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**THE YOUTH EXPERIENCE GAP:
EXPLAINING DIFFERENCES ACROSS
EU COUNTRIES**

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The Youth Experience Gap: Explaining Differences across EU Countries

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Abstract[#]. This note aims to provide a theoretical framework to think of the youth unemployment problem and a classification of EU countries according to the way they address it. The key factor to explain youth unemployment is what we call the youth experience gap. To help young people fill it in and ease school-to-work transitions, every EU country provides a mix of policy instruments, including different degrees and types of labour market flexibility, of educational and training systems, of passive income support schemes and fiscal incentives. Five different country groups are detected whose outcomes in terms of youth unemployment are dramatically different: a) the North-European; b) the Continental European; c) the Anglo-Saxon; d) the South-European; e) New Member States. The Lisbon strategy provides guidelines in line with the theoretical framework discussed here, but it is costly and hard to implement.

JEL Classification: H31, H52, I2, J13, J24, J68,

Keywords: Youth Unemployment Problem, Youth Experience gap, Youth Employment Policy, Lisbon Strategy

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Introduction

According to Quintini, Martin and Martin (2007), the average OECD ratio of the youth to the adult unemployment rate amounted to about 2.4 in 1995 and increased to about 2.7 in 2005. Over the same period of time, the average OECD youth unemployment rate has remained stable at slightly more than 15%, suggesting that young people were unable to improve their position in a period of increasing, though moderately increasing, prosperity in the area.

The EU youth unemployment rate is on average about two times higher than that of adults and, therefore lower than the OECD average. Nonetheless, due to the large differences existing across European countries, including the New Member States, this represents in some countries a priority in the political agenda of the EU and several national governments. In most part of South European countries and new member states, the ratio of the youth to adult unemployment rate is generally higher than the EU average.

This note is a first contribution to highlight the mechanisms behind school-to-work transitions. Its aims are three-fold: to provide a short and up-to-date overview of the issue, to propose a theoretical framework to interpret country differences and to elaborate some policy suggestions. The main argument of the paper is that cross-country differences depend on the way different welfare system mixes seek to fill the youth experience gap.

We start from a number of clarifications. First, when analysing young people behaviour in the labour market, it is misleading to think in terms of employment rates, because employment is not necessarily the best option for young people, especially the young teenagers (14-19). Looking at employment rates is interesting only for young adults (20-24) and the oldest youth age group (29-34). The best option for young teenagers is education and/or training. In recent years, also for young adults there is often a trade-off between employment, which is an objective in the short-term, and increasing investment in education and work experience.

Second, macroeconomic scenarios alone fail to catch the permanent nature of the youth unemployment problem which can be only understood looking at the specific weakness of young people participation to the labour market, namely the youth experience gap, and the way different education, training and welfare systems affect it.

When attempting to reduce the youth experience gap, which is the main cause of the high youth unemployment rate, the three factors of policy intervention to consider include not only the degree of labour market flexibility, but also: a) educational systems; b) school-to-work transitions and all the factors that affect the intensity of job search, training, passive income support; c) spells and length of unemployment; d) quality of employment.

Different welfare systems can make school-to-work transitions smooth contributing to reduce youth unemployment. Under this respect, at least five different systems can be identified in Europe: a) the North-European; b) the Continental European; c) the Anglo-Saxon; d) the South-European; e) that of new member states. At this stage, it is still difficult to say whether the New Member States belong to a specific fifth group or rather to one of the existing EU groups. The common heritage of socialist countries would suggest considering them an independent group, but a number of cross-country differences do not allow disentangling clearly the specificity of such group. Moreover, many changes are still on-going and the final outcomes are not clear yet.

The outline of this paper is as follows. We start from some stylised facts. We then set the theoretical framework of the analysis starting from what we call the mainstream approach to filling the youth experience gap. In what follows we raise a number of critiques to the mainstream approach, concluding that every EU country addresses, in fact, the

youth unemployment problem with some form of state intervention. The next section brings to the fore our classification of European welfare systems and discusses differences among them. Some final remarks conclude.

1. The youth experience gap

As Clark and Summers (1982) noted in a seminal paper, the flows in and out of unemployment are higher for young compared to adult people because: a) young people are in search for their best job match; b) and often they go back to education and training after an employment or unemployment spell; c) this is especially true for low skill young people; d) employers are also in search for the best job match.

