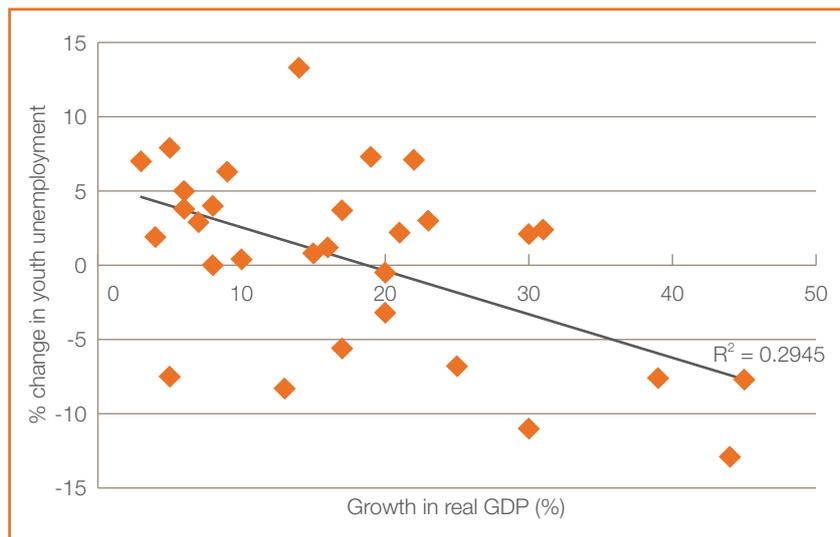
**Figure 3.1**  
GDP growth and change in the youth unemployment rate of European countries, Q1 2008–Q1 2012



Source: Eurostat 2013a and 2013d

Note: GDP growth measures the percentage change in real GDP between Q1 2008 and Q1 2012. Change in the youth unemployment rate measures the percentage-point change in the youth unemployment rate over the period. GDP growth for Greece records growth between Q1 2008 and Q1 2011 due to data availability.

**Figure 3.2**  
GDP growth and change in the youth unemployment rate of European countries, Q4 2000–Q4 2005



Source: Eurostat 2013a and 2013d

Note: measures are the same as for figure 3.1 – see note above.

### 3.1 Structural economic change

Over the longer term, there have also been changes in the structure of the economy which impact on young people, particularly growth or decline in the types of businesses and occupations that young people tend to work in. If youth tend to specialise in jobs and industries that are in long-term decline, then we might expect them to find it increasingly difficult to find work over time. This is especially true if the skills of young people do not match well with those that are in demand from emerging sectors and occupations.

Table 3.1 illustrates this by comparing the share of youth employed in different sectors in 1995 and 2007. In Europe as a whole and in most of the sampled countries, the share of youth employed in manufacturing has declined considerably. This is most stark in the UK, where the share of youth working in the sector halved in a little over 10 years. Out of the six countries, only Germany maintained its high proportion of youth employed in manufacturing.

Manufacturing employment has been replaced by expansion in services, although the distribution of youth employment across service sectors varied between countries. In the UK this took place mainly in retail, hotels and restaurants, and in education, health and other services, a diverse sector which includes a large chunk of the public sector, but also many small-scale low-value personal services. In Sweden and the Netherlands business services and hospitality are increasingly important employers of young people.

Another distinction between countries is the share of youths working in construction. This increased in France, Sweden and the UK, but declined in Germany and the Netherlands. This is important since construction was very badly hit in the recession, and is likely to have affected youth unemployment in those countries where youth specialise in the sector. This is particularly the case in Spain, which saw youth employment in the construction sector expand enormously in the years leading up to the recession, but then as the recession took hold the number of young people working in the sector fell by 72 per cent (Dolado et al 2013).

Deindustrialisation in the wider economy also has an impact on the functioning of the vocational system, particularly on firm involvement in training and apprenticeship provision. Larger firms, and firms that are focussed on particular sectors, tend to have a greater ability to provide vocational training. In a study of German apprenticeships over time, Thelen and Busemeyer (2008) found that 35 per cent of firms participated in training in 1995, but that this had fallen to 26 per cent by 2006. They also found that training was relatively more concentrated in the manufacturing and construction sectors, and in traditional service sectors such as hospitality and administration, and that in 2006 fewer of these firms were offering vocational training than in the past. Thelen and Busemeyer also found that emerging sectors such as media, IT and social services were relatively less likely to offer training (ibid). In Germany, this has resulted in an overall fall in the number of training places, and an excess demand for them. This shift is partly to blame for the fall in the share of German upper-secondary education accounted for by vocational training, as illustrated in figure 2.2

Smaller firms in particular tend to invest less in initial vocational training such as apprenticeships (see table 3.2) – they are more constrained than larger business in their ability to invest, and face larger fixed costs. Few have an established training programme, and any training that does take place is likely to be informal and therefore not lead to an actual qualification (Almeida and Aterido 2010). While the data collected by Almeida and Aterido does not include firms with less than 10 employees, earlier evidence which used a full sample of business sizes found that substantially fewer micro-firms than larger employers provided vocational training (ibid).

**Table 3.1**  
Youth employment  
as a percentage of  
total employment by  
industry in selected EU  
countries and EU15,  
1995 and 2007

	Germany				Spain				France			
	Youth		Adult		Youth		Adult		Youth		Adult	
	1995	2007	1995	2007	1995	2007	1995	2007	1995	2007	1995	2007
Agriculture & fishing	2.3	2.0	3.3	2.3	7.6	4.2	9.2	4.6	3.8	3.0	5.0	3.5
Manufacturing	23.3	22.6	25.2	22.0	23.0	15.0	18.8	15.2	19.1	14.7	18.8	15.6
Construction	12.4	7.4	8.9	6.6	11.3	17.1	9.3	12.8	8.2	11.6	6.8	6.4
Wholesale & retail	18.1	17.5	14.0	13.5	21.7	21.1	15.8	14.8	20.4	20.1	12.9	13.2
Hotels & restaurants	4.4	6.8	2.7	3.4	9.4	10.6	6.0	6.7	7.0	7.5	3.0	3.0
Transport, storage & communication	4.7	4.1	5.9	5.9	3.2	4.2	6.4	6.0	4.4	4.6	6.5	6.4
Financial intermediation	4.4	2.5	3.6	3.5	1.1	1.2	2.8	2.6	1.8	2.1	3.4	3.3
Business services	5.1	8.4	6.3	10.5	5.5	7.6	5.4	10.2	8.3	9.2	8.4	10.5
Public administration & defence	7.1	6.0	9.0	7.7	2.8	2.7	7.0	6.5	5.2	5.6	9.8	10.4
Education, health & other services	17.1	21.8	19.3	23.4	13.9	15.9	17.8	19.8	21.4	20.0	24.1	26.5

