Youth Unemployment in Mediterranean Countries

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It is a well-known fact that youth unemployment rates are currently alarmingly high in all of the EU's Mediterranean countries (comprising France, Greece, Italy, Portugal and Spain). Even before the economic crisis hit in 2008, unemployment in each of these countries was already higher than the EU average. During and after the crisis, youth unemployment increased sharply, especially in Greece and Spain. By the end of 2012, the youth unemployment rate was above 50% in both countries: 55.0% in Spain and 58.1% in Greece. Likewise, the rate in Italy and Portugal was almost 40%, although in France it was only slightly higher than the EU average. In 2013, youth unemployment rates continued to rise, by 0.1% in the EU as a whole, 1.7% in Spain, and 2.9% in Italy. In Greece, youth unemployment remained quasi stable at 58.0% (-0.1). In France, the rate decreased in the third quarter of 2013 to 25.2%. The most significant drop was observed in Portugal.

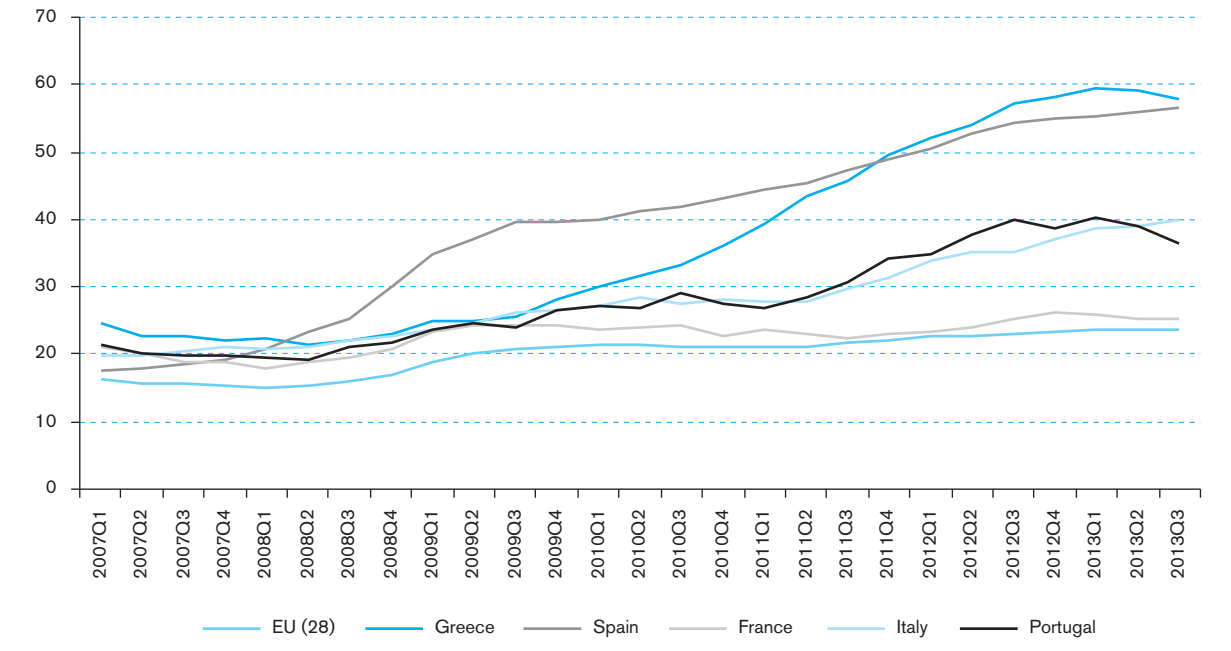
According to Eurostat, the share of pupils in upper-secondary education enrolled in the vocational stream in the EU was 55.7% for males and 44.7% for females. The shares are lower than in the EU as a whole for all of the Mediterranean countries except Italy (70.1% male, 49.2% female).

The unemployment rate of people aged 15 to 24 is more than twice as high as that of people aged 25 and over, both in the EU as a whole and in the Mediterranean countries. However, those numbers must be interpreted carefully for two reasons (Barslund and Gros, 2013). First, the group of 15-to-24-year-olds actually consists of two subgroups, teenagers (aged 15 to 19) and young adults between the ages of 20 and 24. Most of the teenagers are still in school or training or, if not, are likely to be very low-skilled. Therefore, even in normal times, they would have difficulties finding a job. Young people aged 20 to 24 have typically completed secondary education or finished their university studies early and are seeking a full-time job. Second, only a small fraction of young people are in the labour force, on average only about 10%. A youth unemployment rate of 60% does not mean that 60% of the whole cohort is unemployed. It means that 60% of young people in the labour force are unemployed. The youth unemployment rate is thus potentially misleading, and it is therefore preferable to look at the youth unemployment ratio instead. This is the percentage of unemployed people in the reference population. The youth unemployment ratio of young people aged 15 to 24 is only slightly higher than the unemployment rate for those aged 25 and over and is somewhat less alarming.