The consequences are: short average unemployment duration compared to adults, but a higher average risk of falling into a chain of low pay, temporary or part-time work. These two outcomes seem to be inconsistent with each other, but, in fact, they are not. To reconcile them with each other one should keep in mind that there are two different paths for high and low skill young people. The latter might start with unemployment spells early in their life, which leads them to experience long unemployment spells also in the rest of their lives.

The main reason why young people are always moving among different labour market statuses is that they have a lower level of human capital and therefore of productivity compared to their adult counterparts, which *ceteris paribus* makes employers prefer adult people to them. Despite ever increasing educational attainment, in fact, young people lack the other two components of human capital, namely generic and job-specific work experience. It is in fact with the aim to fill what one could call the “youth experience gap” that they move in and out of employment in search for the best job-worker match.

2. The mainstream approach to the causes of youth unemployment

The mainstream approach to the youth employment (or unemployment) problem is optimistic as to the solutions to it and leads to the conclusion that it is not, in fact, a really dramatic problem. Youth unemployment is in principle temporary, provided that young people manage sooner or later to fill their “experience gap”. In most cases, the market itself is able to solve the problem in the long run, at least at an individual level. This is why, in fact, the unemployment rate reduces with age. Then, why to bother about youth unemployment? High youth unemployment is the consequence of young people and employers search for the best job match.

According to the mainstream approach to youth unemployment, the best option for policy makers wishing to reduce youth unemployment is to minimise the effort of young people in filling their gap of work experience. Every country should make the market more flexible to increase the chances of young people to find a good job and gain work experience.

Within this framework, what the policy maker should do is increasing the probability for a young person to find a job, once (s)he has become unemployed. This conclusion is based on the hypothesis of negative duration dependence of the job finding rate, based on early survival analysis studies: such studies found that the higher is the length of an unemployment spell, the lower is the probability of becoming employed. Two main factors could explain this outcome in turn: from the supply side, unemployment causes a process of deskilling of those who experience it; from the demand side, employers prefer those with shorter unemployment spells, because they take this as a signal of high motivation to work. An important point of this reasoning is that once entering the labour market,

transitions among labour market statuses follow a Markov process and therefore the probability of job finding is initially even across individuals independent of their skills. However, once an individual has become unemployed his probability to remain unemployed increases, while that of job finding reduces, generating duration dependence of the job finding rate. In other words, almost by chance some individuals rather than others fall into unemployment traps.

An important implication of this approach is that youth unemployment must be higher the lower is the degree of labour turnover in a country's labour market. As an example compare two extreme cases of rigid and flexible labour market, namely Italy and the USA. In Italy, in the early 1990s, the job finding rate was about 13%, which means that 13 out of 100 unemployed found a job after a year of their unemployment spell. On average an unemployment spell has the probability to last just less than 5 years. In the USA, the comparable figure is over 50% and every unemployed has an average chance to find a job in less than 2 years. The higher youth unemployment rate must be an obvious consequence of differences in the degree of labour market flexibility. In the case of Italy, over the 1990s and in the 2000s, the Treu and the ensuing laws have slightly increased the degree of labour turnover. The job finding rate was slightly over 20% in 2003, which has been accompanied by slightly reduced youth unemployment.

In this framework, labour market flexibility has another important implication. Not only it reduces the length of unemployment spells and hence the share of long-term unemployment, it also reduces the youth experience gap. The market, in fact, will provide training to young people using temporary work. The advantages of temporary work can be summarised as follows: a) it is a stepping-stone for young people to find their best match; b) employers pay low wages for low productivity; c) employers have the opportunity to "try" young people; d) special intervention – including passive income-support and proactive schemes – is needed only for particularly weak young people; e) demand side factors are not more important than the way of working of the labour market.

Another important policy implication of the liberalist view on which the mainstream approach is based is that the policy maker should contrast wage-setting mechanisms at a national level, since they equalise wages across age groups. In turn, equal pay for different human capital and skill levels are an important factor of youth unemployment. Lower entry wages for lower productivity would be the solution to the lower degree of work experience of young people.

A recent example of this economic policy strategy is the OECD (1994) job study. Many consider this influential report the "ideological" source and the beginning of a period of increasing labour market flexibility in Europe and also worldwide. One way has consisted of removing the obstacles to the adoption by employers of temporary work arrangements, therefore reducing hiring and firing costs for firms wishing to hire young people. In the mean time, temporary work is an indirect way to introduce lower entry wages for young people.