	Netherlands				Sweden				UK				EU-15			
	Youth		Adult		Youth		Adult		Youth		Adult		Youth		Adult	
	1995	2007	1995	2007	1995	2007	1995	2007	1995	2007	1995	2007	1995	2007	1995	2007
Agriculture & fishing	4.2	3.6	3.6	2.7	2.5	2.5	3.6	2.2	1.8	1.2	2.1	1.4	3.8	2.6	5.3	3.6
Manufacturing	13.9	8.5	16.4	12.7	20.3	12.5	18.5	14.7	17.8	9.2	19.1	13.3	22.8	15.9	21	17.2
Construction	5.6	4.6	5.9	6.2	4.9	7.5	6.0	6.2	6.6	9.1	7.2	8.1	9.3	10.1	7.6	8.0
Wholesale & retail	27.6	27.7	14.1	11.8	20.3	20.5	11.8	11.2	25.2	26.4	14.0	12.5	21.4	21.9	14.1	13.6
Hotels & restaurants	8.3	12.5	2.6	2.6	8.8	9.9	1.8	2.3	8.8	11.5	3.7	3.3	6.9	9.6	3.4	4
Transport, storage & communication	4.5	5.6	6.2	6.1	5.1	6.2	6.8	6.2	4.8	4.8	6.7	7.0	4.3	4.5	6.2	6.2
Financial intermediation	2.0	1.4	3.4	3.6	0.0	1.1	2.1	2.1	5.2	4.4	4.3	4.4	3.2	2.5	3.5	3.3
Business services	7.9	10.8	10	13.5	7.9	12.7	9.6	14.8	7.9	8.9	9.6	12.6	6.4	8.8	7.1	10.9
Public administration & defence	4.1	2.7	8.8	7.5	0.0	1.6	5.5	6.2	3.9	3.6	6.3	7.6	4.5	4.1	8.3	7.7
Education, health & other services	15.9	17.9	25.6	29.0	26.5	24.2	33.4	33.0	16.2	19.3	25.3	28.5	16.2	18.7	21.8	24.4

Source: Eurostat 2013a

Data for Sweden in 1995 not complete due to sample size issues.

**Table 3.2**  
Percentage of  
enterprises providing  
vocational training by  
size of firm, in selected  
EU countries and EU27  
average, 2010

	All Firms	10–49	50–249	250+
EU27	24	22	31	44
Germany	62	58	72	86
Spain	7	7	7	9
France	23	22	22	42
Netherlands	34	30	44	60
Sweden	7	7	3	4
UK	18	15	25	43

Source: Eurostat 2013c

Note: Firms with less than 10 employees not included.

### 3.2 Supply pressures: competition for youth jobs

Structural shifts in the economy may also have significant effects on the supply side of the labour market, affecting young people's ability to find work. One trend in European labour markets that has emerged in recent years is occupational polarisation. Driven by rapid technological change, globalisation and offshoring, many mid-skilled jobs in manufacturing and services – such as machine operation, clerical administration and craft occupations – have been either outsourced to other parts of the globe, or replaced

by labour-saving technology. While this has increased productivity in many sectors, particularly manufacturing, it has reduced the number of jobs available in the middle of the labour market. It has also led to growth in the importance of lower-skilled ‘elementary’ occupations as sources of employment both for workers displaced from mid-skilled occupations, and for those entering the labour market for the first time. Between 2000 and 2008 the share of EU27 workers in elementary occupations increased by 10 per cent, although this trend was uneven between countries and was concentrated primarily in Germany, France, the UK, Spain and Italy (CEDEFOP 2011).

This trend will have a serious impact on youth labour markets. If young people often enter into skilled routine work after completing their education, a decline in the number of opportunities in these occupations might reduce their ability to transition. Furthermore, it will reduce work opportunities for low-skilled youth: those younger people looking for work in less-skilled occupations will increasingly find themselves in competition with older workers who have been displaced from mid-level jobs.

Table 3.3 shows that those occupations in which young people predominated in 1995 – clerical and admin, and craft and trade – have been in the sharpest decline since then. While these sectors remained an important source of employment for young people in 2007, it is apparent that youth employment is shifting increasingly towards lower-skilled service work, although a smaller increase also occurred at the high end.

Comparing the changing structure of youth occupations with that of adults aged between 25 and 49, we find that they have shifted in broadly similar ways across countries, with declines in the middle resulting in increases at the top and bottom. It is difficult to conclude from these trends whether young people are being out-competed for jobs by the similar changes in the structure of older workers’ occupations, since the patterns are broadly the same between the two groups. However, it does appear that the change has been relatively more pronounced among the young.

Another factor that may impact on youth unemployment is overqualification. Table 3.4 presents data gathered by the International Labour Organisation on skills mismatch. It measures the percentage of those aged 15–29 who are working in an occupation which is primarily taken up by those of a lower educational level than them. One example of this would be where someone with a degree is working in a customer service role in a retail enterprise.

**Table 3.3**  
Share of youth (15–24) and adults (25–49) (%) by level of occupation in selected EU countries and EU15 average, 1995 and 2007

	EU15		Germany		France		Netherlands		Spain		Sweden		UK	
	1995	2007	1995	2007	1995	2007	1995	2007	1995	2007	1995	2007	1995	2007
<b>Youth</b>														
Highly-skilled	16	20	20	25	17	21	21	19	9	14	18	13	18	19
Mid-skilled	46	39	49	42	49	43	34	28	33	32	38	39	43	30
Low-skilled	31	39	22	27	32	33	34	51	57	52	42	47	37	50
<b>Adults</b>														
Highly-skilled	35	36	38	34	38	37	28	35	28	33	40	37	31	29
Mid-skilled	40	35	41	36	44	36	32	28	34	28	36	29	38	30
Low-skilled	19	22	18	20	18	21	17	18	37	38	21	22	20	24

Source: Eurostat 2013a

Note: ‘Highly-skilled’: managers, professionals and associate professionals. ‘Mid-skilled’: skilled agricultural and craft/trade workers, plant and machine operators and assemblers, clerical support workers. ‘Low-skilled’: elementary occupations and service and sales workers. Totals do not add to 100 per cent because of rounding, and because some occupations with very small numbers of workers – including unpaid family workers and those serving in the armed forces – are excluded.

