

Challenges Facing European Labour Markets: Is a Skill Upgrade the Appropriate Instrument?

The financial and economic crisis shattered the Lisbon Strategy's attempt to increase the EU's employment rate to 70% among 15-64 year olds by 2010. The new Europe 2020 strategy envisages a 75% adult employment rate by 2020; however, this goal also seems unrealistic in light of the economic crisis which has caused the EU's employment rate to drop significantly below 70%. A crucial question now is whether a skill upgrade of the European labour force would help to increase the employment rate, especially among youth. This Forum explores the relationship between education and employment throughout the EU.

Stefano Scarpetta and Anne Sonnet*

Investing in Skills to Foster Youth Employability – What Are the Key Policy Challenges?

The global financial and economic crisis of 2008-09 hit young people around the world very hard. Youth unemployment increased significantly in most OECD countries, even in those where the increases in overall unemployment were contained; during the sluggish recovery which began in 2010, many young people have been struggling to find a job and are now at high risk of prolonged periods of joblessness and exclusion. Investing in youth to give them a fair chance in the world of work is more than ever a key policy priority in all countries.

High youth unemployment and inactivity are not new, even if they have been exacerbated by the recent crisis, and many OECD countries have devised strategies to improve the matching of the skills youth acquire at school and those needed in the labour market in order to render the school to work transition easier.¹ Many of them have reinforced these strategies during the crisis to address the growing concerns about the risk of the so-called "lost generation". But have these strategies and renewed efforts been sufficient to give youth a fair chance in the world of work? The paper revisits this issue drawing from recent in-depth OECD reviews of youth employment policies.² It is organised as follows: first, the key facts on how young people have been faring in the labour market prior

to and during the crisis are presented³; the subsequent section analyses the main policies to improve educational outcomes and upgrade youth skills; and the last section focuses on broader policies dealing with education, labour market and social protection.

How Are Young People Faring in Today's Labour Market?

Youth have been disproportionately affected by job losses during the global crisis, and even over the past two years of (weak) economic recovery, access to jobs has remained difficult for many new labour market entrants. Consequently, youth unemployment has increased much more than overall unemployment in most OECD countries during the recession, and has shown no, or only limited, signs of easing in the recovery phase. Consequently, many youth are experiencing long spells of joblessness and facing a high risk of exclusion.

* Statistical assistance from Thomas Manfredi and Sébastien Martin in preparing the paper is gratefully acknowledged. The authors are also grateful to John Martin for his useful comments. The opinions expressed in the article are those of the authors and do not engage the OECD or its member countries.

- 1 OECD: Employment Outlook, OECD Publishing, Paris 2011.
- 2 This paper draws heavily from a paper focussed on the risk of a jobless generation in the crisis (S. Scarpetta, A. Sonnet, T. Manfredi: Rising youth unemployment during the crisis: how to prevent negative long-term consequences on a generation?, OECD Social, Employment and Migration Working Paper No. 106, 2010) and the OECD: Off to a Good Start? Jobs for Youth, OECD Publishing, Paris 2010, which summarised the key lessons from 16 country reviews of the school-to-work transition carried out by the OECD Secretariat over the period 2006-2010.
- 3 The term "youth" refers specifically to the 15/16-24 age group, except when otherwise specified. For Iceland, Spain, Sweden, the United Kingdom and the United States, "youth" refers to the 16-24 age group and to 15-24 for all other countries.

Job Losses Hit Youth Particularly Hard

In the two years of the Great Recession, youth employment fell by almost 8% in the OECD area (Figure 1), compared with a drop of 2% among adults. Low-skilled youth – those with less than upper secondary education – were the hardest hit (-11%), a dramatic contrast with the employment gain of 2% for tertiary graduates. The composition of youth employment also changed significantly during the crisis. While on average much of the job losses in OECD countries were concentrated among those with temporary, fixed-term contracts, among youth both permanent and temporary contracts declined sharply. Moreover, full-time employment for youth fell by 13%, while part-time employment fell by less than 3%. Overall, youth have suffered not only from their large exposure to temporary and precarious jobs that are particularly sensitive to business cycle fluctuations, but also from the operation of the *last-in-first-out* workforce adjustment strategy adopted by firms and their selective reduction in working time among remaining workers.

