The Impact of the Economic and Financial Crisis and the Policy Response on Youth Employment in the European Union

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Contents

Acronyms

ALMP	Active Labour Market Programme/Policy
CBI	Confederation of British Industry
CEE	Central and Eastern Europe
EPL	Employment Protection Legislation
ESF	European Social Fund
ETC	Employment and Training Corporation (Malta)
EU	European Union
FÁS	Foras Áiseanna Saothair (the Irish National Training authority)
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
JSA	Job Search Assistance
LFS	Labour Force Survey(s)
LMP	Labour Market Policy/Programme
OECD	Organisation for Economic Co-operation and Development
OPHRD	Operational Programme Human Resources Development
PES	Public Employment Services
WTV	Werktijdverkortingsregeling (Holland)

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1. Introduction

It now appears that the worst of the recession in Europe and North America is over. Recent estimates of the IMF suggest that global economic growth was around .. in 2010 is expected to be around 4 and a half per cent in 2011 and 2012 – although advanced economies lagged somewhat behind at around 3 per cent overall in 2010 and under 2 per cent in the EU. Growth in the EU is expected to continue albeit at this the same rather sluggish pace through 2011 and 2012 (IMF, 2011). Yet, there are few signs yet that employment is picking up or unemployment falling as GDP begins to show signs of gradual recovery. In the EU as a whole, aggregate unemployment rates in the fourth quarter of 2010 were still 2.6 percentage points above their levels in the fourth quarter of 2007, and Germany is the only country in which the aggregate unemployment rate has fallen since the crisis began. In Spain, Latvia and Lithuania unemployment rates are still well over 10 percentage point higher than they were at the end of 2007, and Ireland and Estonia follow close behind with an overall increase which is just under 10 percentage points. Indeed, the ILO (2009a) notes that the evidence of previous crises suggests that even once economic growth resumes, it takes on average four to five years before employment returns to its pre-crisis levels. Moreover, the impact on the specific individuals caught in the crisis may be even more long-lasting. Particularly for the young, unemployment early on in one's working life is likely to have repercussions which will be felt throughout their adulthood (O'Higgins, 2001). Action is necessary therefore to seek to combat the detrimental long-term effects of the current crisis on those who are likely to be most affected by it. One of these groups, if not the main group, in this category is that of young people. This paper looks at the effects of the financial crisis on the labour market experiences of young people in the European Union, the United States and Canada and discusses the policy responses which have thus far been introduced in an attempt to mitigate these deleterious effects.

Young people tend to be harder hit than adults by recessions. The problem is not just that young people's unemployment rates rise more than adult rates during a recession. This is true, but for several reasons this is not the key issue. The main point is that young people who are caught by the crisis are more vulnerable to its effects than are adults and that these effects are likely to be more long-lasting for young people. This is not just because young people are younger, and therefore will have more time to suffer the consequences of their current unemployment, but also because, being younger, they are at a formative stage in their lives; they are more easily educated and trained than are older people, but also their patterns of behaviour are likely to be more affected by their experiences at an early stage in their working careers. Several studies have argued that young people are more affected by the crisis because their unemployment rates have risen by more percentage points than adults. This rather misses the point. In the European Union, the United States and Canada, relatively few young people participate in the labour market; the majority are in full-time education. Thus, a substantial percentage point rise in unemployment may actually affect only a relatively small group of people. The point is, it is **not so much that more young people are affected, but that young people are more affected**, by the crisis. It has long been recognised that the loss of work experience early on in life, with its implied loss of human capital (both that already acquired, and that which would be acquired were the person in work), is likely to translate into a

lower earnings over the entire life-cycle (Ellwood, 1982)[1]. In part, at least, this is due to the fact that unemployment early on tends to lead to repeated unemployment spells later on (Arumpalam, 2001).

In particular, unemployment and joblessness – particularly when prolonged – are associated with long-term negative effects on the employment and wage prospects of young people going through such spells[2]. Youth unemployment and joblessness are also associated with higher crime rates. In particular, Fougere et al. (2009) have established that increased youth unemployment **causes** an increase in burglaries, thefts and drug offences. Unemployment is also associated with unhappiness – both for those experiencing it as well as those who are employed but fear unemployment in a time of high job insecurity (Bell and Blanchflower, 2010). It has also long been recognised that unemployment is associated with a series of negative health consequences, both physical and psychological which tend to grow disproportionately with the duration of unemployment[3].

Verick (2009) has analysed in more detail the effects on unemployment, and in particular youth unemployment, of five major financial crises in Spain (1977), Norway (1987), Finland (1991), Sweden (1991) and Japan (1992). The main findings are that youth unemployment tends to peak more quickly, or at the same time, as the prime-age adult rate, but the increased rates of youth unemployment tend to me more durable in time even once the economy starts to recover. Moreover, Hoshi and Kashyap (2008) amongst others point out that the effects of the Japanese recession were particularly long lasting in part because the slow recognition of the extent of the 'bad-loan' problem. Indeed, the Japanese recession was not particularly severe, but it was relatively long-lasting and, as a consequence, contributed to the emergence of a 'lost generation' of Japanese youth with the emergence of disaffected groups of young people commonly such as 'Freeters' characterised amongst other things by their lack of attachment to the mainstream labour market.

Although the youth unemployment rate provides crucial information on the labour market situation of young people, it is also important to look at what is happening to other indicators to gain some understanding of what are the likely consequences – and so, the appropriate youth employment policy responses – to the crisis. In particular, youth joblessness in addition to youth unemployment is an issue of concern in that it is associated with long-term labour market withdrawal and social exclusion.

More generally, the quality of employment is also important. In particular, the growing incidence of less stable employment forms – and of temporary employment contracts in particular - is an issue of concern, particularly in the European Union and Canada[4]. Although temporary jobs may facilitate the entry of young people into work of some form, there is a danger that these unstable arrangements may persist rather than leading to permanent employment.

[1] More recently, Greg and Tominey (2005) have found a wage 'scar' from youth unemployment of up to 13-21 per cent at age 41. Similarly, Kletzer and Fairly (1999) and Mroz and Savage (2006) find evidence of long term wage reductions for young people experiencing unemployment early in their 'working' lives.

[2] See, for example, Ryan (2001) and or Bell and Blanchflower (2009) for discussions of this literature which goes back more than a quarter of a century to the seminal paper by Ellwood (1982). In what follows I make a distinction between unemployment and joblessness, the latter concept refers to all those who are neither in employment, education or training – referred to as NEET by the OECD. Thus joblessness is a broader concept which all the unemployed but also those who are not actively searching for work, and, as is argued below, the youth jobless rate (the number of jobless as a proportion of the youth population) has a number of properties which make it a useful complementary indicator to the youth unemployment rate. The issue is discussed further in the text and, in more detail, in an appendix.

[3] See Bell and Blanchflower (2010) and, in particular, the references cited therein.

[4] In the USA, employment protection is extremely weak and consequently the distinction between temporary and permanent employment is of much less significance.

The nature of the youth labour market varies much across the countries considered here, as have the effects of the current recession on it. In thinking about policy responses, it is also important to recognise these cross- (and indeed within-) country differences. Above all, existing national labour market institutions differ quite widely and this has implications for both the shorter and longer term impacts of the recession on young people.

2. Recent Trends in Youth Employment and Unemployment

2.1 Overall Trends

The immediate effect of the financial and economic crisis throughout the countries considered here has been a substantial fall in labour demand due to the unusually large and widespread shock to aggregate demand. Figure 1, reports the absolute change in employment rates by gender and age between the third quarter of 2007 and the third quarter of 2009 – broadly corresponding to the beginning and end of the recession in GDP terms[5]. The countries which were most severely affected by the crisis in GDP terms – the three Baltic countries and Ireland - are also those which were most severely affected in employment terms. However, looking at the figure one will observe that also Spain, and particularly Spanish young people suffered severely in terms of the fall in employment. For the most part, the effects of the crisis were felt principally by males and in particular by young men as noted by the European Commission (2009). As the commission notes, this is largely as a result of the sectors which were most severely hit – Manufacturing and Construction – which are dominated by male workers. However, there is a substantial degree of variation across countries. In Estonia, for example, the employment rates of women fell nearly as much as for men and the employment of young women fell by slightly more than young men. In most countries, the employment rates of the young fell more than older age groups – indeed, not infrequently, the employment rates of older workers – particularly female workers - actually increased. Looking at the country groupings – taking a fairly conventional subdivision also employed by Verick (2009) amongst others[6] – and leaving aside the Baltics, there is much within group variation, but overall, it appears that both "Anglo" and "Mediterranean" countries fared relatively badly, with Continental European countries being least affected – in employment terms – by the crisis.