**Table 3.4**  
Percentage of  
overqualified workers  
aged 15–29 in selected  
EU youth labour  
markets, 2002–2010

	2002	2004	2006	2008	2010
Germany	7.3	8.5	6.1	10.3	4.7
France	24.0	19.0	15.9	12.1	14.6
Netherlands	4.9	4.6	7.3	3.1	5.9
Spain	14.8	13.1	14.7	12.4	12.7
Sweden	4.3	7.0	8.8	7.9	11.1
UK	9.4	11.2	19.9	12.0	24.0

Source: ILO 2013

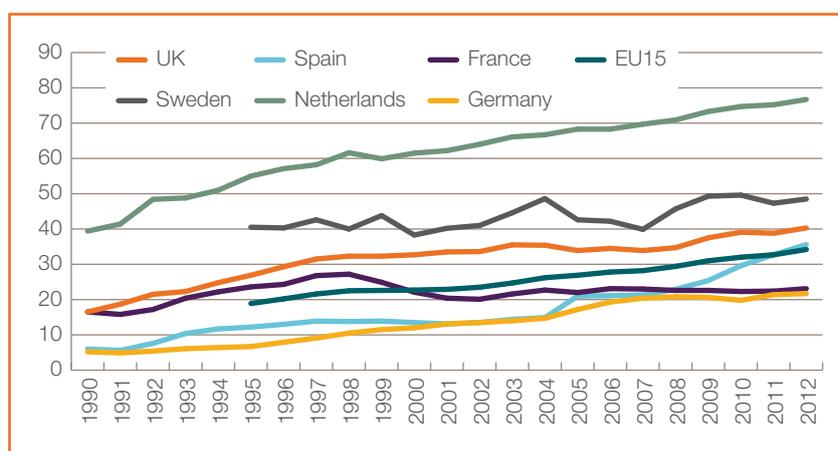
In most of the six focus countries, overqualification is stable or falling, but in the UK and Sweden it appears to be following an upward trend – it more than doubled in the UK between 2002 and 2010 (ILO 2013). What this means in the first instance is that many young people are not finding a job that is commensurate with their skill level, implying that the transition system – and educational institutions in particular – are not well-attuned to the needs of the labour market. Furthermore, this phenomenon may have a knock-on impact on more vulnerable groups in the youth labour market. If more highly skilled youth are ‘bumping-down’ the occupation distribution into lower-skilled jobs, it means that they enter into direct competition with those low-skilled young people who would in the past have moved into those roles.

### 3.3 Part-time work

Other significant changes are taking place in the structure of youth employment. Of particular importance is the Europe-wide shift in business hiring towards atypical forms of employment, which over the last two decades has led to a structural rise in the proportion of young people working part-time and on non-permanent contracts.

Figure 3.3 shows that this shift has occurred across the EU15 as a whole, and in each of the six focus countries with the exception of France. The trend towards greater take-up of part-time work has been most pronounced in the Netherlands. In 1990, 40 per cent of young Dutch people in employment worked part-time hours – which even then was high by international standards, but since then the proportion has steadily increased to the extent that, in 2012, almost four out of every five young employees worked part-time. Germany, on the other hand, has a very low level of part-time work, although again this has been rising steadily.

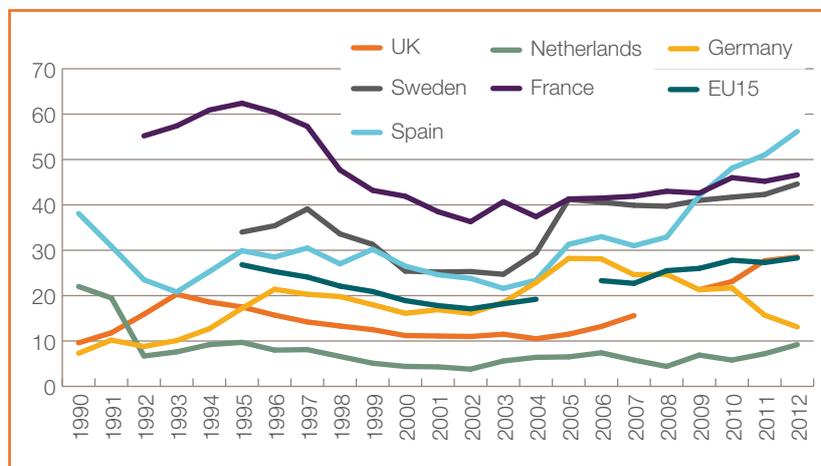
**Figure 3.3**  
Part-time employment as  
a percentage of all youth  
employment in selected  
EU countries and EU15  
average, 1990–2012



Source: Eurostat 2013a

The extent to which this is a sign of labour-market distress, as opposed to a more benign change in youth labour markets (particularly with regards to young people combining work with study) is debated. Figure 3.4 shows that the vast majority of Dutch youth who worked part-time between 1990 and 2012 were doing so out of preference rather than because full-time work was not available. The low proportion of involuntary part-time workers in the Netherlands, and in the UK, might be a reflection of the high proportion of students who seek work that fits around their studies.

**Figure 3.4**  
Percentage of all youths working part-time who do so because they could not find a full-time job, selected EU countries and EU15 average, 1990–2012



Source: Eurostat 2013a

### 3.4 Temporary employment

There has also been a substantial shift in the numbers of young people working on temporary contracts. Figure 3.5 illustrates the changing proportions of in-work youth employed on a fixed-term basis, which in 2012 was over 40 per cent across the EU15. There is a clear structural shift in most of the six focus countries, in some of which temporary employment has become almost as mainstream as permanent employment among young people, although it remains much less prevalent among British youth.

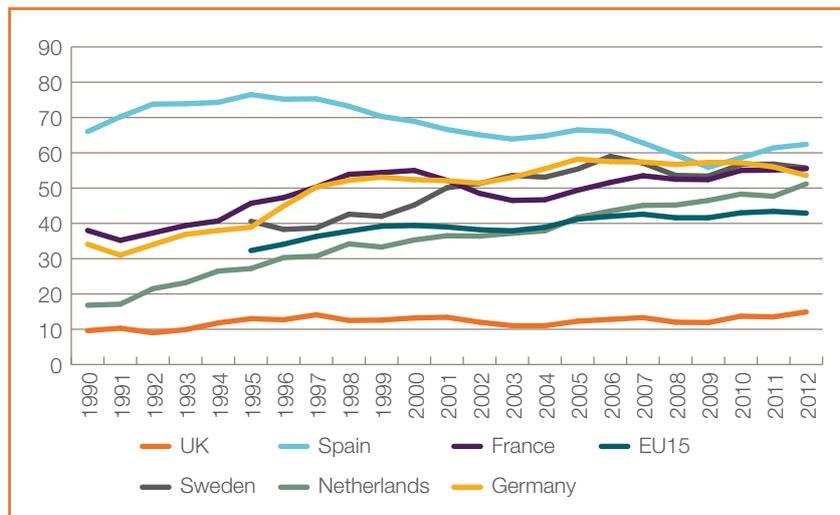
The increasing prevalence of non-permanent contracts is not just a symptom of youth labour-market distress, but also one of its direct causes. Temporary work by definition increases the number of young people leaving employment, and while many will be able to move into another job fairly quickly, in times of depressed business hiring there are fewer opportunities and therefore greater numbers of out-of-work young people

That the rise in the usage of non-permanent contracts in the UK has been relatively modest could be explained by the low levels of regulation applied to permanent contracts. In the other countries, tighter labour-market regulation regarding permanent work is likely to have played a role in driving up the prevalence of temporary work. Spain, however, has actually experienced a fall in the use of temporary contracts among working youth, although they remain more widespread than in the other countries shown.