Youth Joblessness Has Increased During the Crisis

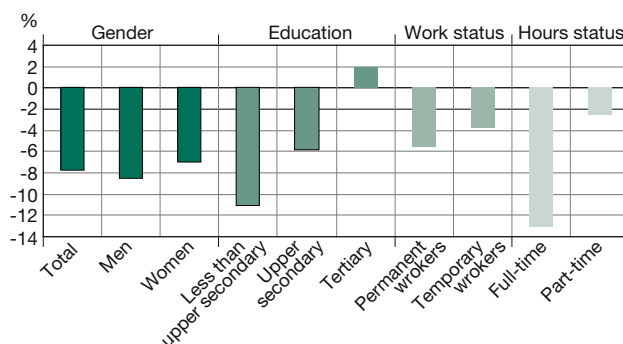
The large job losses among youth and the difficulty of many new entrants to find a job have resulted in a large increase in youth unemployment in many OECD countries. As shown in Figure 2, the youth unemployment rates for the OECD area rose on average from 13% in the third quarter of 2007 to 17.3% in the third quarter of 2011. The increase was particularly high in those countries where the Great Recession was most severe – notably, Ireland, Greece, Portugal, the Slovak Republic and Spain – while youth unemployment actually fell in Austria, Chile, Germany and Israel, four countries largely spared by the crisis. These heterogeneous performances led to a further widening of youth labour market conditions across OECD countries. In the third quarter of 2011, youth unemployment was below 10% in Austria, Japan, Germany, Korea, the Netherlands, Norway and Switzerland; it was in the range between 20% and 30% in France and Italy and reached 46% in Greece and 48% in Spain (Figure 2).

Inactivity Is a Bigger Problem Among Out-of-School Youth than Unemployment

The unemployment rate represents a good, albeit incomplete, measure of the difficulties faced by young people in the labour market. An important and growing number of youth who have exited the education system are not (or no longer) looking for work and thus are not included in the official unemployment statistics. An indicator that captures both exclusion from employment, but also from the labour market and education system altogether, is the

Figure 1
Youth (15/16-24) Employment Has Been Particularly Hit During the Crisis, OECD Area

Percentage changes in employment, 2008-2010¹



¹ Data by educational attainment refer to 2007 and 2009.

Source: European Union Labour Force Survey and national labour force surveys.

share of youth neither in employment nor in education and training – the so-called “NEET rate”. In the first quarter of 2011, this group accounted for 12.3% of all youth aged 15/16-24 in the OECD countries, up from 10.7% in the first quarter of 2008 (Figure 3).⁴ 22 million young peo-

⁴ Figure 3 shows another useful indicator: the unemployment to population ratio, which also compares the number of young unemployed to the entire population of that age group. By contrast, the youth unemployment rate only concerns the proportion of young unemployed in the youth labour force, i.e. those who have already left the school system and are active in the labour market.

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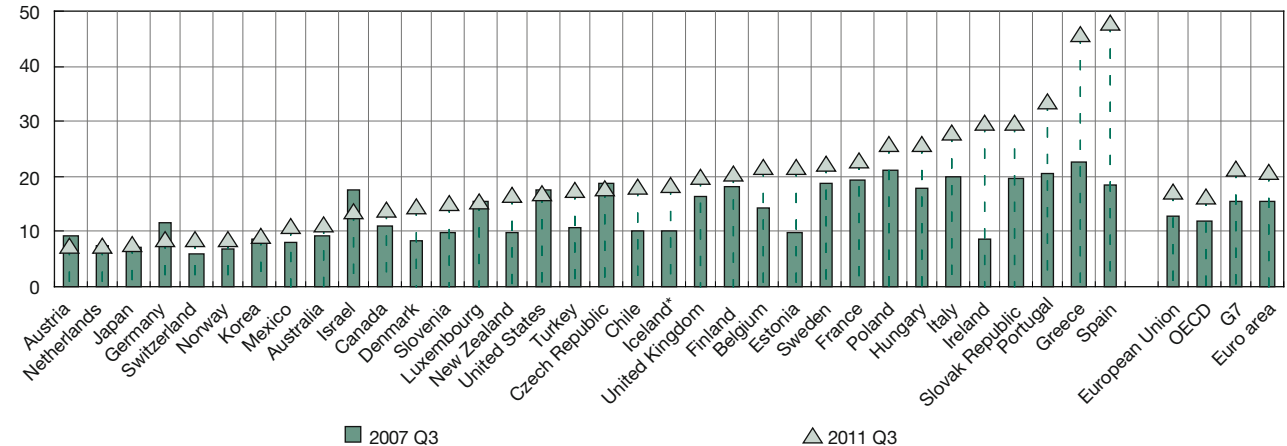
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Figure 2
Youth Unemployment Rate Has Increased During the Crisis, OECD Countries