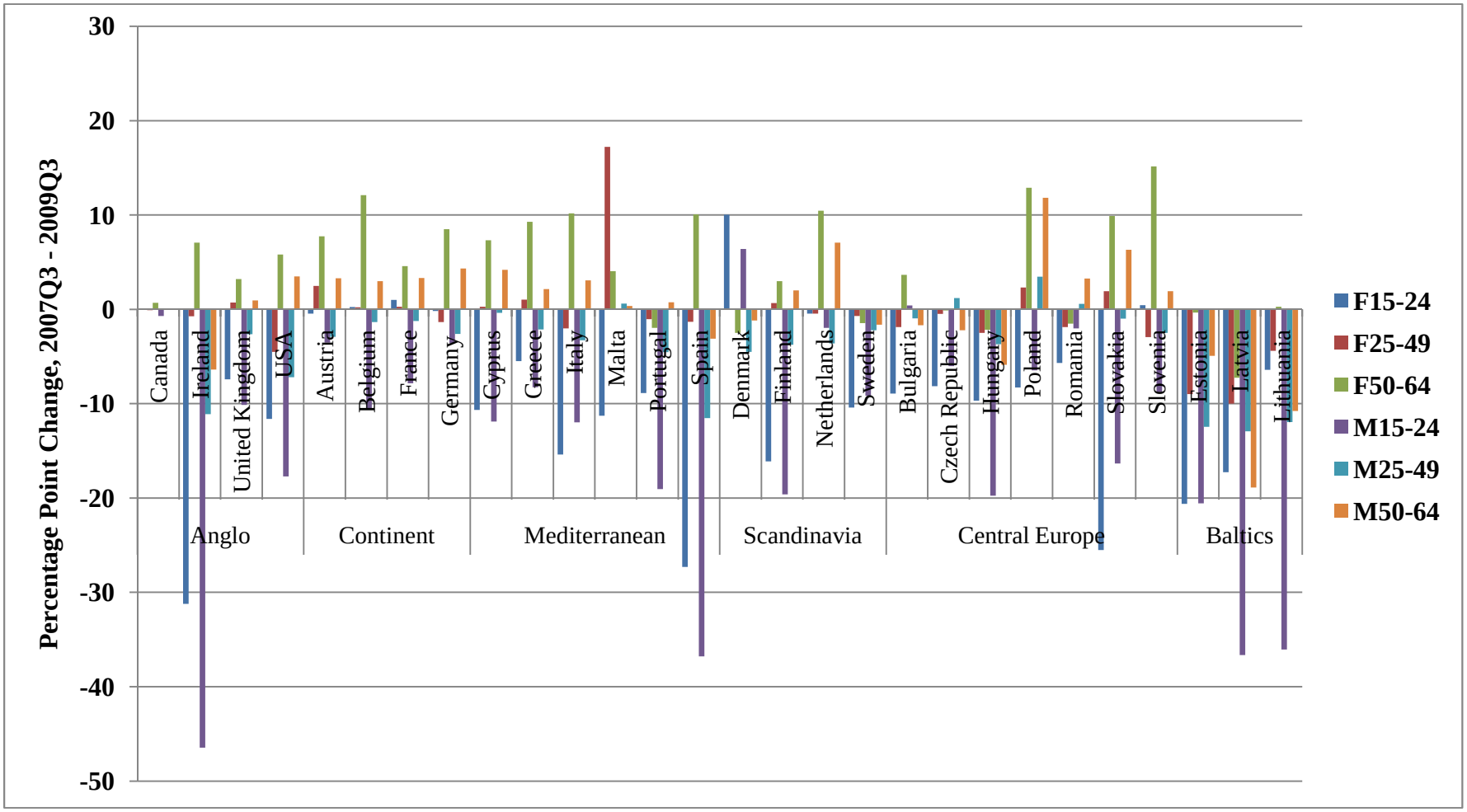
Figure 2 illustrates what happened to unemployment rates by gender in Europe as a whole. As noted above, the effects of the crisis were felt more by men, however, the figure illustrates that this only brought male unemployment rates in line with female unemployment rates.

Looking in more detail at what happened to unemployment rates by age and gender across individual countries (figure 3), one may observe that there was substantial variation in the impact of the recession. In all the countries considered here – with the notable exception of Germany where unemployment rates actually fell for both young men and young women, young female unemployment rates increased less than those of young men. Once again, leaving aside the Baltic countries, Spain and Ireland, the Anglo countries seem to have fared worst, and the Continental European countries best, in terms of rising unemployment, although the variation across groups is fairly modest and actually there is more within- (than across-) group variation in the change in youth unemployment rates.

[5] The timing of the crisis of course varied across countries with some – in particular Central and Eastern European (CEE) countries – tended to be hit later by the economic rather than by the financial crisis. It is also not clear that the crisis ended for all in the third quarter of 2009. As yet, the recovery is fragile particularly in Europe with again the newer Member States and Mediterranean countries being slower to recover. The use of the third quarter of 2009 is principally a convenient fixed point. Moreover, as noted above, the negative employment effects of the crisis are likely to persist from some considerable time to come.

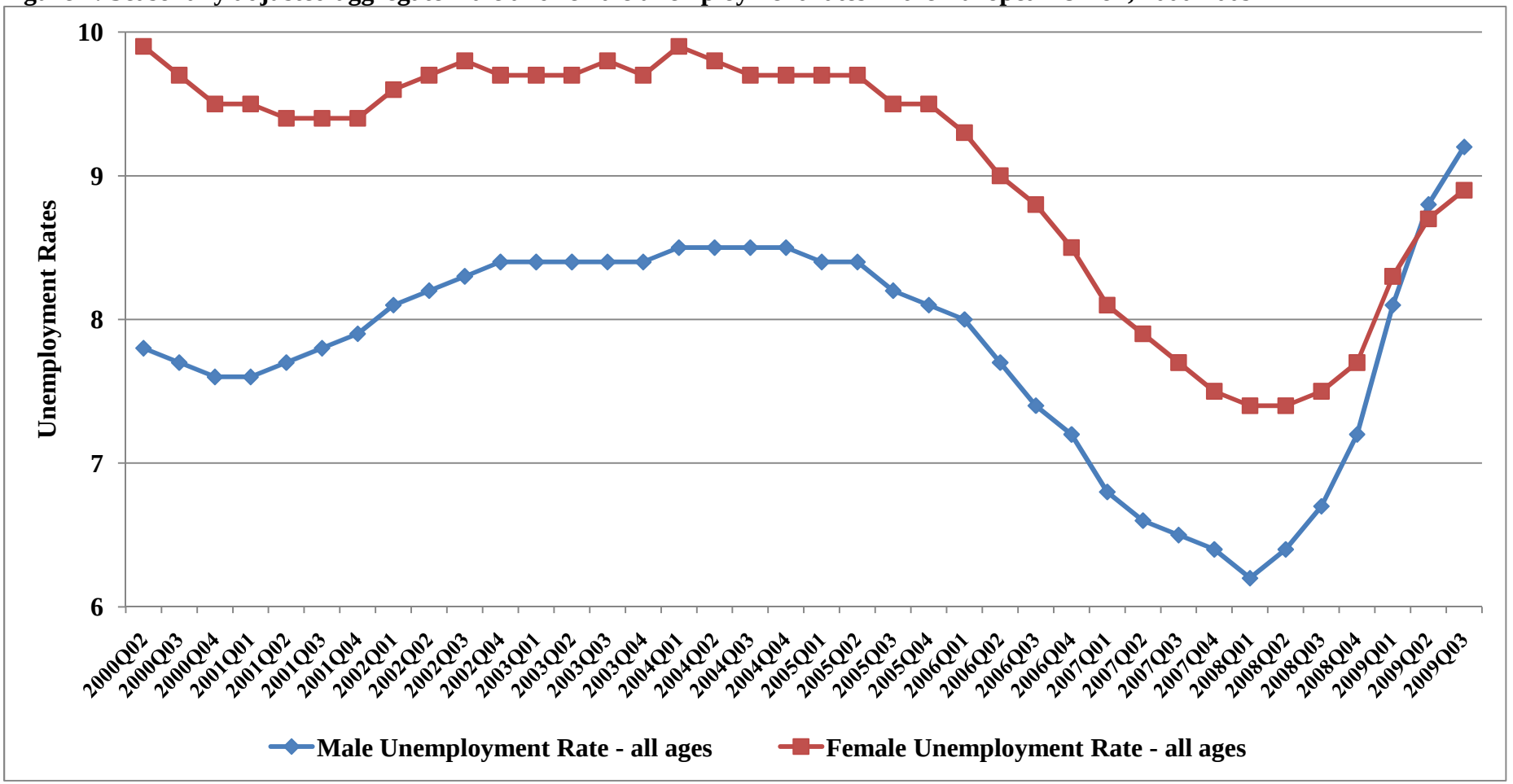
[6] These broadly correspond to different models of labour market institutions. As with the timing of the recession, the use of these groups is a convenient, and, it is to be hoped, uncontroversial, simplification.

Figure 1: Percentage point change in employment rates by age and gender, 2007Q3 – 2009Q3



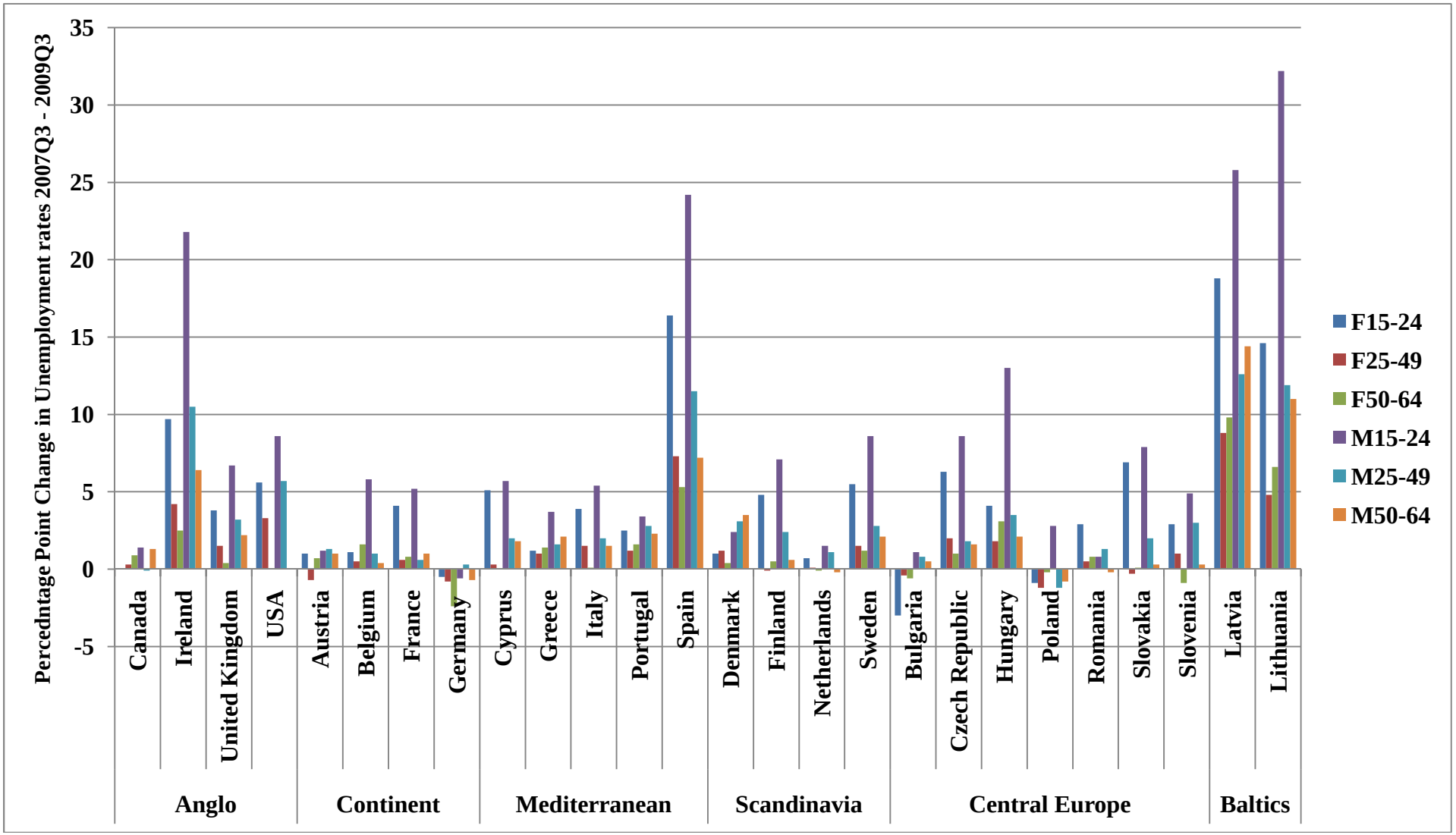
Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database, except for USA (from BLS database: http://www.bls.gov/) and Canada (form Statistics Canada: http://www.statcan.gc.ca).
Notes: For the United States the figure reports the percentage change in employment (not the percentage point change in employment rate); for Canada, data by gender is not available for youth. In both cases, monthly data is used covering the period October 2007 to October 2009.