There is significant variation between countries in terms of the reasons young workers cite for why they are being employed on a temporary basis, and this complicates the picture presented above (see figure 3.6). In Germany, temporary contracts are primarily entered into by those in education and training – which is likely a reflection of the large number of young people on apprenticeships, which function as temporary contracts. In Sweden

and Spain, on the other hand, a large number of young people took up employment on fixed-term contracts because they could not find a permanent opportunity. This, when considered alongside the high prevalence of temporary work in both Sweden and Spain, points to a significant shortage of permanent work opportunities.

**Figure 3.5**  
Temporary employment as a percentage of total youth employment in selected EU countries and EU15 average, 1990–2012



Source: Eurostat 2013a

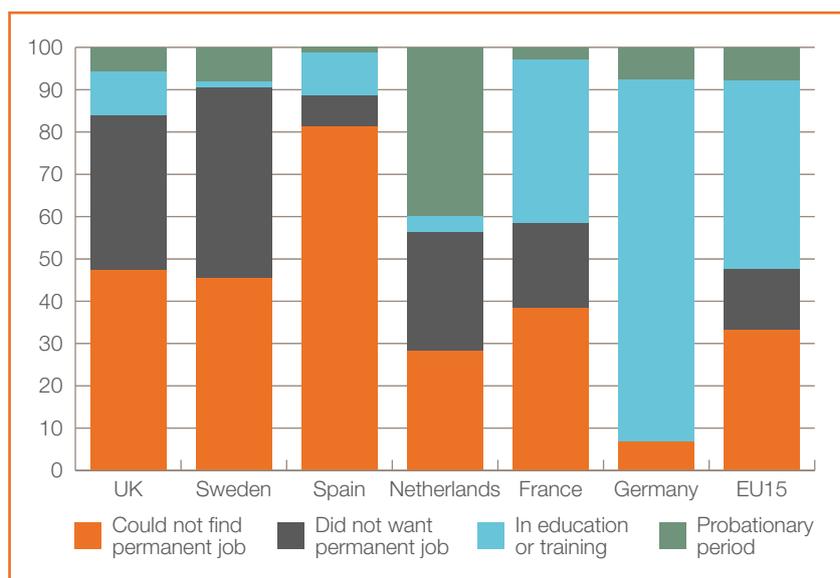
The prevalence of short-term contracts appears to have played a particularly significant role in some countries' labour markets during the recession. Table 3.1 shows that in France and Spain, the termination of temporary contracts accounted for more than half of all transitions from employment into NEET-hood among young people in every year between 2007 and 2011; the picture is similar in Sweden. Where temporary contracts are more widespread, firm adjustment in a recession is more likely to take place through non-renewal of fixed-term contracts than it is through dismissals. While in the UK the proportion of individuals who made the employment-to-NEET-hood transition because of the end of a temporary contract was low, there were relatively very high levels of dismissal, especially in 2009.

**Table 3.5**  
Reasons for leaving last job (%) among youth who transitioned from employment to NEET-hood in selected EU countries, 2007–2011

		2007	2008	2009	2010	2011
<b>Germany</b>	Dismissal/redundancy	43	43	46	40	48
	End of temporary contract	30	29	32	28	27
<b>France</b>	Dismissal/redundancy	27	30	29	31	31
	End of temporary contract	52	51	52	52	54
<b>Sweden</b>	Dismissal/redundancy	11	11	36	20	18
	End of temporary contract	45	43	38	38	43
<b>UK</b>	Dismissal/redundancy	19	24	42	32	28
	End of temporary contract	13	18	14	16	24
<b>Spain</b>	Dismissal/redundancy	12	15	28	23	23
	End of temporary contract	54	60	62	66	69

Source: IPPR analysis using the EU Labour Force Survey

**Figure 3.6**  
Reasons for temporary employment among young people (%) in selected EU countries and EU15 average, 2012



Source: Eurostat 2013a

While an increase in the use of temporary contracts does undoubtedly increase unemployment, the longer-term impact of temporary employment early in a worker's career is debated. Some believe that they provide a useful form of labour market integration for those without qualifications that are directly linked to the labour market, with the temporary contract functioning as a trial period, often with lower pay. On the other hand, if temporary contracts are clustered in low-skilled industries and occupations, with few linkages to the more secure segments of the labour market, those on temporary contracts may find it harder to progress. This 'dual labour market' may be reinforced by reduced employer investment in the skills of temporary workers, preventing them from moving out of the casualised, usually service-based, section of the economy and into permanent roles elsewhere.

One study suggests that the key determinant of whether a young person secures a temporary contract with the potential for progression to a permanent position is the initial skill-level of the young jobseeker. Highly educated youth are more likely to enter a screening process as a stepping stone to permanent employment, whereas those with low-level or no qualifications are more likely to move into a temporary position with little chance of progression, in a part of the economy that makes greater use of temporary contracts and is more sensitive to business demand (Gebel 2010).

The evidence on the impact of temporary employment on subsequent labour market attachment is mixed, however. Evidence from Sweden suggests that temporary contracts may have little impact (Korpi and Levin 2001), and similar research which compared Italy, West Germany and Great Britain found that temporary work had no effect on subsequent occupational progression (Scherer 2004). While a more recent study did find that temporary workers were less likely to be able to access training following the 2008 downturn, this was only true of more highly segmented labour markets such as those of Spain and Germany (Cutuli and Guetto 2012). In terms of skill level, a study using British and German data found that while graduates are likely to suffer a larger initial fall in wages as a result of taking up temporary work, they recover quickly and eventually out-perform those with lower levels of educational attainment (Gebel 2010).

### 3.5 Conclusion

The relationship between economic growth and youth unemployment is a weak one, which suggests that structural factors have been the more important causes of the relative increase in youth unemployment in recent years. These structural factors – which include the decline of manufacturing and construction and the growth of the service sector, and the related polarisation of the workforce – have caused shrinkages in parts of the labour market that traditionally offered opportunities for young people. They have also caused concurrent expansions in other jobs and sectors that are either less likely to employ the young, or that bring young people more into greater competition with older groups of workers. Furthermore, these changes have had knock-on effects on the functioning of vocational systems, with those sectors that have traditionally offered training opportunities, such as manufacturing, in decline, and the low-skilled service sector, which makes less use of such arrangements, on the rise.