3. Weaknesses of the mainstream approach

There are two formidable arguments against the use of labour market flexibility and temporary work as the solution to the youth experience gap. The available empirical evidence and applied research on the impact of temporary work on youth labour market outcomes seems to confirm caveats based on theoretical reasoning.

3.1 The argument against negative duration dependence

As already noted, according to the mainstream approach, a sufficiently high degree of labour market flexibility, implemented, for instance, via the use of fixed-term contracts, is the best means to help young people to find their best match in a shorter time, therefore reducing the gap between youth and adult unemployment rates. This view was also based on the hypothesis that long-term unemployment is generally caused by low labour turnover causing in turn state dependence. Therefore, the longer people stay unemployed, the longer they remain unemployed.

According to Heckman and Borjas (1980) and Heckman and Singer (1984), however, this view is not supported by empirical evidence. Once controlling for unobserved heterogeneity, duration dependence in unemployment disappears. More specifically, the probability to find a job at a given time is not any more negatively related in a statistically significant way to the duration of the unemployment spell, but becomes flat. Therefore, long-term unemployment appears to be the consequence of the low motivation and skills of the unemployed rather than of the time spent in unemployment itself.

Recall the example of Italy versus USA. Also in the USA, where the labour market is highly flexible there might be negative duration dependence of the job finding rate, simply due to the low motivation and unobserved skills of some unemployed. They will not find a job, although job opportunities are more frequent. In other words, increasing labour market flexibility does have an impact, but only on those unemployed who are more motivated, not on every unemployed. The reason is that also for the new labour market entrants, the chances of job finding are unevenly distributed. Many factors might explain why *ceteris paribus* some young people have higher chances than others also controlling for educational levels: individuals with the same educational level might differ for the quality of their education; the greater social capital; the informal networks of their households; the availability of their own business and so on.

This innovative approach to the causes of long-term unemployment calls also for a different approach to the economic policy to fight it. If the high unemployment rate of some young people is the consequence of low motivation and skills, rather than of low job opportunities, then, reducing the degree of employment protection might increase the chances to find a job only of some of the unemployed young people, not of all of them. The least motivated and skilled individuals would not benefit from greater labour turnover. They should instead be helped by employment policy in general and active labour market programmes.

3.2. The Becker's argument of market failure for job specific training

Fixed-term contracts might be seen as a solution only to reduce the gap in generic, but not in job specific work experience. In fact, the short time horizon of fixed-term contracts may represent a strong disincentive (as already Becker, 1962, noted) for young people to invest in job specific competences for both the employer and the employee. Lower wage costs, which are attached to fixed-term contracts, might not be themselves a sufficient incentive to overcome the “youth experience gap” and therefore to provide sufficient incentives for employers to hire young people later.

The Nobel Prize winner, Gary Becker, had already pointed to the need to invest in job specific work experience as the reason of the worldwide diffusion of life-long jobs. Formal training is necessary in this context to raise employability more than lower wages or short-term employment experiences.

3.3. Temporary work: Stepping stone or a dead-end job?

The latter argument provides also an explanation as to why fixed-term contracts are not always seen as an achievement, but rather as a further cause of distress for young people. As the recent experience of several old EU member states shows, temporary work often becomes a low-pay trap. In other words, some young people tend to accept low pay jobs and instead of accumulating work experience to find later high pay, high quality jobs, they remain trapped for many years or also for the rest of their lives. This has led a number of researchers in Europe to ask whether fixed-term contracts should be considered stepping stone or dead-end jobs.

Rigorous empirical research has shown that too often temporary work causes precariousness of labour market experiences (see, among others, Booth, Francesconi and Frank, 2002; Güell and Petrongolo, 2007; and the references therein). Using a macroeconomic model, Staffolani and Nunziata (2007) recently find that fixed-term contracts have worked as stepping stones to permanent employment, whereas flexible temporary agency work regulations seem to induce a substitution of permanent with temporary contracts in the EU15.

According to many scholars, the evidence that too many fixed-term contracts are *in nuce* dead-end jobs call for constraints to the free adoption of temporary work. And also the OECD has contributed to recently shift the debate from the dualism flexibility/rigidity to the definition of the optimal regulation mix to make fixed-term contracts more efficient in providing training and job opportunities for young people.

3. Policy mix

The above arguments suggest that labour market flexibility is more effective in the case of more skilled individuals and must be supplemented by pro-active schemes able to reduce the youth experience gap for the least skilled young people.