In Italy and France, the youth unemployment ratio is similar to that for the EU-28 as a whole. In contrast, in Spain, the ratio increased dramatically during and after the economic crisis. In Greece and Portugal, the percentage of out-of-work young people looking for a job did not increase until 2009. After 2009, the ratio in both countries consistently went up, reaching 14.3% in Portugal and 16.1% in Greece in 2012.

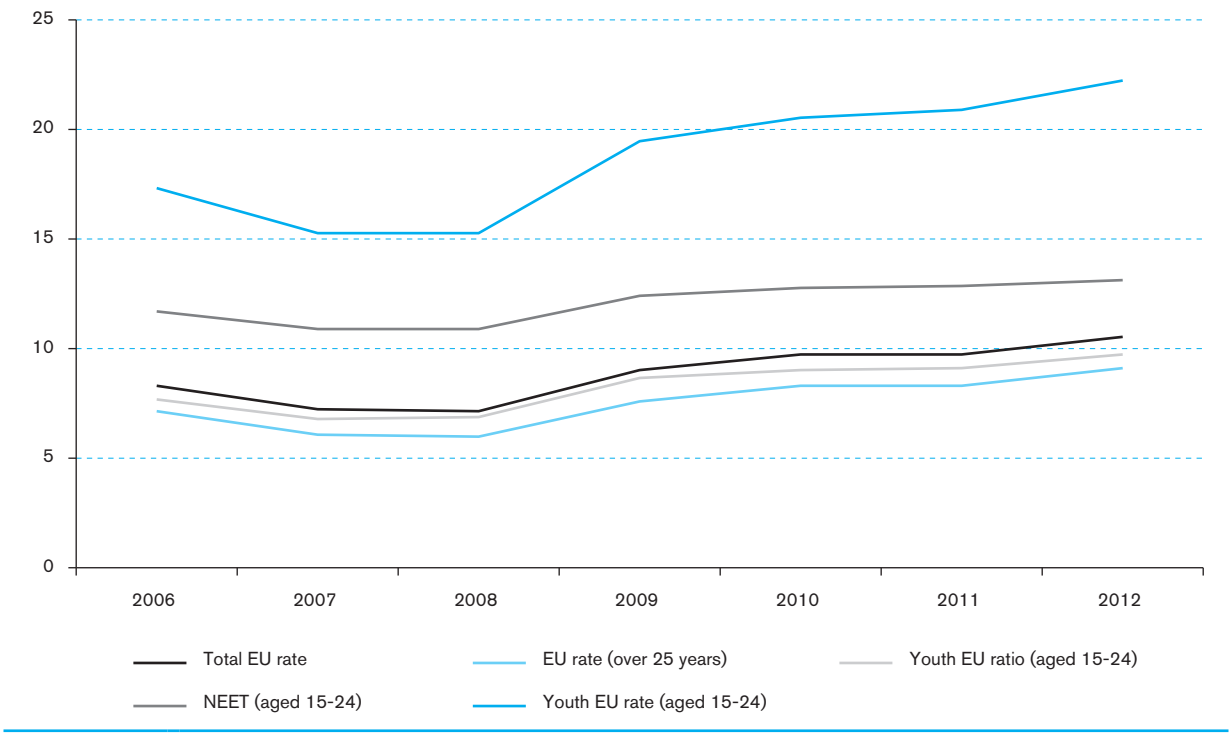
An alternative indicator is the NEET rate. This includes all young people aged 15 to 24 who are not in education, employment, or training. The NEET rate for teenagers is usually much lower than the NEET rate both for young adults aged 20 to 24 and for the age group as a whole, as most of them are still in

CHART 16 **Youth Unemployment Rate (ages 15 to 24)**



Source: Eurostat.