Figure 2: Seasonally adjusted aggregate male and female unemployment rates in the European Union, 2000-2009



Source: calculated from Eurostat seasonally adjusted quarterly LFS data.

Figure 3: Percentage point change in unemployment rates by age and gender, 2007Q3 – 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database, except for the United States (from BLS database: http://www.bls.gov/) and Canada (from Statistics Canada: http://www.statcan.gc.ca).
Notes: For the United States and Canada, monthly data is used covering the period October 2007 to October 2009.

2.2 Young People vs. Adults

Youth unemployment rates are significantly higher than prime-age adult rates almost everywhere for a number of reasons (O'Higgins, 2001, OECD, 2009a); consequently it is not very surprising that, in absolute terms, the percentage point increase in unemployment rates was, with one or two exceptions, higher for young people than for older workers (figure 3). Indeed, in Germany (where youth unemployment rates actually fell) and Austria with their dual apprenticeship systems, young male unemployment rates increased less than prime age workers.

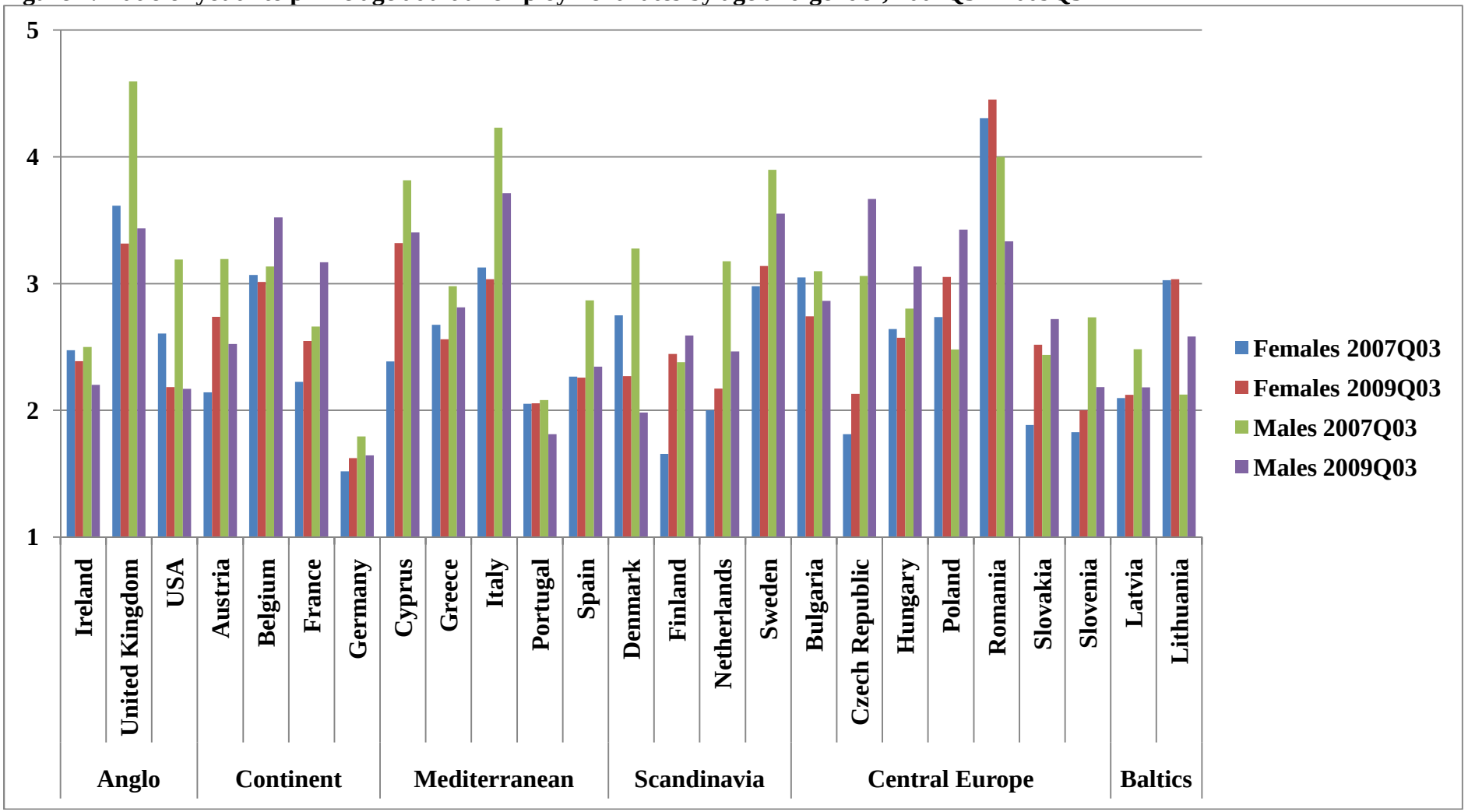
There are big differences across countries in the extent to which young people as opposed to adults were hit by the crisis, and that these differences do not appear to bear direct relation to the depth of the recession. Figure 4 reports the ratios of youth unemployment rates to those of prime age adults for males and females, over the two-year period (2007Q3-2009Q3). It will be observed that neither the ratio, nor the change in the ratio, bears much relation to the overall changes in youth employment and unemployment rates. For males, the countries which had the highest youth-adult ratio before the crisis (the United Kingdom, Italy, Sweden, Romania and Cyprus) all saw a fall in the ratio – implying that in these countries, the relative rise in unemployment was less pronounced for young men than for male prime-age adults. This was not the case for females. In Romania and Sweden, the ratio actually increased.

To emphasise this, figure 5 below reports the (absolute) change in the ratio of youth and prime-age adult unemployment rates for males and females. What this tells us is in which countries young people were disproportionately affected. As can be observed from the preceding figures - and emphasised in Verick (2009) – the unemployment rates of young people almost invariably increased more than those of adults in absolute (percentage point) terms. Yet, often albeit not invariably in the past, the ratio of youth to adult unemployment rates has moved in an opposite direction to the aggregate unemployment rate (figure 6). This is another way of saying that the elasticity of the youth unemployment rate to the adult unemployment rate has tended to be less than one. A cursory examination of figure 5, however, is sufficient to establish that this was not the case in the current recession. Very often, young people **were indeed disproportionately affected** by the crisis, not just in terms of the percentage point rise but also in the proportionate or percentage increase in unemployment rates[7]. On the other hand, this phenomenon appears to bear no relation to the percentage increase in itself. In this regard, it may be observed that Lithuania may be singled out as a country which was both: a) heavily hit by the crisis; and, b) where the burden was felt disproportionately by young men. Overall, the correlation between the percentage change in youth unemployment rates and the youth-adult ratio of the changes is practically zero for both young men and young women[8].

[7] To be clear, the usually reported figure, the percentage point increase refers to the absolute change = $UR_t - UR_{t-x}$ (where UR stands for Unemployment Rate at time t and at time t-x, i.e. some time before that). The percentage change in unemployment rate is given by $100*(UR_t - UR_{t-x})/UR_{t-x}$. That is, the change in unemployment rate proportionate to the base or initial rate. Obviously, the larger the base rate UR_{t-x}, the smaller will be the percentage change corresponding to a given absolute change in the unemployment rate. Since the youth unemployment rate is universally higher than the adult rate, the percentage point change paints a more dramatic albeit less accurate picture of the relative change in the situation of young people compared to adults than does the use of the percentage change.

[8] Specifically, the simple correlation coefficient between the percentage change in youth unemployment rates and the ratio of the change in unemployment rates between young people (under 25) and adults (over 25) is -.01 for young men and .04 for young women for the countries included in the figure over the period 2007Q3 – 2009Q3.