Taking into account the above two arguments, one should think of the policy to fight youth unemployment as a mix of different instruments, which, in turn, depend not only on the degree of labour market flexibility, but also on efficient educational, training and, more generally, welfare systems and the system of fiscal incentives to hire the weakest groups of youth unemployed.

Theoretical reasoning and the available empirical evidence suggests that educational systems differ in their effectiveness to fight youth unemployment on whether they are:

- a) Rigid versus flexible;
- b) Sequential versus dual.

Rigid educational systems discourage movements across curricula and require long periods of time to obtain a degree. Sequential educational systems envisage training after finishing general education, whereas dual systems envisage that general education and professional training (apprenticeship) be contemporary.

The welfare systems differ according to:

- a) the relative share of pro-active versus passive income support schemes;
- b) targeting and scale of expenditure;
- c) state- versus family-based welfare systems.

Finally, also the size and types of fiscal incentives to hire young people are important.

4. Different welfare systems

European countries can be grouped into four different welfare systems:

- 1) North-European;
- 2) Continental European;
- 3) Anglo-Saxon;

- 4) South-European;
- 5) New Member States

This classification largely overlaps with that elaborated by Esping-Andersen (1990) for old member states. In what follows, we shortly describe the main features of these five systems, providing besides the title also the keyword to identify the specificity of each system. We also shortly summarise the advantages and disadvantages of each system in smoothing school-to-work transitions. For shortness sake, the statistical evidence is reduced to a minimum. In fact, several recent papers provide already a vivid, up-to-date and very much detailed picture of many dimensions of the youth labour market experience (see, among others, Quintini, Martin and Martin, 2007).

4.1. North-European system: Active Labour Market Policy

Essentially, the North-European group includes the Scandinavian countries. They are a quite homogeneous group, though they have shown some different performances in recent years. In this group of countries, the youth unemployment rate is relatively low compared to the EU and the OECD average, but the youth to adult unemployment rate is relatively high, mirroring the low average unemployment rate. Over the 1990s, especially Finland, involved in the Russian financial crisis of 1998, has experienced unusually high (youth) unemployment rate, but the country has been able in few years to reduce it again roughly to the same level of other countries in the area.

The system of education is flexible and sequential. The degree of the overall labour market flexibility is generally low. Job search through employment agencies is frequent. The labour force has a high level of unionisation.

The main feature of this system is perhaps the fact that it relies on a very well developed welfare state system. In fact, passive income support schemes are available for the unemployed. Recently unemployment benefits are given on a contractual basis and, namely, provided based on the obligation to attend training courses. Active labour market policy (ALMP) is implemented on a large scale. There is large evidence of a gross impact of ALMP on youth employment opportunities for those individuals who attended training programmes, though the net impact is a matter of discussion. By net impact of ALMP we mean the gross impact minus the number of those who would have obtained a job anyway, independent of attendance of training schemes (Sianesi, 2004).

The profile of youth unemployed in Sweden, a country representative of this group, is similar to that of Germany, described in the following sub-section: a) Men with long unemployment spells; b) Low social capital: no active participation in social life, no active search for a job; c) Relatively old, but with little educational differences; d) Having children increases the risk of unemployment; e) Training programmes are massive and participation into it has some gross impact on employment opportunities (Caroleo and Pastore, 2003).

The European Employment Strategy (EES) is already largely in place in as much as education, training or job opportunity are offered to each unemployed young people within 6 months of unemployment spell. Overall, young people experience a high degree of employment protection, based on a long tradition of welfare state.

The disadvantages of this system include low social mobility and the high cost for the State budget of the overall system of school-to-work transition. Especially the expenditure in ALMP is very high.

4.2. Continental-European: The Dual educational system

Austria, Denmark, Germany and Switzerland belong to this group. Germany and Denmark have always featured the lowest youth-to-adult unemployment rate worldwide: it

was at about 1 in Germany and slightly more than 1.5 in Denmark in 1995. In other words, in Germany the risk of unemployment for young people is roughly the same as that of adult people. Despite the German reunification and the high unemployment rate of the Eastern *länder*, still the German youth-to-adult unemployment rate remained below 1.5 in 2005 (Quintini, Martin and Martin, 2007).

The main candidate to explain the success of the Continental-European, and especially the German model is the specific nature of their educational system and especially the so-called dual principle. Apprenticeship is perhaps the most important piece of the German system. At the end of compulsory schooling, young people are offered the opportunity either to attend general high school or to attend vocational school and go into apprenticeship programmes. This dramatically reduces the unemployment rate, offering to workers not wishing to attend the University after secondary high school a high degree of integration in the educational system and, in the meantime, an important training opportunity to become a skilled manual worker.