CHART 17 **Different EU-28 Indicators of Youth Exclusion**



Source: Eurostat.

school or training. The NEET average for the EU is lower than the youth unemployment rate. However, especially in Italy, Spain, and Greece, the NEET rate is much higher than in the EU as a whole. In Spain, it grew tremendously during and after the recession, rising from 12.2% in 2007 to 18.3% in 2009, and it has remained high at about 19%. The NEET rate in Italy was already high even before the recession, at

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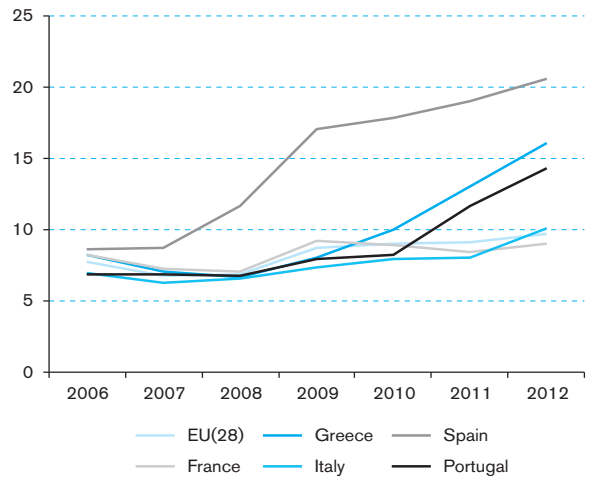
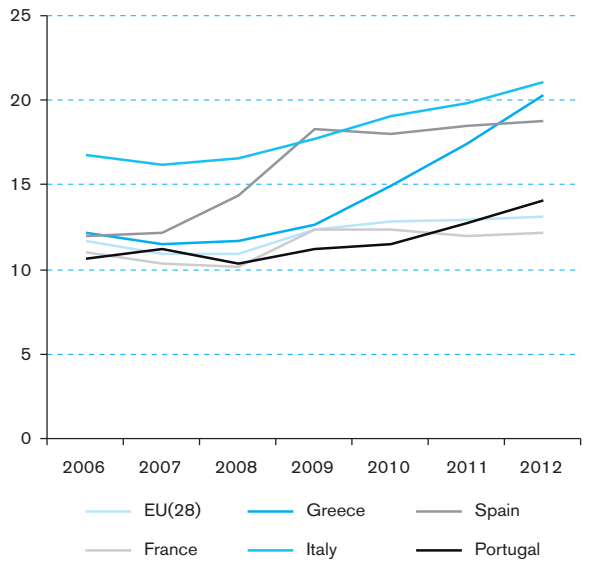
about 17%. It, too, continued to grow during and after the crisis, reaching 21.1% in 2012. In Greece, the rate began to climb in 2009; by 2012, it had reached a similar level as in Italy (20.3%).

CHART 18 **Youth Unemployment Ratio (ages 15-24)**



Source: Eurostat.

CHART 19 **NEET Rates (ages 15-24)**



Source: Eurostat.

Macro vs. Institutions

The high youth unemployment rates in the EU's Mediterranean countries clearly reflect a structural problem with regard to training for youths and other institutional aspects of the labour market. The first problem is the dualisation of the labour market between permanent and fixed-term contracts. While permanent employment has strict dismissal protection, with temporary employment this protection is reduced. This makes the transition to a permanent job more difficult as it is quite costly for the employer. Furthermore, the NEET rates are above the EU average; it is not only low-skilled young people but also university graduates who are having significant problems finding work. This is due to the marginal role of vocational training, which is mainly school-based. Better integration of employer-provided training could improve this situation. Active labour market policies (ALMPs), which focus on hiring subsidies for apprentices, have only a limited impact (Zimmermann et al., 2013).

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In **Italy**, the school-to-work transition is very problematic. In the Italian system, the presence of the State is marginal compared to the central role played by the family, which bears the primary costs of the transition to adulthood. In Italy, more than 60% of the unemployed belong to the category of new labour market entrants, and the share of long-term youth unemployment (more than 12 months) is also significant. This is due to the excessively rigid educational system, particularly in the tertiary stage, which results in very late entry into the labour market. Furthermore, Italy has extremely high dropout rates at all stages of schooling. Economic returns for tertiary education have fallen, and the number of university enrolments is higher than the number of graduates.

The level of secondary and tertiary education is low, and there is insufficient contact between the education system and the labour market. By focusing mainly on theory rather than practical applications, young people do not develop the problem-solving skills and competencies required by potential employers and have hardly any chance to gain early work experience. Moreover, the task of filling the youth experience gap has been left to the market, which has resulted in inadequate solutions such as temporary employment. Also, the lack of an adequate vocational training system and the absence of post-graduate bridges, such as job placement activities, are problematic. Furthermore, the significant mismatch of human capital generated by disparities in demand (technical) and supply (humanistic) is a problem in Italy. Because of the lack of demand for their particular type of qualification, young people are forced to accept jobs designed for candidates with lower qualifications. This phenomenon is called overeducation. McGuinness and Sloane (2010) report that overeducation is normally below 10% in the EU, but in Italy the percentage of graduates employed in posts designed for those with a secondary school diploma is one of the highest (23% for first-time hiring) in the EU. With a total of 13%, Italy is the third lowest in terms of performance five years after graduation, just marginally ahead of Spain.