Other structural shifts in the labour market have also affected young people. They are now much more likely to be working part-time or in a temporary job (or both). This is a mixed blessing. To the extent that it makes it easier for young people to gain some work experience, it is a positive development. Yet there is also evidence to suggest that young people who cycle in and out of a number of jobs in their first few years in the labour market lag behind their peers, in terms of employment rates and pay levels, throughout the rest of their working lives. Finally, the overall rise in temporary work in most EU countries (although relatively modest in the UK) has been led by the young, which had knock-on effects on youth unemployment during the recession as employers adjusted their workforces by reducing the number of fixed-term contracts renewed and offered.

## 4. LABOUR MARKET INSTITUTIONS AND POLICY

Aside from their involvement in the education system, policymakers and other social actors such as unions control several other levers that directly impact youth transition systems. These fall into three areas:

1. The strength of labour market regulation, particularly rules governing the hiring and dismissal of workers and the rules around temporary contracts.
2. The system of unemployment assistance.
3. The institutions governing how wages are set.

Each of these factors affect youth unemployment either directly or through their influence on business behaviour.

### 4.1 Labour market regulation and employment protection

Labour market regulation, and the strength of rules governing the hiring and firing of workers in particular, is often linked to youth unemployment. It is frequently suggested that overly onerous restrictions placed on employers is one of the main causes of structurally high youth unemployment,<sup>5</sup> as it limits firms' ability to dismiss workers, and adds to the costs of hiring by increasing the burden of time-consuming administration.

There is logic to this argument. If the relative cost of hiring workers increases, we might expect the young to be worst affected: they are both more likely to be looking for work, and more likely to fill low-level, low-paid positions for which the administrative cost of hiring would represent a larger proportion of their total employment cost to the firm. Similarly, a tightening of restrictions on dismissing workers would protect workers who already have jobs, meaning that they will stay in-post for longer and fewer openings will arise, which again would harm the young.

Countries vary substantially in the degree of regulation that they apply to labour markets. If it were the case that labour market regulation has a negative impact on the employment of young people in particular, then we would expect there to be some association between the levels of employment protection legislation and youth unemployment. Figure 4.1 shows the OECD employment protection index for 2000 and 2013 for a selection of OECD countries.

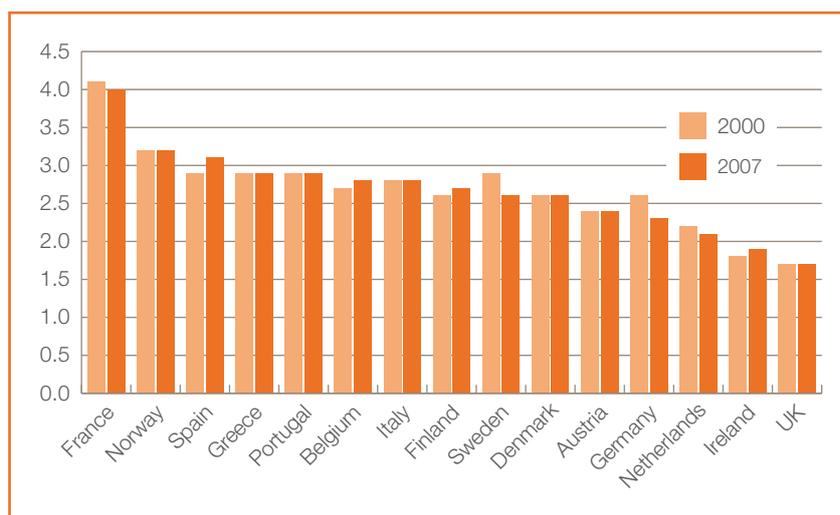
While some countries, such as Greece and Italy, which have high youth unemployment, also score highly on this employment protection index, others with low levels of youth unemployment also score highly, most notably Germany. Some countries, including Ireland and the UK, have weaker employment protection but high youth unemployment. The latest data on employment regulation (not shown on the chart) suggests that many of the southern European economies with the strictest employment regulation have engaged in substantial labour market deregulation since the onset of the eurozone crisis. It remains to be seen what impact this will have on the young.

The fact that there is not a clear-cut relationship between labour-market regulation and youth unemployment is backed up by a body of research on the issue that also offers accounts of how a variety of other factors influence youth unemployment.

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<sup>5</sup> See for example Bourne 2011

**Figure 4.1**  
OECD employment  
protection index for  
selected countries, 2000  
and 2007



Source: OECD employment database<sup>6,7</sup>

For example, Noelke (2011) found no relationship between changes in employment protection and youth unemployment. One of the suggested reasons for this finding is that some of the features of strict employment protection regimes that might hurt young people can actually help them, by increasing the duration of their early jobs, reducing spells outside the labour market, and fostering the development of firm-specific and generic human capital through work experience. These may outweigh the negative effects described above. Neumark and Wascher (2004) found that employment protection had a similarly weak effect on youth unemployment, with the strength of the relationship between the two mediated by other aspects of policy.

Employment protection also has less of an impact in countries with strong vocational education institutions, since these have the potential to greatly improve the matching process between the skills that young people have and those that are in demand from business. Essentially, effective matching de-risks the hiring decision for the employer to such an extent that any difficulties in firing workers are outweighed by the potential productivity of the young employee (Breen 2005). It is also the case that in countries that have a dual apprenticeship system in place, apprenticeships function as a kind of extended screening process that allows firms to judge the ability and productivity of young workers before appointing them to a permanent post.

Vocational education also has an impact on how quickly young people transition from education to work. Wolbers (2007) measured transitions from education into work in 11 countries around the turn of the millennium, and found that the speed of youths' labour-market entry into their first significant job is substantially affected by both how 'mainstream' dual education-work vocational education is (which increases the speed of moving into work), and by the strength of employment protection legislation. But crucially, this effect varies between young people with different levels of educational

6 <http://www.oecd.org/employment/emp/onlineoecdemploymentdatabase.htm>

7 The OECD employment protection index assigns countries a score whereby higher values indicate stricter employment protection. This is derived from a variety of indicators which measure the complexity and cost of regulatory requirements for dismissing workers on permanent contracts. These include the length of notice that must be given, and how much severance pay must be offered, among others. For a full methodology, see <http://www.oecd.org/els/emp/EPL-Methodology.pdf>

attainment. School-leavers' labour-market entry is delayed, except for those countries in which dual vocational education is more mainstream. Furthermore, in countries with higher employment protection, school-leavers attain a higher level of occupational status in their first job. Similar results were found by Muller (2005).