The weakness of the Continental-European educational system is its rigidity. One important element of rigidity of this system is the fact that those who have chosen at a very young age to go into vocational education have little chance to change their mind and attain higher levels of education later. In fact, it is not allowed to those with a vocational high school degree to go on into university. In a period of increasing tertiary education, this might represent an important constraint to the development of a skilled workforce in the future. For now, however, Germany still scores one of the highest share of young people with a tertiary diploma.

The degree of labour market flexibility is low in Germany, but high in Denmark (so-called “flexicurity system”). Job search happens through employment agencies. There is a high level of unionisation of the labour force. Apprenticeship is provided on a large scale for many high school students. Active labour market policy is provided for the weakest groups. Passive income support schemes are available for the unemployed.

The identikit of youth unemployment in Germany is as follows: a) Men with low education attainment; b) Little work experience; c) Long unemployment spells; d) Low social capital: no active participation in social life; e) Having children increases the risk of unemployment; f) Training programmes have no gross impact (Caroleo and Pastore, 2003).

The advantages of this system are: a) Low youth unemployment; b) Smooth school-to-work transitions; c) High degree of social integration; d) High degree of protection for young people; e) Based on a long tradition.

The disadvantages are: a) Difficult to export, as shown by the experience of the Eastern *länder*, where the dual system is much less effective; b) The few who drop out have big problems to integrate. They are the bulk of unemployment for the rest of their lives; c) Too many are excluded by university education; d) Low social mobility; e) Very costly for schools, firms and young people. There is also some evidence that the employment opportunities offered to several young teenagers through the dual system vanish when they become young adults.

4.3. The Anglo-Saxon system: High quality of education and labour market flexibility

In the UK, the youth unemployment rate is relatively low at slightly more than 10%, but the youth-to-adult unemployment rate is one of the highest among OECD countries, at almost 3.5 (Quintini, Martin and Martin, 2007). Again this is the consequence of the very low average unemployment rate.

Ireland is a bit of an exception in as much as youth unemployment used to be very high in the past, also as a consequence of low economic growth. In the last two decades,

however, economic growth has been astonishingly high in the country and one factor of success has been also the ability of young people to invest in tertiary education, coupled with high foreign direct investment in high tech industries (). As a consequence, the youth unemployment rate and the youth employment ratio are in the country among the lowest compared to the OECD average (Quintini, Martin and Martin, 2007).

The educational system is flexible and sequential. There is a high degree of labour market flexibility, but fewer temporary jobs compared to continental Europe. This is most probably due to the fact that firing costs are generally low in these countries for any kind of labour contract and therefore, there is little need to sign fixed-term contracts.

Unionisation used to be very high in the past, but it is dramatically shrinking from the 1980s, while there is a relatively high degree of decentralised wage bargaining. Job search happens often through private employment agencies. Apprenticeship is available on a small scale. Passive income support is available for the weakest groups, provided that they attend pro-active schemes. Already from the 1980s, the length of unemployment benefits and the possibility of renewal after an employment spell has dramatically reduced to prevent the phenomenon of young people living on the dole for the rest of their lives.

The bulk of unemployment in the Anglo-Saxon system is constituted of people with a particularly poor family background. Otherwise youth unemployment is a temporary phenomenon and the market bears the responsibility to facilitate the passage to adulthood.

The advantages of this system are: a) Low youth unemployment rate, but still high if compared with that of the adults; b) Low share of temporary jobs; c) High level and quality of education; d) High social mobility; e) High degree of social integration; f) Based on a long tradition.

The disadvantages of this system are: a) A bulk of long-term unemployed for those who drop out early from the educational system; b) Low degree of protection for young people; c) Extreme segmentation of the youth labour market; d) Very costly for individuals and households.

4.4. The South European System: The family and ... temporary work

Apart from Poland and the Slovak Republic, countries where the unemployment rate is high also due to the dramatic process of transition, France, Greece, Italy, Portugal and Spain score the highest youth unemployment rate in Europe. Italy has also one of the highest youth to adult unemployment ratio, due perhaps to the fact that the average unemployment is shrinking in recent years, though more for the adults. The very high average unemployment rate of the countries in the area explains why they maintain a relatively low youth to adult unemployment rate.

In recent years, the youth unemployment rate has slightly reduced, but at the cost of a dramatic explosion of temporary, often precarious or dead-end jobs. This is particularly the case of Spain, but is common also to France and Italy.