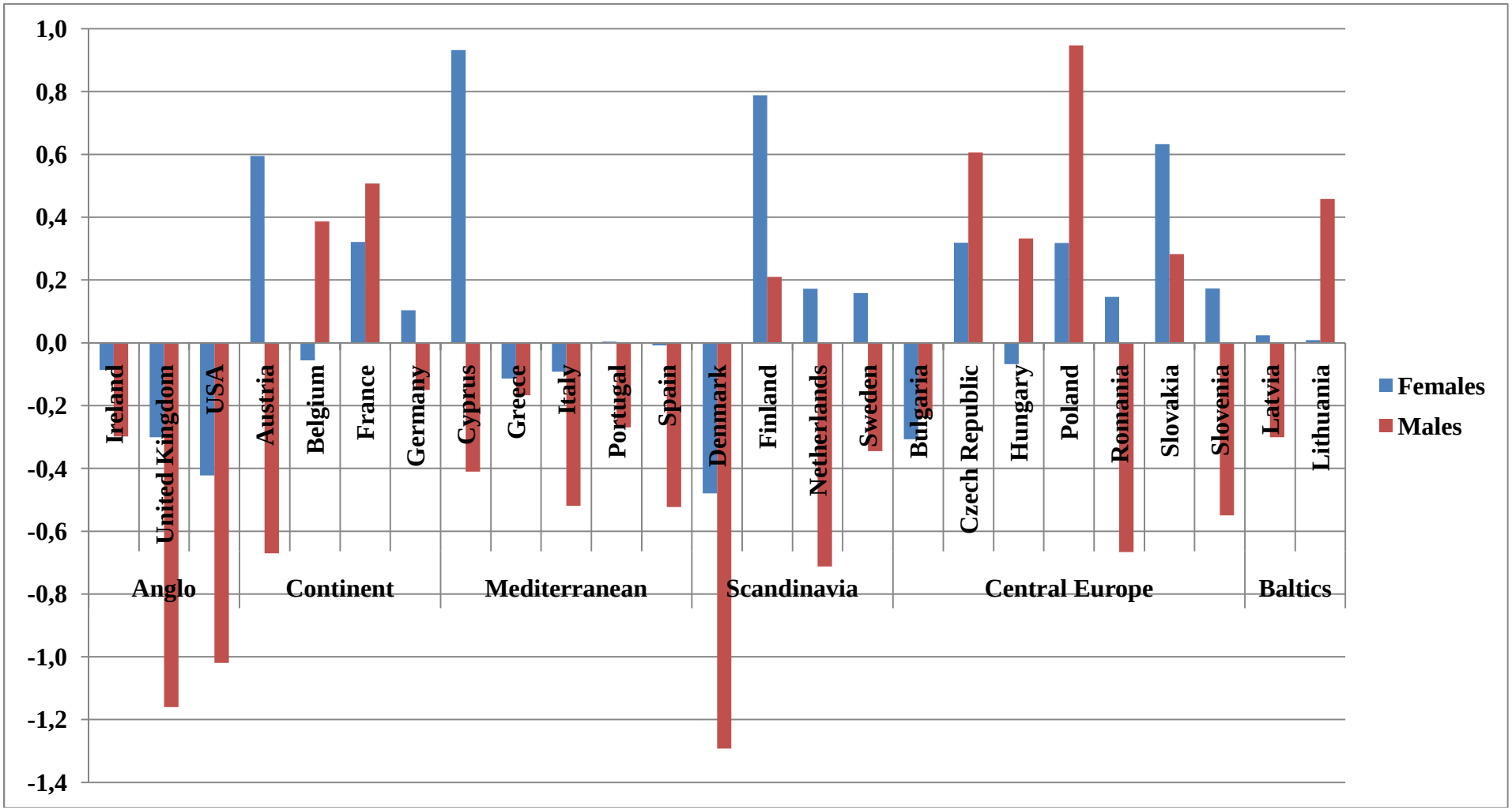
Figure 4: Ratio of youth to prime age adult unemployment rates by age and gender, 2007Q3 – 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database, except for the United States (from BLS database: http://www.bls.gov/) and Canada (from Statistics Canada: http://www.statcan.gc.ca).

Notes: The figure reports the youth unemployment rate/prime age adult unemployment rate by gender. For the United States and Canada, monthly data is used covering the period October 2007 to October 2009.

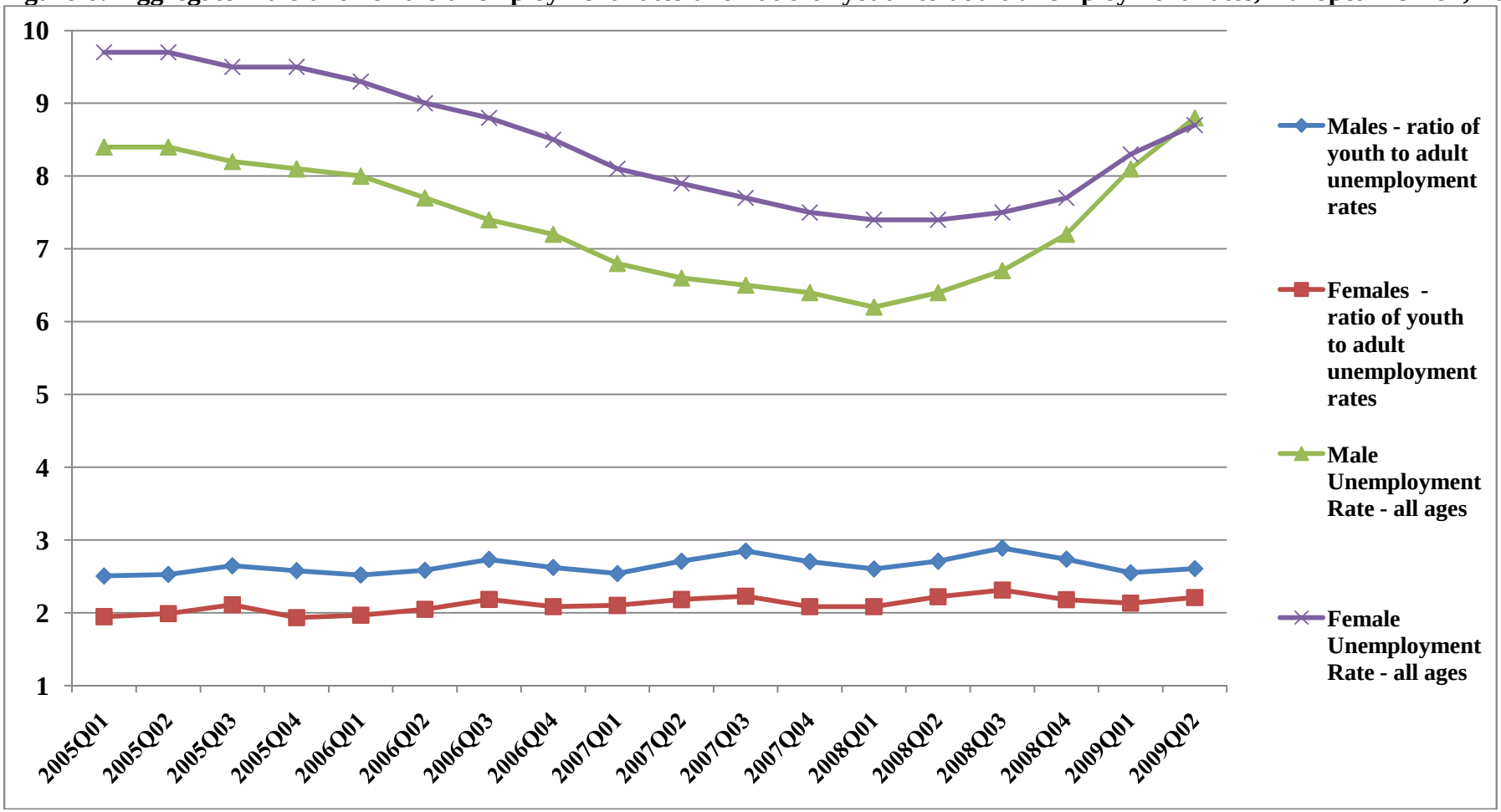
Figure 5: Change in the ratio of youth to prime age adult unemployment rates, 2007Q3 – 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database, except for the United States (from BLS database: http://www.bls.gov/) and Canada (from Statistics Canada: http://www.statcan.gc.ca).

Notes: the figure reports **change in the ratio of youth to prime age adult unemployment rates**. A positive value indicates that young people were disproportionately affected by the recession in terms of the percentage increase in unemployment rates. For the United States and Canada, monthly data is used covering the period October 2007 to October 2009.

Figure 6: Aggregate male and female unemployment rates and ratio of youth to adult unemployment rates, European Union, 2005-2009



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database

2.3 Long-Term Unemployment

The negative consequences of unemployment are largely associated with longer durations of unemployment. Short spells of frictional unemployment are more or less an inevitable consequence of job search and young people – being on average less settled in their occupational choices and more mobile than adult workers - will tend to experience this more frequently than adults. This is one reason why youth unemployment rates are much higher than those of prime-age adults with the partial exception of countries operating a dual apprenticeship system (O'Higgins, 2001). This has led some to argue that high youth unemployment is not so serious a problem since unemployment spells tend to be of shorter duration for young people, yet, in actual fact, this is not necessarily the case (Ryan, 2001, O'Higgins, 2003).

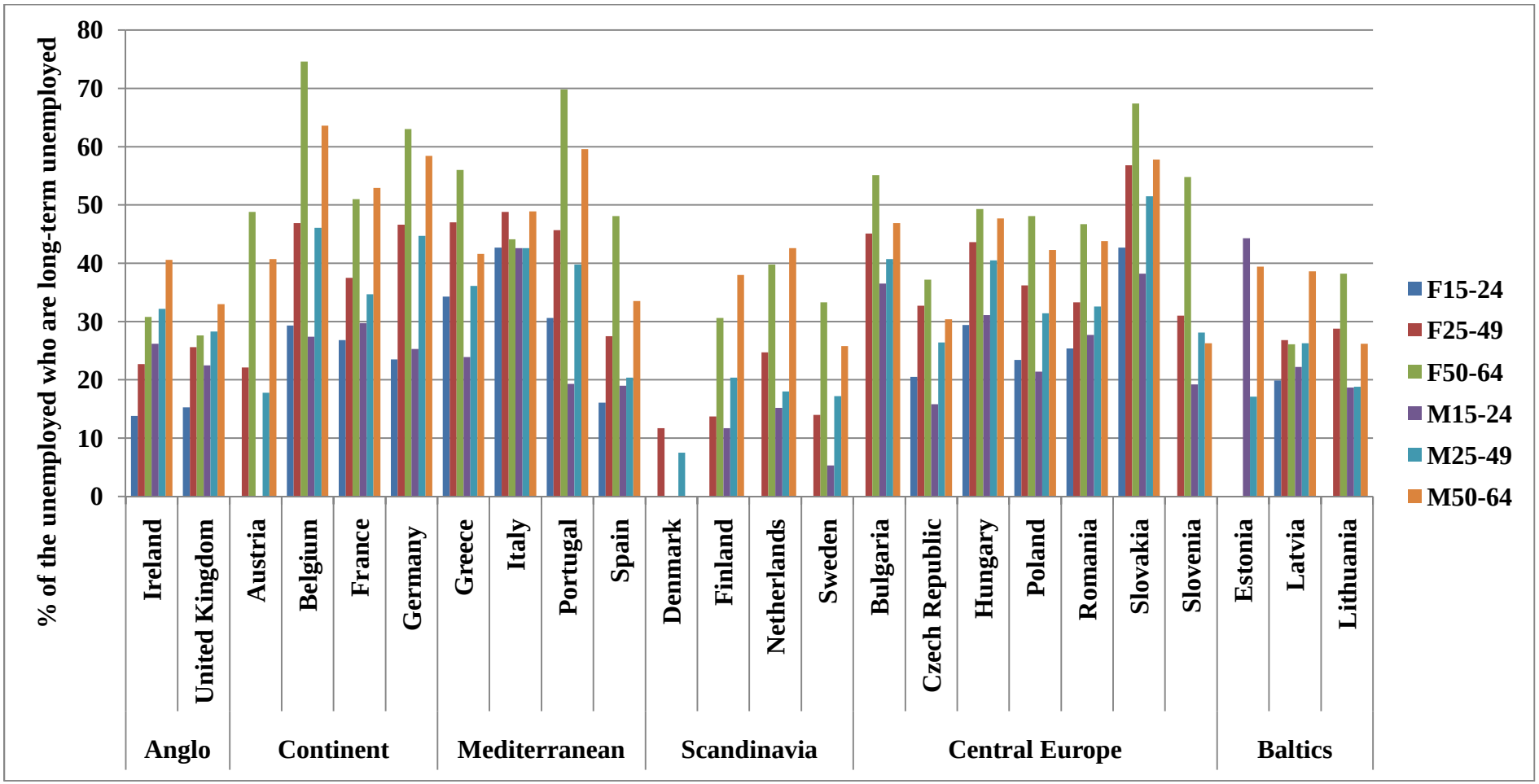
In the context of the current recession, it is pertinent to look at what has happened to long-term unemployment for different age groups across countries. Changes in the incidence of long-term unemployment – the proportion of the unemployed who have been so for more than one year – principally reflect two phenomena. The incidence of long-term unemployment will tend to: a) increase if the recession affected outflows from, more than inflows to, unemployment – that is if the fall in new hires was greater than the increase in redundancies; and/or b) fall with the introduction of new Active Labour Market Policies (ALMP) targeting the long-term unemployed. Figure 7 reports the information on incidence of long-term unemployment in the third quarter of 2009, and, to focus on changes in the incidence, figure 8 shows the variations in incidence over the period 2007Q3 – 2009Q3 for males and females by age group.