As a percentage of the labour force aged 15/16-24



Note: Countries are shown in ascending order of the youth unemployment rate in 2011 Q3. Figures are seasonally adjusted. International averages refer to weighted averages. * Data refer to 2007 Q2-2011 Q2 for Iceland.

Source: OECD calculations based on Eurostat, Short-Term Indicators and various national sources.

ple were jobless in the first quarter of 2011, 14 million of whom were inactive and not studying, almost double the level of those who were unemployed (8 million).

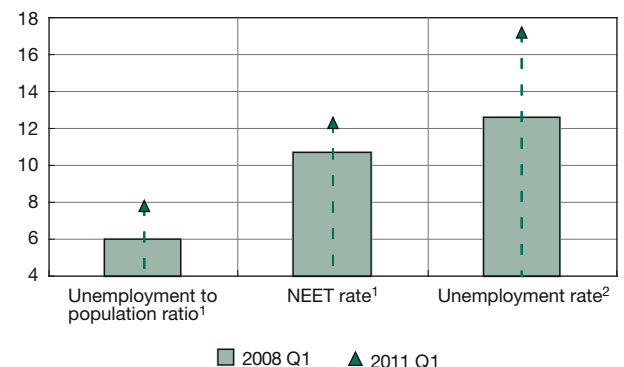
While some may have chosen to withdraw from the labour market and stay on in education because of the depressed labour market, for many young people inactivity is the result of discouragement and marginalisation, which tend to reflect the accumulation of multiple disadvantages, such as the lack of qualifications, health issues, poverty and other forms of social exclusion. Available evidence from longitudinal individual data for the United States and European countries also suggests that the NEET status can be very persistent for some young people, leading to a vicious circle whereby inactivity feeds into discouragement and that, in turn, to a further detachment from the labour market.⁵

OECD governments are increasingly concerned by the steep rise in youth unemployment and risk of exclusion from the labour market. A number of them have recently adopted comprehensive programmes to help all disadvantaged youth.⁶ As an example, with the number of NEETs exceeding 1 million, the UK government in late 2011 put forward a new policy strategy including additional support through more apprenticeships for young people and through a new Youth Contract. The new pro-

gramme will in particular help the most disengaged 16 and 17-year olds by assisting them to return to education, to acquire an apprenticeship or to obtain a job with training. In the Netherlands, the Investment in the Young Act introduced in October 2009 requires local authorities to offer a work/learning position to all young persons on benefits, i.e. support and assistance in returning to the education system or in finding work or possibly an apprenticeship. If a young person refuses the offer of support, then he/she loses the entitlement to benefits. Likewise, in France an emergency strategy was launched in the midst of the

Figure 3
Youth Joblessness Indicators During the Crisis, OECD Area

Percentages



¹ As a percentage of the youth population (persons aged 15/16-24).
² As a percentage of the youth labour force (persons aged 15/16-24).

Source: National labour force surveys.

5 G. Quintini, T. Manfredi: Going Separate Ways? School-to-Work Transitions in the United States and Europe, OECD Social, Employment and Migration Working Papers No. 90, 2009.
 6 OECD: Off to a Good Start?..., op. cit.

crisis to facilitate the school-to-work transition by promoting apprenticeship and combined work and training opportunities, fostering the transformation of internships into permanent employment contracts and providing additional training and employment opportunities for youth far removed from the labour market.