The educational system is generally rigid and sequential. A typical feature of the Italian system is the tendency to make very easy access to tertiary education, which is open to all those with secondary high school, but very hard to complete the curriculum, due to the high indirect cost of studying for a big number of years. It takes usually more than 7 years to obtain a university degree. The introduction of elements of duality and the introduction of a 3+2 educational system have been not much more than a failure.

The degree of labour market flexibility is according to many scholars still low, but it is dramatically increasing especially for the young people, due to the tendency to attain greater labour market flexibility through fixed-term contracts. These last reduce the hiring

and firing costs only for those involved. The degree of unionisation of the labour force is generally high, though slightly decreasing in recent years.

Informal networks of family and friends are the main method of job search for young people, which proves to be a rumour rather than a channel to reduce informational asymmetries between employers and employees, as proven by the wage penalty experienced by those using this job search method to find a job (Pistaferri, 1999; Mosca and Pastore, 2007). Apprenticeship programmes were forbidden until recently. The expenditure in ALMP is insufficient and also the institutional context for its implementation is poor. Passive income support from the State regards only dismissed and, therefore, adult workers, while households support the rest of the risk of youth unemployment.

The identikit of youth unemployment in Spain is as follows. Youth unemployed are: a) New entrants (34.6 months; 56 months for permanent job); b) Women, especially with children; c) And low education attainment; d) Trapped in precarious temporary employment; e) That causes frequent unemployment spells; f) Poor family background; g) Positive note? Unemployment shows negative duration dependence, but this is due to the high share of temporary work (Caroleo and Pastore, 2003). In the case of Italy, the identikit of youth unemployment is not much different. ALMP has no impact, not even the gross impact. Interestingly, Caroleo and Pastore (2005) find evidence of what they call a “training trap”: participation into training programmes does not affect employment chances, but only the probability to participate into other training programmes.

The gender dimension is also a peculiarity of youth unemployment in this group of countries. While in other Northern European countries, men have long had lower educational levels and lower job opportunities compared to their female counterparts, in Southern European countries, women are increasing their educational level only recently and still young women represent the bulk of unemployment. This is due to different attitudes on gender roles, which require that women should be involved in reproduction activities only. In turn, this traditional view is ever more in contrast with the legitimate career ambitions of women and, coupled with little support by the state in favour of conciliation strategies, is causing increasing divorce rate and female age at first birth and, hence, decreasing fertility.

The advantages of this model are: a) Low cost of access to the University; b) Introduction of flexibility and duality in the educational system; c) Move to the 3+2 university system (Lisbon strategy); d) Increasing labour market flexibility; e) Increasing awareness of the youth unemployment problem; f) Households are good support for young people.

The disadvantages are: a) Very long school-to-work transitions; b) Very high youth unemployment rate; c) Low education attainment; d) Low quality of education; e) Failure of the educational reform; f) Increasing job precariousness; g) Lowest social mobility; h) High costs for households;

4.5. The new member states: Building a modern welfare system

Due to the on-going reforms, it is still not clear whether the New Member States are a different group or whether they are better understood as parts of the above groups. In fact, the countries belonging to this group are heterogeneous, but share a common heritage. Consequently, also the outcomes in terms of youth unemployment are similar.

The labour market position of young people in the new member states is on average worse than the EU average and close to that in Southern European countries (O’Higgins, 2005). The ratio of the adult to youth unemployment rate fluctuates between 2 and 3 from one country to the other. Beleva et. al. (2001) find a ration of 2.1 for Bulgaria, whereas

Pastore (2005) and Domadenik and Pastore (2006) find a ratio of 2.8 for Slovenia and 3 for Poland. However, almost everywhere the youth unemployment rate is high and large anecdotal evidence suggest that while few particularly skilled young people have been the real winners of transition, most low skill young people have been the losers.

During the socialist system, in Central and Eastern European Countries (CEECs), workers were used to a pervasive welfare state. Unemployment was virtually non-existent due to the commitment of socialist regimes to full employment as a way to exploit the entire labour surplus available (Kornai, 1992), but this implied also the commitment of state firms to provide jobs for all, though at very low wages. Moreover, the state used to provide also several other benefits to the most in need as well as free social services for all, including childcare facilities, health care, hospices and other services for the elderly. This was possible thanks to very soft budget constraints for state firms, the hidden state budget deficit and strong trade unions.