One will observe that, almost everywhere, the incidence of long-term unemployment is higher for the older age groups. In this regard, Estonia stands out as an exception – The incidence of long-term unemployment is much higher for young males than for prime age males. Also, in several other countries – in particular, in Italy, Latvia, Lithuania, Spain and the Netherlands – there is little difference between the incidence of long-term unemployment for young and prime-age males.

Looking at the changes in the incidence of long-term unemployment, the picture is rather different to that emerging from an examination of overall unemployment changes; in particular, it appears to be young people and above-all, young women, who were the hardest hit in terms of lengthening spells of unemployment. Put simply, the higher unemployment of adult men (and also adult women to a lesser extent) arising from the recession has had much to do with increased inflows into unemployment – more men have been made redundant. For young people and above-all young women, the recession has largely manifested itself in terms of increased difficulties in finding work. The major exception to this is Spain where the incidence of long-term unemployment for all groups except for older males increases. This is a particularly worrying development given the overall dramatic increase in unemployment rates.

Of course, as noted above these figures also reflect to some extent the introduction or expansion of ALMPs adopted to mitigate the labour market effects of the crisis. The full impact of the recession on long-term unemployment will not be felt for some time; however, one important message from the information thus far available is that countries need to take action to prevent a relatively temporary fall in labour demand producing a cohort of long-term unemployed young people with few prospects of the future.

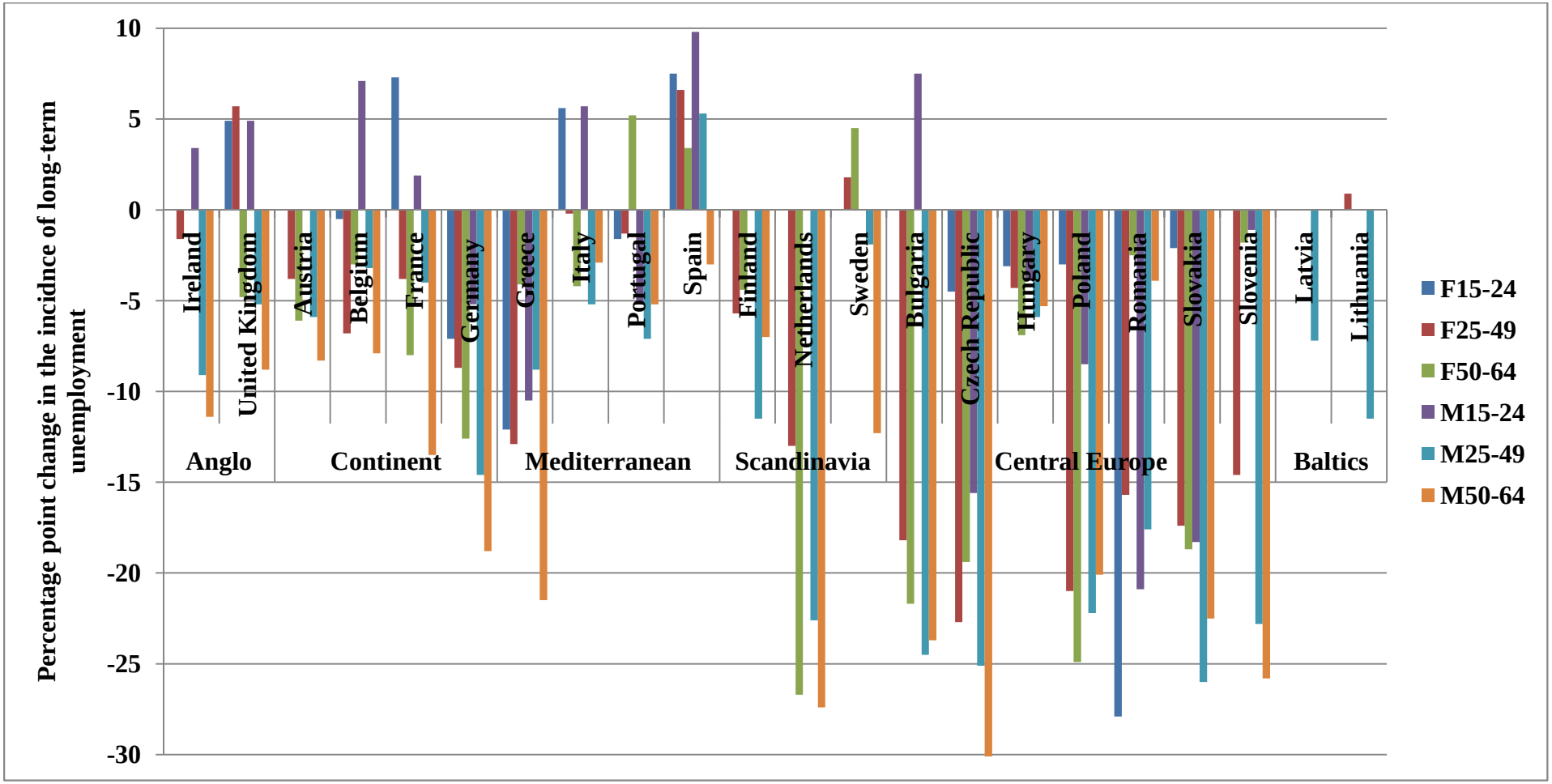
Figure 7: Incidence of long-term unemployment in the European Union by age and gender, 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database

Note: The incidence of long-term unemployment is defined here as the proportion of the unemployed who have been so for at least one year. Data availability limits the countries included here. For the countries for which some data was available, on the date of access (19/6/2010), data was unavailable from the EUROSTAT database for **young (15-24) women** in Austria, Denmark, Finland, Netherlands, Sweden, Bulgaria, Slovenia, Estonia and Lithuania; **prime age (25-49) females** in Estonia; **Older (50-64) females** in Denmark and Estonia; **young men** in Austria and Denmark; and, **older males** in Denmark.

Figure 8: Percentage point changes in the incidence of long-term unemployment in the European Union by age and sex, 2007Q3 – 2009Q3



Source: Author calculations Eurostat, European Labour Force Survey data, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database.

Note: See note to figure 7 above. Available data was insufficient to calculate the change in the incidence of long-term unemployment for **young (15-24) women** in Ireland, Austria, Finland, Netherlands, Sweden, Bulgaria, Slovenia, Latvia and Lithuania; **prime age (25-49) females** in Latvia; **Older (50-64) females** in Ireland, Latvia and Lithuania; **young men** in Austria, Finland, Netherlands, Sweden, Latvia and Lithuania; and, **older males** in Latvia and Lithuania.

2.4 Education, labour demand and the crisis

The employment rates of young people increase with level of education (figure 9) in almost all countries considered. However, here too there is substantial cross-country variation. The Mediterranean countries are characterised by relatively low youth employment rates for all levels of education and relatively small differences in employment rates by level of education – indeed amongst young Italian males, the employment rates of those with tertiary education are actually lower than those with a completed secondary diploma[9]. In most countries, however, employment rates of those who have not completed secondary education across a wide range of countries are very low indeed. This is particularly noticeable in the Central Europe and the Baltics, but is by no means limited to these areas.