Job Quality Is an Issue for Many Young Workers

Beyond the standard divide between employment and unemployment, what matters for youth is access to productive and rewarding jobs that offer them good career prospects. This is an area where further progress is needed in many OECD countries, even in those that have managed to contain the increase in youth unemployment during the crisis.

Many youth jobs are temporary. The incidence of temporary employment among young workers aged 15/16-24 was 38% in 2010 on average in the OECD area, an increase of almost seven percentage points since 2000.⁷ The incidence of temporary contracts differs a lot across countries. At least half of all young workers have a temporary contract in Slovenia, Poland, Spain, Sweden, Portugal, France, Germany and Switzerland.⁸

The observed increase in the incidence of temporary jobs should not necessarily be regarded as negative in terms of the career prospects of those youth holding these jobs. For many youth, temporary contracts are more often a stepping stone to a permanent contract than a dead end.⁹ Among the nine European countries where data are available (United Kingdom, Ireland, Belgium, Luxembourg, France, Greece, Finland, Italy and Spain), the probability of youth getting a permanent job one year after working at a temporary job is higher than after being unemployed.¹⁰ This probability, however, is much higher for youth with tertiary education than for those with lower levels of education. Moreover, a high incidence of temporary employment is a key factor to explain the concentration of job losses among youth during the recent crisis. The first response of many firms facing a collapse in demand during the Great Recession was indeed to terminate their tem-

porary contracts or not renew them upon expiration. The extraordinarily high youth unemployment in Spain (48% in the third quarter of 2011) is associated not only with the depth and length of the economic crisis but also with the fact that more than 60% of youth were on temporary contracts before the crisis and many of these jobs were destroyed during the crisis.

But the quality of jobs for youth goes beyond the issue of contract duration and the prospect of renewal/conversion; it also includes hours worked and remuneration. The case of the Netherlands, a country able to maintain a relatively low youth unemployment rate during the crisis, is a good example in this respect. Salverda¹¹, for example, suggests that the much-praised fact that many Dutch youth combine education with work experience often hides the fact that many of them are working in tiny low-paid jobs for very few hours per week. He suggests that if the focus was instead on the full-time youth employment rate, the Dutch economy would differ little from a number of other European countries; full-time youth employment declined sharply in the Netherlands as in these other countries during the crisis.

Improving Educational Outcomes and Upgrading Youth Skills for Better Labour Market Outcomes

Tackling youth unemployment and under-employment or inactivity no doubt requires a comprehensive policy strategy that removes the different barriers in order to achieve productive and rewarding jobs. In this context, education and training policies play a key role in equipping youth with appropriate skills in a rapidly evolving labour market and thereby facilitating the transition from school to work. Success in converting skills into productive jobs largely depends on developing a better understanding of whether the right mix of skills is being taught and learned in equitable and efficient ways, whether economies and labour markets are able to fully utilise their skill potential and whether governments can build strong governance arrangements and effective coalitions with their social partners to find sustainable approaches to who should pay for what, when and where.

Education Matters for Better Labour Market Outcomes for Young People

It is recognised that higher educational attainment improves the labour market prospects of young people and

⁷ OECD: *Off to a Good Start?...*, op. cit.

⁸ In Germany and Switzerland, temporary contracts are mainly apprenticeship contracts.

⁹ See B. Cockx, M. Picchio: *Are Short-Lived Jobs Stepping Stones to Long-Lasting Jobs?*, IZA Discussion Papers No. 4007, Institute for the Study of Labor (IZA), 2009, who find that short-lived jobs (lasting less than one quarter and involuntarily ending in unemployment) tend to be stepping stones to long-lasting jobs (lasting more than one year) in Belgium for long-term unemployed school-leavers.

¹⁰ See Figure 5.8 in OECD: *Off to a Good Start?...*, op. cit. based on 2005-06 data from the European Survey on Income and Living Conditions (EU-SILC).