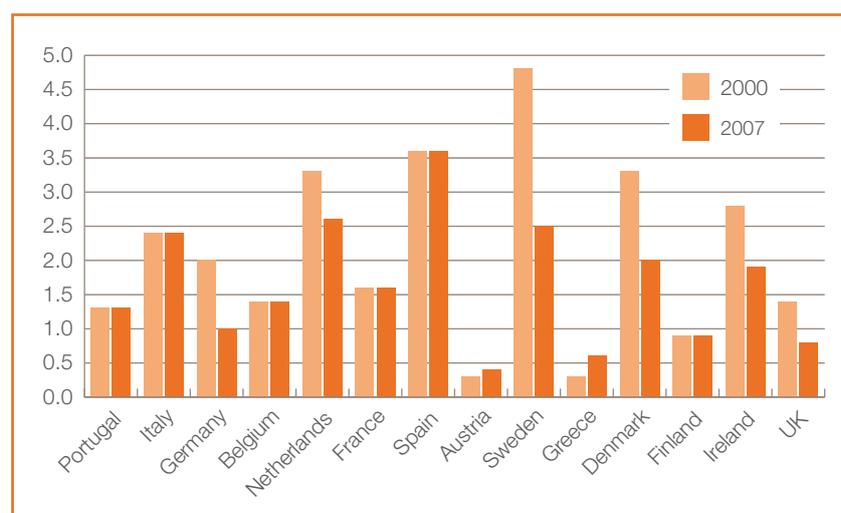
The relatively high levels of regulation in some labour markets may, however, have a disproportionate impact on more marginal groups in the youth population, particularly those that do not have access to high-quality vocational training opportunities. We saw in chapter 2 that the low-skilled, and those completing secondary education without having taken the dual vocational route, have substantially higher unemployment rates than those that have completed a dual apprenticeship. Young people in this group need to find work in order to be able to access informal training opportunities and 'learn-by-doing', yet are less likely to find employment in the first place.

## 4.2 Regulation of temporary contracts

One aspect of labour market regulation that may have a decisive impact on youth employment is the strictness of legislation governing temporary employment, since – as noted in the first section of this report – one feature of the youth labour market in many countries is the high and growing prevalence of temporary work.

Temporary contracts are less prevalent in countries with weak labour market regulation – relatively few employed youth in the UK work under temporary arrangements, for instance. Because the regulations in these countries that govern permanent and temporary workers are more similar to each other, permanent employees are not particularly different in legal terms from temporary workers. But in many other countries which have stricter labour regulations concerning permanent contracts, temporary employment has become more widespread as a means for businesses to adjust their workforce.

**Figure 4.2**  
OECD strictness of temporary employment regulation index for selected countries, 2000 and 2013



Source: OECD employment database<sup>8, 9</sup>

8 <http://www.oecd.org/employment/emp/onlineoecdemploymentdatabase.htm>

9 Similar to the OECD's employment protection index for permanent contracts (see footnote to figure 4.1), their index for temporary contracts assigns countries a score whereby higher values indicate stricter protection. Indicators used to construct the measure include how many times a fixed-term contract can be renewed, and whether temporary workers are eligible for the same pay and working conditions as permanent workers. For a full methodology, see <http://www.oecd.org/els/emp/EPL-Methodology.pdf>

Figure 4.2 shows that several countries in the EU deregulated temporary contracts between 2000 and 2007, including Sweden, the Netherlands, Germany and the UK. All of these countries have seen an increase in the proportion of young people working on a temporary basis over this period, with the exception of the UK (see figure 3.5). Both France and Spain saw no change in the strictness of temporary employment regulation, and little increase in the number of young people working on temporary contracts.

### 4.3 Unemployment assistance

For those young people who do not find a job when they leave education, the system of employment assistance on offer plays an important role in supporting them into work. Young people tend to be less likely to claim unemployment benefits than adults when looking for work. This is partly related to demographic factors: young people usually have access to parental support, and are more likely to live with their parents, and so have fewer living costs that need to be met. But it also reflects policy differences too. In some countries, young people's access to unemployment benefits are explicitly limited; and where benefit eligibility is tied to previous social security contributions, young people starting out in the labour market are unlikely to have built up the amount required to become eligible.

Table 4.1 shows the proportion of unemployed youths (15–24) and adults (25–49) not claiming benefits, by duration of unemployment. It shows that, as expected, young people in general are less likely to be claiming unemployment benefit than adults, but that as unemployment duration increases, a greater proportion of young people take receipt of benefits.

The greatest levels of benefit receipt among the young are seen in Spain and France, followed by Sweden. In the UK, by contrast, over half of unemployed people – whatever the duration of their period of unemployment – do not receive out-of-work benefits. Also noteworthy is the significant variation in benefit non-receipt among long-term unemployed young people (those out of work for a year or more). This ranges from as low as 15.6 per cent in Spain, and just over a fifth in Sweden and France, to 60 per cent in the UK.

The Netherlands is something of an anomaly, with a very high proportion of the young unemployed not accessing benefits, both compared to Dutch adults and to youth in other countries. This is likely to be related to a specific set of measures introduced at the end of 2009, the Investment in Youth Act, which severely curtailed access to benefits for 18- to 27-year-olds. Instead of receiving unemployment benefits, young people are instead directed immediately into labour market programmes offering work and/or training (Bekker 2010).

**Table 4.1**  
Proportion of unemployed not registered for unemployment benefit (%) by unemployment duration in selected EU countries and EU15 average, by age and duration of unemployment, 2012

	Less than 1 month		1– 2 months		3–5 months		6–11 months		12–17 months	
	Youth	Adult	Youth	Adult	Youth	Adult	Youth	Adult	Youth	Adult
EU15	59.0	30.3	50.8	23	41.4	21.2	34.4	18.2	33.9	22.0
Spain	39.3	16.3	41.6	11.7	30	11.9	19.0	9.6	15.6	9.8
France	40.8	24.8	34.1	12.5	-	-	21.1	9.0	22.7	10.7
Netherlands	94.3	73.8	93.6	52.8	90.1	43.4	90.3	40.1	77.8	48.7
Sweden	77.7	47.2	57.0	23.5	38.9	14.5	25.5	7.8	21.0	9.4
UK	92.7	83.1	74.4	65.2	60.8	53.3	58.3	48.8	60.7	49.5

Source: Eurostat 2013a

Note: German data unavailable. 'Adult' refers to 25–49 year olds, 'youth' to 15–24 year olds.

Beyond unemployment benefits, the type and extent of interventions offered to the young are important. While detailed, internationally comparable data on labour-market intervention programmes for the young is not readily available, considering the types of programmes used and the level of public spending on them in general is nonetheless worthwhile. The distribution of spending per programme participant, expressed as a percentage of the total, is shown in table 4.2.