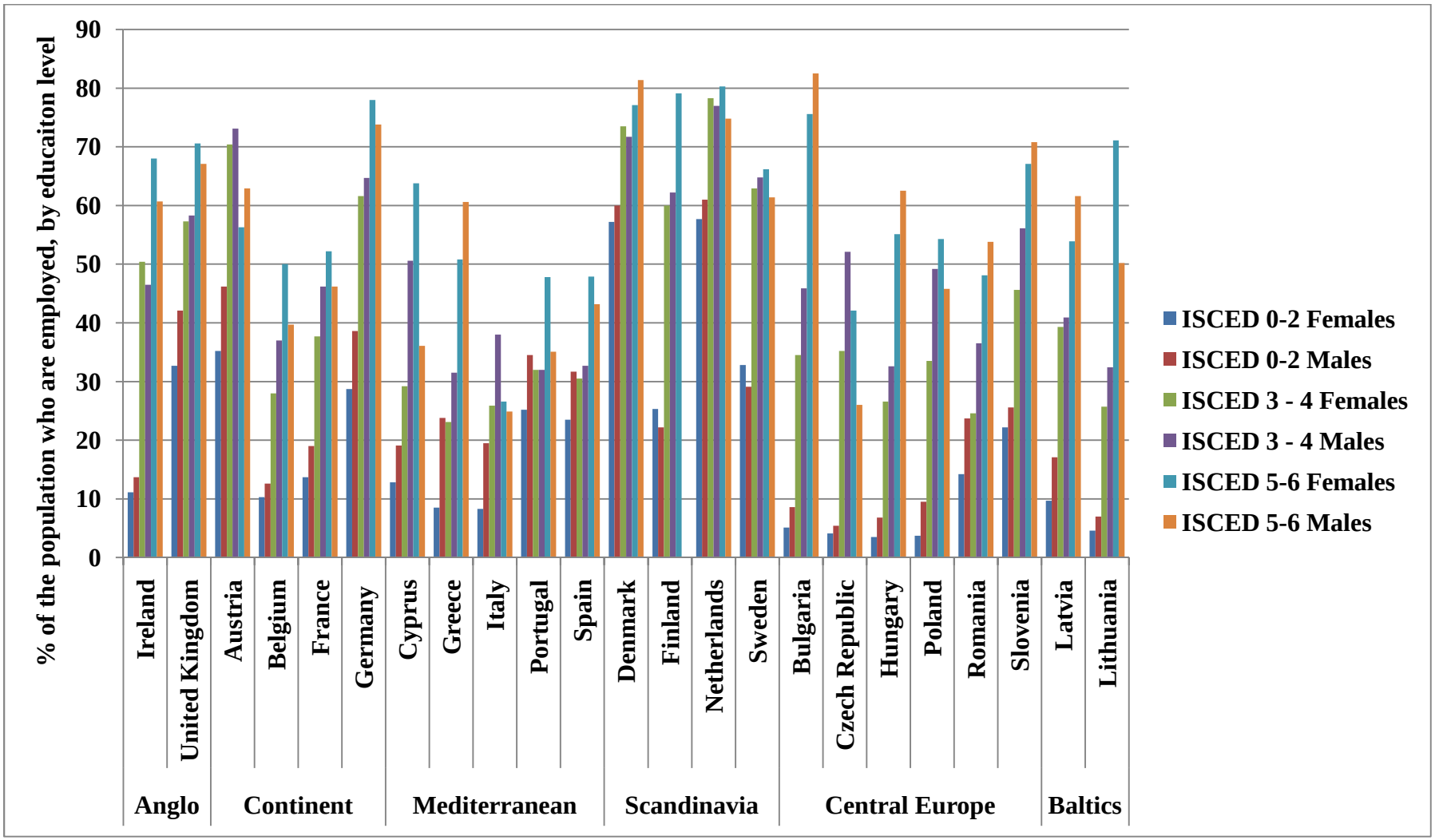
As regards the change in employment rates, reflecting changes in the demand for those young workers with differing levels of education, it appears that it is those with higher levels of education who were usually the most adversely affected by the fall in labour demand accompanying the financial crisis albeit with the ubiquitous significant cross-country variation (figure 10). Scandinavian and Anglo countries, and particularly Sweden where the change in employment rates actually falls with level of education, represent partial exceptions to this. However, it is worth bearing in mind that the numbers of Scandinavian (and Dutch) youth with less than secondary education is very small.

Thus, two major points emerge. First, labour force participation rates and also employment rates are very low amongst those with lower levels of education and, in particular those who have not completed secondary education[10]. This raises the issue of labour market, and consequently social, exclusion. The extraordinarily low employment rates of those with very low levels of education is explained by labour market withdrawal and joblessness as well as by higher unemployment rates amongst those with low levels of education. Independently of the crisis, this issue should be – and at the European level is indeed, an issue of some concern to policy-makers. Second, somewhat in contrast to the first point, the crisis seems to have hit those with higher – and in particular tertiary – levels of education. Here too, however, some caution is in order. In many countries, a return to education may be easier for those with higher education, and consequently the big drop in employment rates does not **necessarily** signal a major problem. The situation will depend on the national and local economic conditions, but also on the national institutional framework which, despite a process of harmonisation in Europe, differs significantly across countries. Thus, although, on the whole, the crisis seems to have hit the more educated particularly hard, this is not true for all countries, nor to the same extent. Thus, careful analysis of the national context is required to seek specific policy action to counteract this aspect of the financial crisis.

[9] This is related to the 'Mediterranean Labour Market Model' and has to do with the role of family, as opposed to the State, as the guarantor of the income of family members other than the principal (usually male) breadwinner. This has a number of implications which go beyond the scope of the current paper, but which include the greater difficulty of young Mediterraneans in accessing full-time permanent jobs. See, for example, O'Higgins (2008) for further discussion of some of behavioural implications of this in Italy, or OECD (2007) for an analysis of the situation in Spain.

[10] Although one needs to bear in mind that a substantial proportion of 15-24 year olds who have not completed secondary education are still participating in education, this would not account for the huge differences in employment rates observable in many countries.

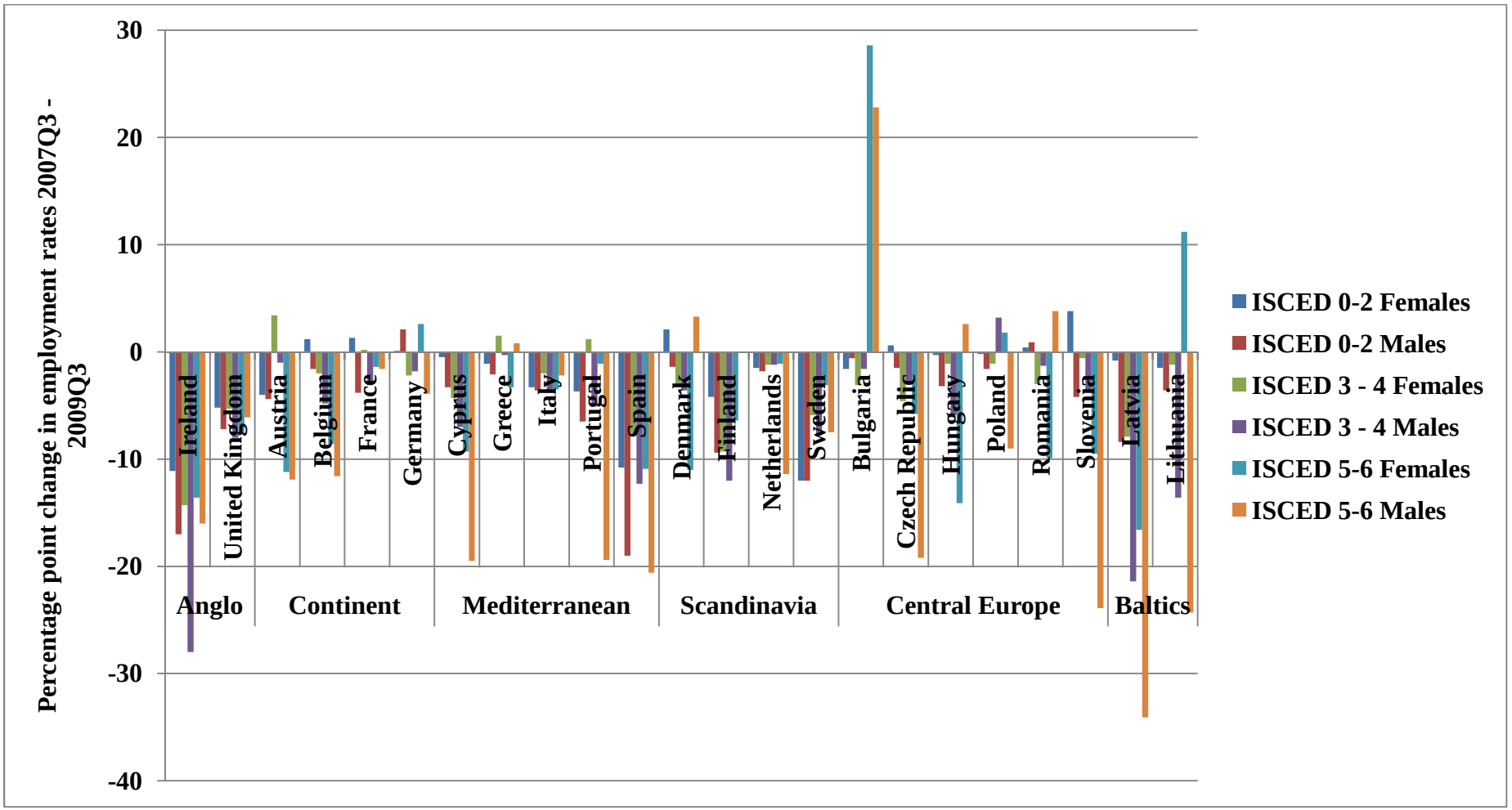
Figure 9: Employment rates of young people in the European Union by level of education, 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database.

Note: Countries for which data are available are included. Amongst the included countries, data are unavailable from the EURISTAT database for young male Fins with ISCED 5-6 level of education.

Figure 10: Percentage point change in employment rates of young people in the European Union by level of education, 2007Q3 - 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database

Note: Countries for which data are available are included. Amongst the included countries, data are unavailable from the EUROSTAT database for young male Fins with ISCED 5-6 level of education

2.5 Temporary Employment

The extent of temporary employment varies widely across Europe and North America (figure 11); however, the general trend in recent years (in some cases decades) has been towards ever-increasing use of this contractual form, particularly for young people. Indeed, in all countries, for obvious reasons, the incidence of temporary employment tends to be much higher amongst young people than amongst older workers – although this difference is rather less pronounced for females.

The effects of a recession on temporary employment will comprise two opposing effects. First, those in temporary employment are likely to be the first to be laid off when aggregate demand falls because the costs to firms of doing so are lower than for permanent workers. On the other hand, temporary contractual forms may also be those most attractive to employers who wish to take on new workers in uncertain times. In as much as the latter effect exists, this may be particularly advantageous to young job seekers in gaining a foothold in the labour market. Thus, if this effect dominates, temporary employment may actually increase in absolute terms or at least as a percentage of total employment.

In general, the findings on the usefulness of temporary employment in promoting long-term employment are not very encouraging. With some exceptions, most studies find that temporary employment does not prove to be a very effective stepping-stone to permanent employment[11]. Moreover, temporary employment contracts tend to discourage investment by firms in training (Arulampalam et al., 2004 and Booth et al., 2002). Holmlund and Storrie (2002), however, note that the recession in Sweden in the early 1990s was the major driving force behind the spread of temporary contracts in that country. The suggested implication being that the rapid expansion of temporary employment was a contributory factor to the recovery in employment in Sweden following the recession.