¹¹ W. Salverda: *The Netherlands: Is the impact of the financial crisis on inequalities different from in the past?*, in: D. Vaughan-Whitehead (ed.): *Work Inequalities in the Crisis: Evidence from Europe*, ILO, 2011.

that a corollary of low educational attainment is marginalisation through unemployment/inactivity. Indeed, on average in the OECD area in 2009, low-skilled youth, who did not complete upper-secondary schooling, have an unemployment rate 1.8 times that of tertiary graduates (Figure 4). The risk is at least three times as high in seven OECD countries (Estonia, Finland, Norway, Switzerland, Sweden, the Czech Republic and the United States).

There are, however, six OECD countries (Chile, Greece, Italy, Mexico, Portugal and Turkey) where tertiary graduates have a higher risk of unemployment than low-skilled youth. In some of these countries, namely Chile, Mexico and Turkey, the higher incidence of open unemployment among skilled youth is related to the fact that they are the ones who can afford to search for a formal-sector job, while many unskilled youth are often employed in the informal sector where low-paid and precarious job opportunities abound. More generally, however, many skilled youth – upper-secondary or tertiary graduates – leave the education system unprepared for the labour market. This can result in high youth unemployment rates but also in large shares of youth working in fields unrelated to what they have studied. The latter is a major source of over-qualification, i.e. work in jobs that require lower qualifications than those they possess.¹²

Educational Policy Responses Need to Be Diversified

Major progress has been made in promoting universal access to primary and often lower-secondary education, but many young people still do not have access to, or drop out from, education before achieving an upper secondary qualification, which is considered a milestone for a smooth transition to work, participation in lifelong learning and career progression. Different policy actions are required in this context.

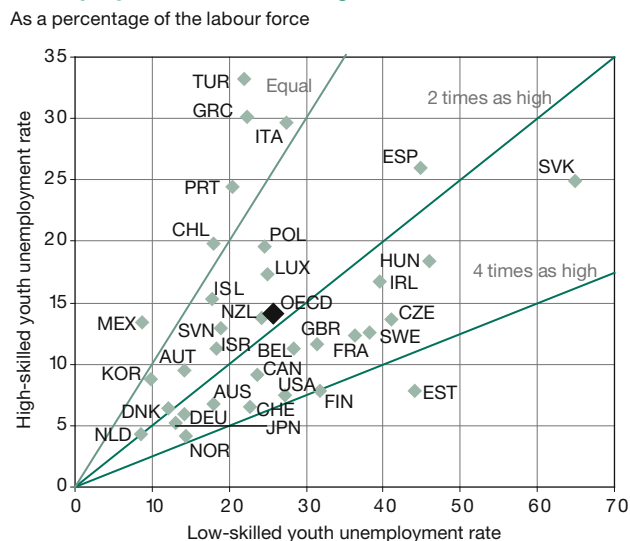
First, it is important to keep in mind that expansions of early childhood education, to cover either more children of a given age or younger children, are found to yield benefits at school entry, in adolescence and in adulthood.¹³ Generally, these gains are largest for those who are disadvantaged (e.g. those who come from low-income or immigrant households), especially if the investments are sustained through compulsory schooling.

Second, in OECD countries where enrolment in education through lower secondary education (i.e. up to age 15 or

¹² For more details, see OECD: Employment Outlook, OECD Publishing, Paris 2011.

¹³ C. Ruhm, J. Waldfogel: Long-Term Effects of Early Childhood Care and Education, IZA Discussion Paper No. 6149, Bonn 2011.

Figure 4
Low-Skilled Youth (15/16-24) Face a Much Higher Unemployment Risk than High-Skilled Youth, 2009¹
As a percentage of the labour force



Note: "Low-skilled" refers to lower than upper secondary education and "high-skilled" to tertiary education. For Japan, "low-skilled" refers to less than upper secondary education as well as upper secondary education. ¹ 2008 for Belgium.

Source: European Union Labour Force Survey and national labour force surveys.