**Table 4.2**  
Spending per participant by intervention type (% of total spend on all interventions) in selected EU countries, 2009

	Labour market services	Training	Employment incentives	Supported employment and rehabilitation	Direct job creation	Start-up incentives
Germany	38	36	10	4	6	7
Spain	17	23	28	9	10	13
France	26	37	10	8	16	4
Netherlands	32	11	15	42	0	0
Sweden	24	7	42	25	0	1
UK	90	4	3	2	1	0

Source: Eurostat 2013a

Table 4.2 illustrates how countries tend to emphasise different interventions. Training is a priority in France and Germany, whereas Spain and Sweden spend more on employment incentives, which include wage subsidies. The Netherlands devotes the largest share to the ‘supported employment’ category, which relates to employment programmes aimed at those with a limited capacity for work such as the disabled.

The UK is unique in its emphasis on labour-market services, which includes job-search support and advice provided directly by public or contracted employment services.<sup>10</sup> It should be noted that the UK does spend substantially less on interventions as a whole compared to the other focus countries, devoting less than 0.5 per cent of GDP to labour market programmes – around half as much as Spain and Sweden, and substantially less than the Netherlands (see table 4.3). Broadly speaking, however, the pattern discernible in table 4.2 does not suggest any systematic relationship between different interventions and low youth unemployment.

**Table 4.3**  
Total spending on employment programmes as a percentage of GDP, in selected EU countries, 2009

Germany	1.01
Spain	0.79
France	0.99
Netherlands	1.18
Sweden	0.88
UK	0.39

Source: Eurostat 2013a

It has also been argued that the protection offered to workers through both out-of-work benefits and activation policies, as well as employment regulation, can act as a support to different types of vocational training. Estevez-Abe et al (2001) suggest that high levels of employment protection are complementary to large numbers of individuals developing on-the-job skills that are highly specific to individual firms. Because the skills of this group face lower demand from other firms, they will collectively demand strong employment protection legislation to prevent unemployment. This can be observed among some

10 Since 2009 the UK has introduced several new labour market measures aimed at the young, including wage incentives and access to training.

southern European economies, which are characterised by low levels of vocational training and high levels of employment protection.

By comparison, the kinds of skills learned through a school-based or combined school-work vocational route are more likely to be specific not to firms but to a broad occupation or industry, so what matters to this group is unemployment support that helps them to maintain earnings for long enough to find a similar job in another firm, and allows them to turn down unsuitable jobs without the threat of sanctions. Countries such as Germany, Sweden and the Netherlands are characterised by internationally high ‘replacement rates’ (the percentage of typical earnings provided by out-of-work benefits), high levels of vocational training, and people’s ability to exercise discretion in periods in which they are searching for a job while maintaining their eligibility for benefits.

Finally, in economies without a particularly generous out-of-work benefits system and with relatively lax employment regulation, individuals are incentivised to acquire general or ‘portable’ skills which are valued across firms and industries. Within Europe, both the UK and Ireland fit this pattern.

The extent to which different welfare systems drive differences in skill-formation regimes, and therefore youth unemployment, should not be overplayed. However, this argument does suggest that there are important complementarities between these two aspects of education-to-work transition systems.

#### 4.4 Youth wages

Another widely-held view regarding the causes of youth unemployment is that the eligibility of young people for minimum wages might discourage employers from hiring them. Since young people are more likely to move into lower-paid entry-level positions, it is argued that the minimum wage is more likely to affect youth wages relatively more than those of older, more experienced workers.

It is true that while wages for the whole population tend to be determined by demand and supply factors, particularly the impact of experience and educational attainment, the situation is different for young people. The effect of youth minimum wages, particularly for those of lower skill levels, is more likely to be a constraint on the level of pay offered.

Yet the evidence shows that youth minimum wages have little impact on youth unemployment. In a comprehensive review of the international literature on youth unemployment and minimum wages, Croucher and White (2011) found that there were very few studies that reported a significant effect, and where there was an effect it was extremely small. What is key is implementing a differential minimum wage for young people which minimises the effects of any disemployment.

In an influential study from the UK, Dickens et al (2010) made use of the fact that there is a jump in the minimum wage at the age of 21 to assess the impact this had on the youth employment differential between 20- and 21-year-olds. Comparing workers of the same level of skill but who were on either side of the cut-off age, they found that the youth employment rate actually increased when the higher wage came into force. Dickens et al asserted that the reason for this was that the supply effect of young people responding to the higher wage was larger than its negative impact on business demand.

This highlights one of the more plausible concerns regarding youth minimum wages – that they might draw people out of the education system by offering the prospect of a short-term boost in earnings. This has been found to be a significant factor at play in Spain, where the construction boom in the 2000s caused the wages available to youth, particularly men, to rise considerably. This caused a decrease in male participation rates in education, and ultimately led to a swift increase in unemployment among this group when the sector retrenched rapidly in 2009 (Dolado et al 2013). Therefore we should perhaps be just as concerned about the market setting overly high wages for youth as we are about legislated minimum wages.

In fact, other aspects of wage-setting may be more important to youth transitions. The exact nature of how wages are determined varies considerably across countries. In some, including the UK, minimum wages are set at a national level by an independent body. In others, they are set through national-level negotiations between skilled unions and employer associations (Spain), on an industry-by-industry basis (Germany), or at the firm-level (Sweden), through systems of collaborative collective bargaining.

This can affect youth labour markets in different ways. In sub-national collective bargaining systems, wages are more likely to respond to local and industry-specific labour-market conditions, meaning they are more flexible and can adjust to changes in the wider economy. Under national systems, they are more likely to be linked to country-wide indicators of costs and labour demand, which can make them less responsive (Croucher and White 2011).

This also has an impact on the vocational skills system: collective wage-setting institutions may increase the likelihood that firms will invest in training. By flattening the pay distribution and holding down the wages of the highly-skilled, firms can recoup more of the initial training cost, as individuals capture less of the return from their consequent higher productivity later in their career. Not only that, but paying workers entering the labour market relatively more incentivises firms to invest in initial vocational training to ensure that employees reach a level of productivity commensurate with their wages (Acemoglu and Pischke 1999). At the same time, since increases in the supply of skilled labour via workplace-based training may reduce the scarcity of occupational and sector-specific skills, decentralised wage-bargaining at the industry or occupational level may lead unions to seek to secure a limit on the number of available training places as part of pay deals (Busemeyer and Iversen 2011).

Furthermore, the rules governing apprentice wages are likely to determine whether or not firms invest in workplace-based training. Where apprentice wages are lower, a greater proportion of the costs of training are offset, which means that firms can better afford to take on an apprentice. The opposite effect has been felt particularly acutely in England, where there has not historically been a separate wage for apprenticeships. The recent introduction of an apprentice wage in England represents an attempt to move more into line with other EU countries, but it is likely that the high cost of hiring an apprentice might explain the low willingness of employers in the past to offer combined work-and-education training in the German mould.