Looking at the recent evidence (figures 11- 13) one can observe first of all that, prior to the crisis, there was a great diversity in the incidence of temporary employment contracts amongst young people in Europe (figure 11). To some extent there is an inverse relation between the strictness of employment protection legislation (EPL) and the incidence of temporary employment amongst young people, so that, for example, in the United Kingdom, which is characterised by relatively weak EPL, the incidence of temporary employment is relatively low whereas in Mediterranean countries and in particular, in Italy, Portugal and Spain where EPL is relatively strong, the incidence of temporary employment is relatively high. Similarly, in France and Germany, other countries with relatively strong EPL. The situation in these Mediterranean countries is largely the consequence of policy choices made first in Spain in the 1980s and then in Italy and Portugal in the 1990s to introduce greater flexibility in labour markets in order to facilitate the entry of young people into employment[12]. One may observe that previous to the crisis there was little difference in the incidence of temporary employment for young men and young women with one or

[11] See, for example, the collection of papers in the symposium in the *Economic Journal*, vol. 112, no. 480, 2002. Of the four substantive papers in the collection, three find negative effects of temporary employment (Blanchard and Landier, 2002; Booth et al., 2002 and Dolado et al., 2002) with only one (Holmlund and Storrie, 2002) suggesting a (partially) positive role. Although, the general picture has not changed subsequently, some more analyses have found a positive role for temporary employment as a stepping-stone to permanent employment. For example, in their review of the literature, Zijl and Van Leeuwan (2005), report positive 'stepping-stone' effect for temporary jobs in Germany, the Netherlands and Italy, but not for Spain. Zijl et al. (2010) analysing the situation in the Netherlands in more detail find that although temporary jobs do shorten unemployment durations, they do not lead to an increase in the likelihood of being in regular employment subsequently.

[12] And at the same time is linked to the aforementioned 'Mediterranean model' which has as its lynchpin, strong employment protection for the primary household breadwinner.

two exceptions – most notably Sweden, but also Poland and Slovenia – where the incidence of temporary employment was higher for young women.

As to what happened to temporary employment during the recession, almost everywhere temporary employment fell (figure 12), although, as a percentage of total employment this was not always the case (figure 13). That is, in countries such as Greece, Denmark, Czech Republic, Hungary and Slovakia, countries characterised by a moderate or low incidence of temporary employment prior to the crisis, the incidence of temporary employment has actually increased. The relation is not a strict one; also in Italy and Slovenia, where temporary contracts were already fairly widespread, the recession lead to a further increase. In all of these countries, the increase in temporary employment as a percentage of total employment implies that temporary employment fell less than permanent employment amongst young people. This is a little surprising and runs contrary to the overall trend which saw a substantial drop in temporary employment during the recession (European Commission, 2009) as well as to common sense which suggests that temporary employees are the first to be made redundant in a recession. It suggests that to some extent young temporary replacements are being found for permanent employees made redundant during the recession and is an issue which would certainly be worth investigating in more detail at the country level.

It is early to make a clear judgement on whether the use of temporary employment forms is contributing to the recovery, although it is predictable that, as a consequence of the crisis, the incidence of temporary employment will rise – as occurred in Sweden in the 1990s. It is, however, evident that the incidence of temporary employment contributed to the severity of the employment effects of the crisis in some countries. Spain, in particular, was characterised by a particularly high pre-recession incidence of temporary employment and was the country where, without a particularly substantial fall in GDP, male employment rates – and particularly male youth employment rates – fell dramatically. Moreover, Spain and Italy are the only EU-15 countries where the youth unemployment rate has as yet shown no signs of falling. Spain now has the highest youth unemployment rate in the EU and, barring Lithuania, as of 2011Q1, it is the country where the percentage point increase in the youth unemployment rate has been greatest (compared to 2008Q1). More generally, for young women there is a moderate negative correlation (= -.24) between the incidence of temporary employment in the third quarter of 2007 and the change in employment rates between 2007Q3 and 2009Q3; for young men the correlation albeit negative is very weak (= -.06)[13]. Of course, the impact of the recession on employment rates depends on a number of other factors – most notably the severity of the recession itself - however, this evidence suggests that thus far temporary employment contracts have not counteracted the negative employment effects of the financial crisis.

2.5.1 A Note on the impact of Employment Protection Legislation

In the light of the previous discussion of temporary employment, it may be observed that the correlation between the change in unemployment rates (in percentage terms) and the strictness of employment protection legislation as measured by the OECD indicator is moderately strong but, contrary to the view often propounded – although less frequently supported by the data[14] - turns out to be **negative** and of a similar entity for young men (-.20), young women (-.20) and adult men (-

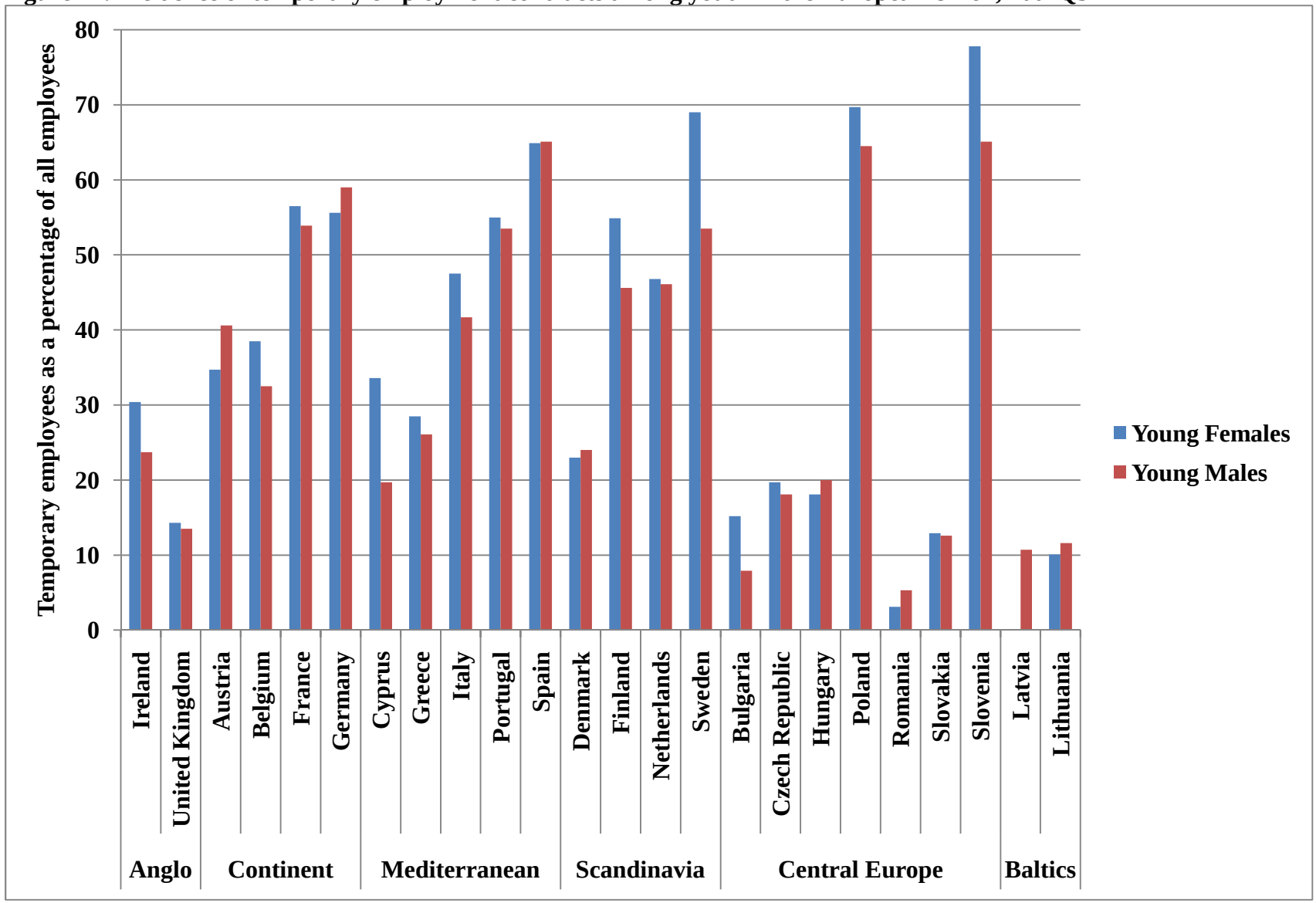
[13] The simple correlation coefficients were calculated for the sample included in the figure 12.
[14] See, for example, Bell and Blanchflower (2010) and/or Freeman (2007) for further discussion of this issue as well as the discussion below.

.23), whilst being somewhat larger for adult women (-.35)[15]. On the other hand, the correlation between the youth-adult ratio of changes in unemployment rates and the EPL index is moderately positive for both males (.20) and females (.23). That is, in countries with stricter employment protection legislation, unemployment rates amongst both young people and adults tended to increase less than in countries with weaker EPL. However, in countries with stronger EPL, the relative position of young people worsened – on average, their unemployment rates increased proportionately more those of adults. Taken at face value[16], these simple descriptive statistics suggest that stricter employment protection legislation tended to mitigate rather than worsen the negative effects on unemployment of the financial crisis – for both young people and adults, but at the same time, did have a moderate impact on just how badly young people fared compared to adults. Neither proposition is particularly surprising; in countries with stricter EPL, firms will react more slowly to the crisis through the shedding of the workforce, due to the greater costs involved, at the same time young people tend to be much less subject to EPL, since on average they are less likely to have accumulated sufficient time on the job to qualify. Of relevance here is the fact that the increased use of temporary contracts will tend to accentuate this differential between younger and older workers, by further excluding young people from employment protection.

[15] For the purposes of the correlations, a distinction between the young (under 25) and adults (over 25) was used. Simple correlation coefficients were calculated for the countries for which the OECD strictness of EPL indicator and data on the change in unemployment were available. Specifically, Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, United Kingdom and the United States. The correlation is only statistically significant ($p < .05$, one-tailed test) for adult women.

[16] Although, the correlations are relatively weak throughout, so one would not wish to place too much emphasis on this aspect. They are however, consistent and consequently suggestive.