16) is almost universal, the focus has been on improving retention in upper secondary education, in some cases by raising the age of compulsory participation in learning. Provided that it is accompanied by measures to diversify educational choices, in particular through apprenticeship and a focus on the acquisition of a recognised qualification that is valued by employers rather than simply spending more time in a classroom, measures to encourage longer stay at school have proven effective in ensuring youth leave education with a minimum skill level. Extending the schooling period could be achieved in different ways. Some countries have raised the school-leaving age. This is the case, for example, in the Netherlands, where since 2007 a law has required 18-year-olds who have not acquired a two-year diploma from the second cycle of secondary vocational education to follow a work-study programme. In England also, the Education and Skills Bill requires a flexible participation in education and training for young people until they are aged 18 or until an upper secondary qualification is obtained, whichever is earlier. In 2006, the province of Ontario in Canada raised the age of compulsory learning from 16 to 18 and provided a range of positive incentives to stay on in schooling and to achieve a qualification in its Student Success Strategy.

Finally, policies to raise educational attainment are directed at those groups of young people among whom rates

of school completion are currently low — people living in disadvantaged and remote areas and those from particular contexts, such as immigration or ethnic backgrounds. For youth who have disengaged from academic education, dual schooling systems, combining class-based learning with work-based apprenticeships, have received significant attention. This is partly because of the good performance in terms of low youth unemployment in countries with a long tradition of apprenticeship systems — notably Austria, Denmark, Germany and Switzerland. In particular in Germany, roughly two-thirds of people under the age of 22 choose to enter apprenticeships where, along with related technical instruction at a vocational school, they learn on-the-job the skills required for a given occupation. For Zimmerman¹⁴, apprenticeships instil employable skills as well as provide a transition to a young person's first job. A number of OECD countries have introduced specific measures to support apprentices in the context of the recent economic crisis.¹⁵

Developing Labour Market Skills in a Broader Strategy

Measures to improve the labour market skills of youth should be seen as part of a broader strategy to promote cost-effective skill development policies and measures which foster deeper investments in human capital and a strengthening of the links between learning and the skills requirements of the labour market.

High-quality career guidance can help youth make better informed decisions about their future skills but requires early action in lower secondary education, highly qualified guidance personnel and timely and high-quality data on local labour market needs and employment prospects by occupation. Unfortunately, most existing career guidance programmes suffer from severe under-funding, are provided by teachers who lack familiarity with workplace requirements, and cannot rely on accurate labour market and skill statistics and projections by region and occupation.

A number of policy initiatives have also been directed to develop “soft” skills such as literacy and competencies to improve the ability of young people to navigate the changing world of work successfully. They are important to young people's resilience and focus on emotional and social dimensions as well as problem-solving abilities and creativity. In Australia, the need for such skills is recognised via the National Foundation Skills Strategy for Adults, the federal budget and some state policies, and

14 K.F. Zimmerman: Job Strategies for the Young, IZA Compact, October 2011.

15 See OECD: Off to a Good Start?, op. cit., for a review.

through the work of universities, vocational education and training (VET) providers and not-for-profit organisations.¹⁶

Finally, the combination of work and study would also help youth acquire some of the skills required in the labour market before they leave the education system. To encourage the acquisition of work experience, internships have expanded recently in a number of countries. But according to a survey by the European Youth Forum¹⁷, the quality of internships is not often secured. Another concern is that internships are mainly available to those with access to external financial resources, in particular from their families. This means that families and young people already on the margins of society will lose out, and as a result, the gap between privileged and non-privileged students and labour market entrants could widen. Some guidelines have started to emerge to prevent abuses and ensure that internships are true learning experiences for students rather than a cheap form of labour for employers. Several countries have introduced a number of requirements. France in particular requests that internship agreements can only be entered into with students, i.e. an agreement is required between the education establishment and the employer, and interns are paid a moderate wage, at least when the internship lasts beyond a certain length.¹⁸

Well-Designed and Closely Co-ordinated Policies Dealing with Education, Labour Market and Social Protection Are Necessary

While leaving education with the skills required by employers and needed for lifelong-learning is important to facilitate the transition to work, labour market policies and institutions can play a major role in helping youth to get off to a good start.¹⁹

In particular labour market policies such as unemployment benefits and active labour market programmes can assist the job search by providing adequate income support combined with effective employment services. In recent years, access to safety nets in OECD economies has been made increasingly conditional on an active job search following the “mutual obligations” principle, whereby income support for the unemployed is combined with strict job search requirements and compulsory participa-

16 L. Robinson, M. Long, S. Lamb: How Young People are Faring, Centre for Research on Education Systems, University of Melbourne, 2011.