## 4.5 Conclusion

The evidence does not support the view that a high level of labour-market regulation is a prime cause of high youth unemployment. There are countries with high unemployment and a low level of regulation, and vice versa. It appears that vocational institutions with a strong link to the labour market are particularly effective at offsetting any negative effects of regulation, by offering clear signals to employers about the skills of the young people they take on. Labour market regulation may, however, have an impact on companies' keenness to use temporary employment contracts: the harder it is to dismiss a permanent worker, the more likely they are to opt for a temporary employee.

Regimes for assisting the young unemployed to find a job vary so much from country to country that it is hard to draw any conclusions about their relative effectiveness. The evidence on minimum wages is more consistent, however – it shows that a minimum wage for young people is not a deterrent to employing them, provided that it is set below the adult minimum wage.

## CONCLUSION

### YOUTH TRANSITION REGIMES IN EUROPE

The concept of a ‘youth transition system’, the set of education, labour market and other institutions that govern and affect how young people move from education into work, is an important one (Raffe 2008). Policymakers often focus on a narrow youth unemployment measure, rather than considering the broad concept of a transition system and the different pathways that are, or could be, open to young people. The evidence presented in this report demonstrates that there is no definitive relationship across countries between the effectiveness of youth transition systems and a variety of policy, economic and individual-level factors, but that the way in which these factors vary between countries, and between different groups within the youth population, can reveal a great deal about the problems young people face in the labour market.

As individuals, young people have a variety of educational, training and employment opportunities open to them. At the same time, their personal characteristics – including demographic background and prior educational achievement – influence their decisions about which pathways to follow, and their ability to access them. But the different options available and the accessibility of them are also strongly linked to national-level forces. This finds its most obvious expression in the level of enrolment in, and orientation of, vocational training systems – but the impact of employment-protection legislation, wage-setting, and wider changes in the structure of the economy are also important. This also affects young people’s employment chances once they leave education, both in terms of the ease of finding a job, as well as the types of work found: whether they are permanent or temporary, full-time or part-time, and in what occupations.

Building on the framework set out in the introduction to this report, and based on the findings presented here and in other studies, the following overall conclusions can be made:

**The evidence supports the consensus view that a high level of firm involvement in the vocational system is good for youth transitions and employment.** In Germany, firms are directly involved in the delivery of vocational education, by providing training to young people enrolled on ‘dual apprenticeships’ which combine work with education in roughly equal measure. This means that German youth leave the vocational system having developed skills that are aligned with the needs of employers, and are therefore less risky hires for businesses. But in the Netherlands, where apprenticeships exist but are a much smaller part of the system, firms are involved in the school and college-based training system in a different way: through active participation in its administration and the design of qualifications, and by part-funding the system. Again, this aligns the content of vocational courses with employer demand for workers and skills, and helps smooth education-to-work transitions for participants. Furthermore, the problem of skills mismatch is less prevalent in countries with strong firm involvement in education, which suggests that the young are not only more likely to find work, but are also better able to find a job that is aligned with their qualifications.

**However, firm involvement in vocational education and training leaves the system vulnerable to businesses withdrawing from it.** The dual apprenticeship system is shrinking in Germany. While the country has maintained its overall low youth unemployment rate, the size of the vocational part of the secondary education system has contracted by around 30 percentage points since the mid-1990s. Since the system relies on the continued commitment of the private sector, changes to the sectoral distribution of firms and their ability to fund and engage in training have led to a decline in the number of apprenticeship places offered. Since those completing the general academic pathway in secondary education face a particularly difficult

transition into the labour market, youth unemployment in Germany is likely to rise if this trend continues.

**Experience of work combined, either formally or informally, with education is also good for youth employment and transitions – but too few young people are working alongside studying.** In all the countries featured in this report, young people who have worked while studying face a substantially lower risk of unemployment after leaving education. This is most apparent in Sweden, where the youth unemployment rate for those without an employment history is almost double that of young people who have work experience. The employment rates of students are low or falling in many countries: fewer than one in 10 Spanish students are also in employment, and the student employment rate in the UK has dropped by 10 percentage points in less than a decade. The situation in Sweden is not the result of a withdrawal of students from the world of work – rather, the country’s high levels of aggregate youth unemployment are largely driven by young people in education and actively looking for work but unable to find any. Aside from formal vocational routes that combine education and work, policy efforts to increase the number of students working in a paid job alongside education should be a priority for policymakers.

**Helping the young to stay in work is just as important as helping them to move into work in the first place.** While long-term youth unemployment is still a growing issue in Europe, there also needs to be greater focus on the sustainability of youth employment. Sweden, for instance, has low rates of long-term youth unemployment, but high youth unemployment rates, which suggests significant instability in young people’s transitions into work. This partly reflects a rise in the prevalence of temporary contracts in youth labour markets, but even in the UK – where youth temporary work is not widespread – transitions are characterised by high levels of risk. The evidence suggests that repeated spells of unemployment inflict wage and employment ‘scarring’ effects in a similar way to fewer, longer periods out of work. This suggests that timely support for the young when they find themselves unemployed is important.

**The structure of youth jobs in terms of occupations and industries has changed considerably in recent decades, which has had a complex impact on youth unemployment.** In most of the countries studied in this report, the youth labour market has shifted away from manufacturing and towards services. There has also been a large swing in youth employment towards low-skilled occupations and away from jobs in the middle of the skill distribution, with smaller increases in the most highly-skilled jobs. This reflects wider changes in the structure of work, driven by technological change, offshoring and other structural factors, but it has particular implications for the young. The qualifications profile of youth is increasing, but this is not necessarily being reflected in a greater number of higher-skilled jobs for the young as they transition. In Sweden and the UK, this has caused an increase in overqualification. Elsewhere, the pattern is more complicated, but the growth at the bottom end of the labour market nonetheless raises questions about the ability of vocational educational institutions to effectively prepare young people for mid-skilled jobs, given the apparent lack of demand for those roles.

**Neither strict employment regulation nor youth minimum wages are to blame for youth unemployment.** Labour-market institutions that regulate employment security and wages do not have a clear-cut positive or negative effect on youth unemployment: their relationship is more complex. Vocational education that has a strong link with the

labour market largely negates any negative effects from strong ‘insider’ job security provisions, although they may lead businesses to increase their use of temporary contracts for young workers; and countries with separate youth minimum wages set at less than the adult rate experience no consequent impact on youth unemployment.

Looking forward, it remains to be seen what impact Europe’s nascent recovery from the economic crisis will have on youth unemployment and youth transitions. While we can expect the situation to improve overall, youth unemployment continues to increase at an alarming rate in some countries such as Spain. Even in the Netherlands, which has weathered the recession well so far, the latest data shows a worrying rise in the youth unemployment rate – possibly linked to budget cuts aimed at labour market programmes.

Yet even a fully-fledged economic recovery is unlikely to fully reverse the rises in youth unemployment that occurred in the decade which preceded the recession. Tackling this structural aspect of the youth unemployment problem requires deeper reforms that encompass the whole of the youth transition system.

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