When transition began (youth) unemployment started to emerge as a new reality and with it a debate started on the need to introduce some kind of employment protection legislation, state subsidies to the unemployed, early retirement schemes and support to inactive people. This type of new welfare state started under the auspices of the early Optimal Speed of Transition models (Aghion and Blanchard, 1994), which suggested that passive income support schemes might be useful to buy out workers from state owned enterprises and win their resistance to the reform process. At that time, the emphasis on rapid restructuring versus gradualism was dramatically affected by the fear of a return to the past and the need to make the transition process irreversible. This way of thinking found an encouraging consensus in the population as well as in all political parties worried to make the increasing unemployment, inequality and poverty socially acceptable. Also a widespread feeling was that the state, not the households should bear the social cost of reforms. The almost immediate consequence was the explosion of the social public expenditure, the pressure on the pension system, the dramatic increase of the dependency ratio, all factors that led the CEECs state budget to the edge of a dramatic collapse.

Only in the late 1990s, when transition seemed to have become irreversible and state budget were suffering dramatic imbalances, the debate has shifted from the gradualism/shock therapy debate to a debate on the optimal design of labour market institutions. Two streams of literature have emerged that this research aims to discuss theoretically and test empirically. Some scholars (Boeri, 2000) started to point to passive schemes as the origin not only of threat for the financial and monetary stability, but also as a source of social distress for the actual way of working of the labour market and, consequently, for the speeding up of a transition process which seemed to experience a dramatic slow down. Boeri (2000) claimed that the right sequence for the implementation of non-employment benefits would have been the opposite of that actually followed: the governments should have started from low passive income support schemes to facilitate the flow from the state sector to non-employment and back to employment in the private sector. Only at a later stage, when unemployment was really involuntary, the governments should have started to provide income support to the losers of transition, namely those who were actually not employable in the private sector.

Other scholars (Micklewright and Nagy, 1999; 2002) advocated that the sequence of reforms was the right one and that income support schemes in the early stages of transition were indeed necessary to help people bear the consequences of dramatic structural and cultural change. Moreover, in the early stages of transition, unemployment was essentially probably involuntary, whereas later when long-term unemployment started to emerge, unemployment benefits should have been reduced to increase incentives to work for non-

employed people. Finally, unemployment benefits have been very low in CEECs also compared to the low average wages and their bite would be minor.

Also in new member states, youth unemployment is worrisome, among other reasons, because it contributes to make harder a dilemma that the young people in CEE have to face between continuing to invest in their own education, therefore reducing the household's budget, on the one hand; and accessing immediately the labour market, therefore contributing to the household income, but reducing their own chance to find gainful employment in the future, on the other hand.

As noted in Pastore (2005), the case of Poland is typical of the changes new member states are currently facing. Poland is the transition economy experiencing the highest degree of structural change and the highest unemployment rate in the area. It adopted a Big Bang approach to the reform process, by introducing simultaneously price and trade liberalisation, together with privatisation and macroeconomic stabilisation already in the early 1990s. A massive flow of foreign direct investment has triggered the process of technological change, on the one hand, and generated the need for skill upgrading of the workforce, especially of the youngest segments, on the other hand.

Over the years, similar to other transition countries, the share of individuals with high education attainment has dramatically increased in Poland and other new member states, together with the progressive abatement of the share of people with vocational secondary degrees (Boeri, 2000). Domadenik and Pastore (2006, Tab. 5 and A5) find that from 1997 to 2002 the percentage of young teenagers (15-19) in education increased from about 84 to 88, while that of young adults (20-24) increased from 20 to 31. The corresponding figures for the early 1990s were 45 and 13 percent respectively. In both cases, Poland seems to be close to the educational targets fixed within the Lisbon strategy for the year 2010.

However, these figures raise an important issue, namely what is the reason of the striking contrast between the excellent (at least quantitative) achievement in educational attainment and the delay in increasing youth employment and reducing youth unemployment rates, which remain well below the Lisbon objectives.

In recent years, almost all new member states have implemented the 3+2 educational reform, while their ratio of expenditure in pro-active versus passive schemes has dramatically increased. The labour market is becoming increasingly flexible, though it remains, according to some observers, still more rigid than the already rigid Europe.

The positive sides of the welfare systems in new member states include: a) The desire of young people to improve their economic condition; b) Deep reforms aimed to modernise the educational and training system; c) The existence of several forms of protection for young people by the State and also by international organisations, including the EU; d) The old tradition of high investment in human capital formation.