17 European Youth Forum: Interns revealed, Brussels 2011.

18 OECD: Jobs for Youth: France, OECD Publishing, Paris 2009.

19 See OECD: Off to a Good Start?, op. cit. for a more in-depth analysis of the cost-effective measures to tackle the large rise in youth joblessness.

tion in effective re-employment programmes under the threat of moderate benefit sanctions in the event of non-compliance. Job search assistance programmes are often the best way to help youth who are assessed as job-ready. Training programmes work best when they are carefully tailored to local or national labour market needs.²⁰ Because action is needed on multiple fronts, several OECD countries are strengthening the support they provide to unemployed and disconnected youth by setting up comprehensive programmes that include classroom instruction, on-the-job training and adult mentoring. Finally, to be successful, hiring subsidies need to be targeted at the most disadvantaged – e.g. low-skilled youth – and at employers who are expanding their workforce.

At the same time, while labour market institutional settings can play an important role in preventing the exploitation of youth in low-paid, precarious jobs, an appropriate balance must be found to ensure these institutions support rather than hinder the creation of productive jobs for youth²¹, and social dialogue can facilitate striking the appropriate balance.²²

One challenge is that of reducing the cost of employing low-skilled youth. Almost half of the OECD countries with a statutory minimum wage (ten out of 21) have an age-related sub-minimum wage to facilitate the access of low-skilled youth to employment. Others have significantly reduced the social security contributions paid by

20 See e.g. J.P. Martin, D. Grubb: What Works and for Whom? A Review of OECD Countries' Experience with Active Labour Market Policies, in: Swedish Economic Policy Review, Vol. 8, No. 2, 2001.

21 J.P. Martin, S. Scarpetta: Setting It Right: Employment Protection, Labour Reallocation and Productivity, *De Economist*, November 2011.

22 According to European Industrial Relations Observatory – EIRO: Helping young workers during the crisis: contributions by social partners and public authorities, Dublin 2011, both trade unions and employers' organisations recognise the particular difficulties facing young workers; they also mostly agree on some policy measures, such as developing apprenticeships and reforming education systems.

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Young Workers' Employability and Higher Education in Europe in the Aftermath of the Financial Crisis: An Initial Assessment

The Europe 2020 Strategy, designed by the European Commission, considers the use of graduate employment data as key in designing, delivering and evaluating higher education courses. The need for rapid reaction and adaptation to the challenges taking place in Europe since 2008 makes such information as important as ever. The present study makes

employers for low-paid workers. Another option would be to promote apprenticeship contracts for low-skilled youth, where the apprenticeship wage is lower than the minimum wage because it implies a training commitment on the part of the employer. Another challenge is how to promote a smooth transition for youth from entry jobs to more stable and productive ones. In those countries with large differences in the stringency of regulations for temporary (or other atypical job) contracts as compared with permanent ones, many youth tend to be trapped into precarious jobs that do not offer clear career prospects for a long period. While reducing the differences in the provisions associated with different types of contracts would have positive effects for many low-skilled workers and those with intermittent employment spells, youth are likely to be among the main beneficiaries. There should be a rebalancing of employment protection so as to promote a process whereby youth (as well as other workers with limited work experience) can gradually move from entry jobs into jobs that offer good career prospects.

Conclusions

There is no doubt that fostering youth employability requires a comprehensive and forward-looking skill strategy; this is more urgent today as the global economic crisis has hit youth hard and many of them are still facing significant barriers to employment. But it has also become clear that efforts to achieve a better match between the skills youth acquire at school and those needed in the labour market may not per se be sufficient to improve labour market prospects for all youth. These efforts must be complemented by economic and social policies to promote the stronger and sustainable growth of quality jobs. In the still hesitant economic recovery from the Great Recession and despite the often severe constraints on public finances, it is important to support robust training efforts in growth strategies while providing better support and access to employment services and social protection to disadvantaged youth.

an initial assessment of the impact of the economic crisis on graduates' employability. Using a large sample from young workers in Europe, this paper estimates unemployment rates by level of education and field of study and compares their level before and after the crisis across countries. Differences in gender are also considered.