In **Spain** the educational structure is also deeply polarised. The country has the highest rate of both early dropouts (almost 25% in 2012) and university graduates in the EU. University graduates have the same problem of mismatched skills as their Italian counterparts. More than 40% of young Spanish university graduates work in occupations requiring only low or medium skills (Garcia, 2011). Prior to the crisis, the construction boom-and-bust cycle and high growth in low-knowledge intensive service jobs raised the wages for unskilled workers during the long expansion period, thereby discouraging the pursuit of education. As a consequence, both during and after the crisis, employment rates among unskilled workers have fallen considerably. Since the crisis, participation in education has risen again (Dolado et al., 2013). Furthermore, there is a lack of means for developing specific occupational skills and acquiring practical experience with employers. Most of the vocational training in Spain is school-based. Only 4% of vocational training combines school- and work-based training. Introducing dual training in Spain could facilitate screening by firms to find potentially good job matches and would provide young people with occupation-specific work experience, thereby easing their transition into permanent positions. Instead, youth employment policies have concentrated on offering training contracts, which mainly reduce the cost to the employer of hiring young workers via subsidies. This has not increased firms' investment in the youth population's specific human capital because the training is not work-based. Instead, it has increased youth employment turnover, shifting the occupational distribution towards less qualified jobs. Moreover, because these contracts have not lowered entry-level wages, they have provided the wrong kind of incentives, encouraging students to drop out of school at a young age (Zimmermann et al., 2013).

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

Dual vocational training connects with the changing needs of the economy and gives young people the opportunity to gain specific knowledge and preliminary job experience

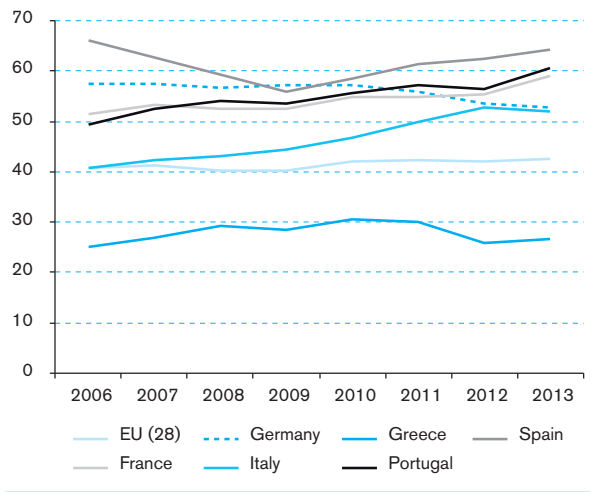
In general, Portugal, Spain, Italy, and Greece have only limited provisions for training. In contrast, Germany, Switzerland, Austria, and Denmark have maintained a highly successful dual education and

training system through apprenticeships. In all four countries, over 40% of young people who leave school when it ceases to be compulsory take on apprenticeships (EEAG, 2013). Dual vocational training connects with the changing needs of the economy and gives young people the opportunity to gain specific knowledge and preliminary job experience. Firms contribute alongside the government to the costs and co-management of the overall system (Eichhorst et al., 2013). In this system, the transition from education to work is smoothed and young people have better chances of ending up in a permanent job.

Over the last few years, the importance and the share of public expenditure on ALMPs have risen in all of the EU's Mediterranean countries. The share of public expenditure spent on training is high in Portugal, modest in France and Italy, only small in Spain and almost non-existent in Greece. In Spain, most ALMPs consist of wage subsidies and reductions of non-wage labour costs in order to encourage companies to hire the unemployed or maintain their staff (Zimmermann et al., 2013). The same pattern can be found in Italy and Greece. This is not a good bridge to regular employment. Subsidised forms of employment should be combined with substantial job-related training by employers to increase young peoples' employability and productivity. Furthermore, support for start-ups, which is minor in all Mediterranean countries, can be a useful tool for creating jobs for young people and help to boost economic development.