The disadvantages include: a) a mismatch between the composition of supply of and demand for skills, which the educational system partly contributes to maintain; b) an excessive trust in the virtues of market forces; c) the low average income of household and high state deficit; d) the need to cope with increasing external constraints due also to EU accession; e) a massive process of brain drain.

5. Discussion

Based only on observation of the youth unemployment rate and ratio of youth to adult unemployment rate (Quintini, Martin and Martin, 2007, Figure 1), four types of countries can be detected when looking at labour market outcomes in a comparative perspective:

- a) High youth unemployment rate and high youth to adult unemployment rate (Italy, France, Sweden, Finland, Belgium, Greece, Hungary, Czech Republic);

- b) Low youth unemployment rate and high youth to adult unemployment rate (UK, Iceland, Luxembourg; USA, Norway, New Zealand, Australia);
- c) High youth unemployment rate and low youth to adult unemployment rate (Poland, the Slovak Republic, Spain, Portugal);
- d) Low youth unemployment rate and low youth to adult unemployment rate (Germany, Denmark, Japan, Ireland, Austria, Netherlands, Switzerland).

Interestingly, the classification adopted here based on statistical evidence almost overlaps with the previous classification based on educational and welfare systems. In other words, countries in the South European and the North-European system mainly belong to the group a) above. Spain and Portugal are the exception: here while the youth-to-adult unemployment rate is high, the youth unemployment rate is relatively low. The explanation for that is to be found in the high share of fixed-term contracts for young people and the fact that, therefore, the youth unemployment rate is reducing at a relatively quick rate compared to the adult unemployment rate in Spain¹.

Anglo-Saxon countries, also outside the EU belong to the category b) above. This is because the average unemployment rate is low in these countries and even a low youth unemployment rate causes a high youth-to-adult ratio.

New member states mainly belong to the group c), where the youth-to-adult ratio depends on the very high average unemployment rate.

Finally, Continental European countries belong to group c), confirming the role that the dual education system plays there.

Concluding remarks

This study has attempted to provide a theoretical framework to think of the youth unemployment problem. The main conclusion is that youth unemployment depends on the hardship young people find in filling the youth experience gap. In a mainstream approach to the issue, it is typical to think that a flexible labour market is the best solution to the youth experience gap. Through sizeable moves across different labour market statuses, young people achieve the human capital they need to become adult and productive, making it convenient for employers to hire them. Therefore, within this framework, labour market flexibility and low entry wages are the best solution to the youth experience gap.

Two main argument cast doubts on the mainstream approach. First, it comes the Heckman, Borjas and Singer argument that there is no duration dependence from unemployment when controlling for omitted skill heterogeneity. The policy consequence is that training programmes are more efficient to reduce youth unemployment than increasing labour market flexibility. Becker's work provides a second important argument: he suggests that fixed-term contract generate sufficient incentive to invest only in the formation of generic, but not of job specific work experience. There is therefore a failure in the market for job tenure, which should be addressed providing some incentives or specific training programmes.

These arguments explain why labour market flexibility is only one of the policy instruments adopted in any country to help young people to fill the youth experience gap. They also let us understand why increasing entry flexibility in traditionally rigid EU countries has reduced youth unemployment only marginally, while generating much work

¹ When the average unemployment rate is reducing the youth to adult ratio is reducing more quickly, because it is especially the youth component of unemployment to shrink.

precariousness. Other not less important instruments to fight youth unemployment include the educational and training system, passive income support schemes and so on.

It is certainly difficult to find recipes that accord to the institutional framework of any country and it is clear that in each group of countries there are bad and good performers. However, comparison of the outcomes of different European models of addressing the problem of school-to-work transition suggests that youth unemployment is lower:

- a. With flexible, dual educational systems, which are also more inclusive;
- b. Where labour market flexibility is coupled with high education attainment;
- c. Where ALMP are fine tuned to the needs of the weakest groups: targeting and evaluation are necessary;
- d. If households do not bear all the cost of youth unemployment.

The Lisbon strategy defined by the Special EU Council of March 2000 suggests the importance for young people of investing in human capital accumulation for the future of Europe as “the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion”. The analysis carried out in this paper suggests that the Lisbon strategy is a good guide for EU governments to fight youth unemployment. Nonetheless, it also suggests that the Lisbon strategy is difficult to implement due to important institutional and historical differences, and also very costly to implement especially for countries where youth unemployment is very high, such as the Southern Mediterranean and transition countries.

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