A high level of employment protection for permanent jobs makes dismissing employees expensive. In contrast, firing costs are much lower in fixed-term contracts. As especially marginal workers, young people are generally less qualified and are often employed with temporary contracts. On the one hand, fixed-term contracts can help workers accumulate human capital and experience, potentially resulting in a permanent job. On the other, there is a danger that young people will simply move from one fixed-term contract to the next without improving their job situation. Therefore, the effects on workers are ambiguous. The dualisation between permanent contracts and temporary contracts is crucial. Fixed-term employment has been highly responsive to the crisis. Most employment adjustment took place via termination of fixed-term contracts and was concentrated among young people (Zimmermann et al., 2013). In countries hit hard by the crisis, young people stay in school longer because of the lack of employment options. At the same time, more and more youths fall into the NEET category. In countries like Spain, France, and Italy, non-standard employment has been an alternative for jobseekers and for taking on apprenticeships. Non-standard employment provides learning opportunities, but at the same time, young workers are confined to the lower segment of a dual labour market, which leaves them to bear the brunt of labour demand shocks (EEAG, 2013).

CHART 20 **Temporary Employees Aged 15 to 24 as a Percentage of the Total Number of Employees**



Source: Eurostat.

The share of temporary employment is high in all countries except for Greece. Spain has the highest share of temporary jobs in the EU for all sectors and occupations (Dolado et al., 2013). Spain has a long history of very high and volatile unemployment. A high share of temporary jobs results in a lack of employment stability and increasing job insecurity (Dolado et al., 2013). The strong concentration of temporary employment in conjunction with structural change problems caused the current youth unemployment disaster (Eichhorst et al., 2013). The share of temporary employment is also very high in Germany. But the vast majority of teenagers (94.4% in 2010) are covered by a training period as an apprentice or through training that culminates in permanent employment. In contrast, most teenagers in Spain (60% of teenagers and 77% of the young adults in the 20-to-24 age group) accept a fixed-

TABLE 12 **Comparing Minimum Wages and Special Rules for Young People**

	Monthly minimum wage (MW), second half 2013	Special rule for young people
France	€1,430.22[1]	Workers under the age of 17: 80% MW Workers aged 17-18: 90% MW[2]
Greece	€683.76[1]	Workers aged 15-18: 70% MW First entrants aged 19-21: 80% MW First entrants aged 22-25: 84% MW[2]
Portugal	€565.83[1]	No[2]
Spain	€565.83[1]	No[2]

[1] Eurostat and [2] Eurofound 2011.

term contract because they failed to find a permanent job and are therefore on a fixed-term contract involuntarily (Dolado et al., 2013).

The existence of a minimum wage raises the payment of the least well-paid workers, who are generally young and less qualified. There are minimum wages in France, Greece, Portugal, and Spain. Some countries employ a special rule for the young workforce, normally consisting of a fraction of the prime-age minimum wage rate. Without a provision like this, young workers can be squeezed out of the labour market. In general, young people are less experienced, and those young people who are affected by the minimum wage are mostly less qualified and therefore less productive. In consequence, the minimum wage is too high in some countries to hire young people.

In France the monthly minimum wage is very high. This creates a substantial barrier to accessing employment for low-skilled, young and inexperienced job seekers. A large number of young people in France are not sufficiently qualified to be as productive as the minimum wage requires them to be. In Greece, the exception to the minimum wage is broader and includes a higher share of young people. Until 1998, the Spanish distinguished between employees under and over the age of 18, but the country no longer has a special rule for young people. In Portugal, a reduction of up to 20% can be applied to apprentices and interns for a period not to exceed one year.

Outlook and Policy Conclusion

In EU Mediterranean countries, youth unemployment is mostly structural and has deteriorated during the Great Recession. Therefore, well organised strategies to fight youth unemployment should improve the overall performance of the labour market. The goal is to reduce the high unemployment level, the volatility of employment and the risk of exclusion of specific groups from the labour market. Reforms have to be introduced that try to reconcile the security, efficiency, and fiscal aspects of labour market policies. It is important to set the right incentives to reduce high dropout rates, smooth the transition from education to work and increase the possibility of securing a permanent job. At the same time, returns to (vocational) education have to be high, to make investing in all varieties of education worthwhile. Furthermore, the match between the supply and demand for skills has to be improved. Better interaction between the education system and the working world is pivotal in this regard. The gap between the high employment protection and firing costs of permanent contracts and the negligible protection and job security of fixed-term contracts has to be narrowed. The limits on the widespread use of fixed-term contracts must be stricter. Each employment contract could be seen as unlimited, and the longer it remains in force, the more claims could be granted (Eichhorst et al. 2013). Also more flexible wages are needed.

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

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macroeconomic environment and labour demand. But the losers of the Great Recession and the labour market cannot be left on their own. The State has a responsibility and must give financial and active support to activate young people in the current situation.

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