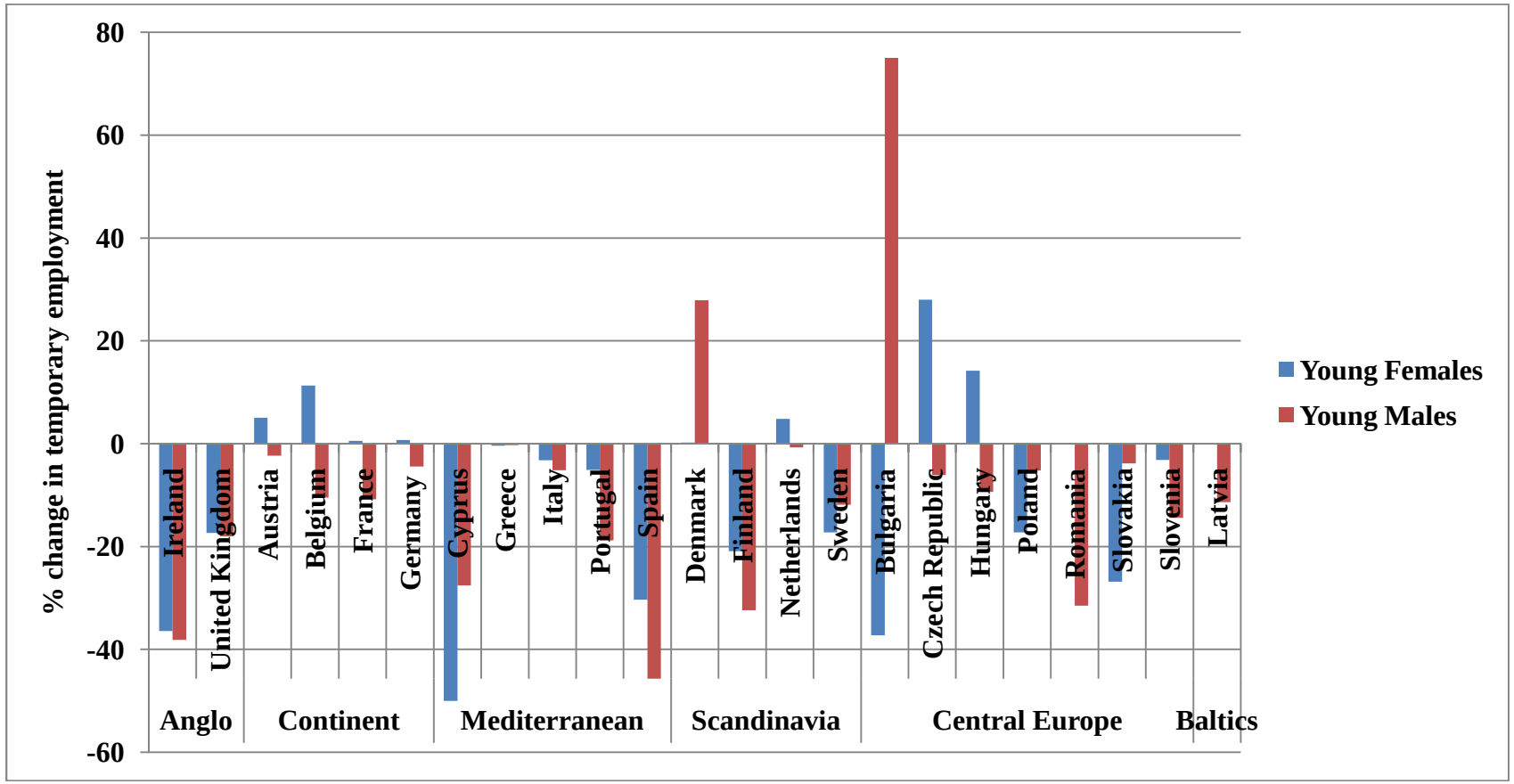
Figure 11: Incidence of temporary employment contracts among youth in the European Union, 2007Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database

Note: Countries included for which data are available. Amongst the countries included, data on **young females** were not available for Latvia.

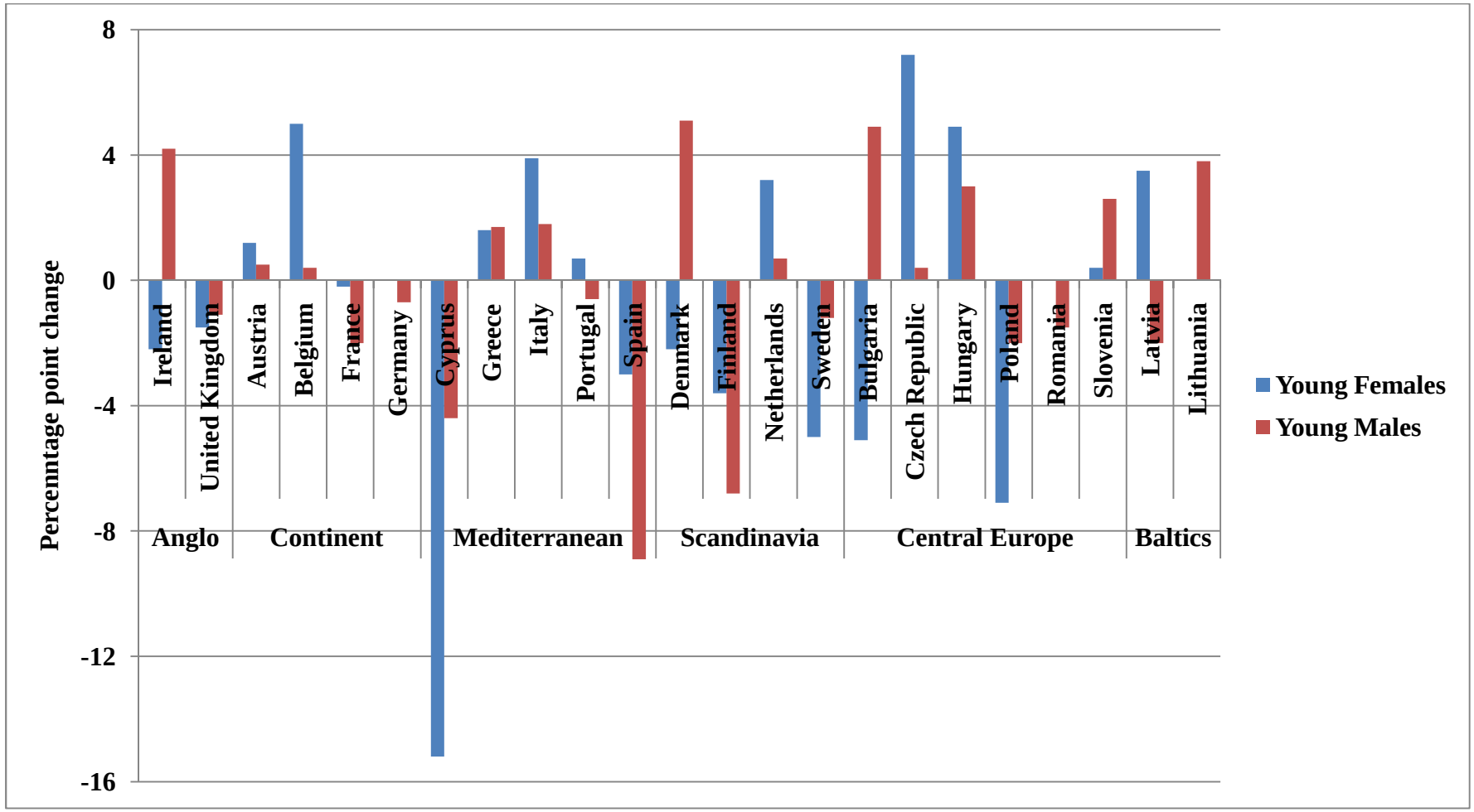
Figure 12: Percentage change in temporary employment of young people in the European Union, 2007Q3 – 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database.

Note: The figure reports the change in temporary employment as a percentage of the pre-crisis incidence. Countries included for which data are available. Amongst the countries included data on **young females** were not available for Romania and Latvia.

Figure 13: Percentage point change in the incidence of temporary employment of young people in the European Union, 2007Q3 – 2009Q3



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database
Note: Countries included for which data are available. Amongst the countries included data on **young females** were not available for Romania and Latvia.

2.6 Which indicators – Unemployment vs. Joblessness

Although full discussion of indicators of the school-to-work transition goes well beyond the scope of this paper, one major issue needs to be broached due to its relevance in times of recession. The most commonly used indicator of youth (and indeed adult) labour market problems is the youth unemployment rate. This measures the percentage of young people who are without work but who would like, and are actively seeking, to work. From an individual perspective, this may be thought of as the probability that a randomly chosen young person has not found work given that they are (actively) seeking it. Thus, a high youth unemployment rate is undesirable in the sense that a substantial proportion of young people who are actively seeking work do not find it.

Yet the unemployment rate indicator has some drawbacks.

1. The youth unemployment rate does not necessarily give much idea of the extent of youth labour markets problems as they affect young people as a whole – if young people participate in education more or less until age 24, but most of those who do enter the labour market are unemployed, the youth unemployment rate will be very high but it will reflect a relatively small problem in terms of young people as a whole.

2. The unemployment rate implies a rather restricted definition of the labour market – youth unemployment does not include those people who would like to work but do not seek it because they know or believe that no suitable work is available: the discouraged. In the context of a recession, this issue becomes of major importance. Discouragement from the labour market is not independent of economic – or personal – circumstances. People may stop seeking work because they no – or believe – that no appropriate employment is available. Once thus excluded, they disappear from the statistics but also become part – or risk becoming part of a permanently excluded – and disaffected, or perhaps worse, apathetic – group.

3. More generally, what of those who, given current labour market conditions, choose to do ‘other things’? For example, have and/or look after children, enjoy leisure or travel (or indeed migrate to other countries), or participate in education. For most, the choice to do ‘other things’ is unlikely to be independent of the quantity (and quality) of the work available. If one takes a School-to-Work perspective by which education and employment are, respectively, the desirable start and endpoints of the transition in young people’s lives, then the issue of whether they are actually seeking work may not be very relevant

4. Perhaps most importantly, all those young people who are not usefully occupied – in some way or other - represent a missed opportunity – a wasted potential.

This type of consideration have promoted that some international agencies and in particular the OECD and World Bank (2006) to look also at the more general indicator of joblessness or, in OECD parlance, the NEET (not in employment or education or training), rate. This is defined as the number of young people who are not in education or employment as a

percentage of the age-specific population[17]. Appendix 2 looks in a little more detail at some of the advantages of this indicator. Unfortunately the jobless or NEET rate has not yet entered the standard lexicon of commonly reported indicators, nor is it calculable on the basis of the standard statistics available from, for example, EUROSTAT so excellent in its reporting in other ways, so it is not possible to consider here the effects of the recession on joblessness. Yet such an analysis would be informative since the jobless rate:

a) includes all those young people who are not in some sort of 'productive' or 'useful' activity – specifically it includes a potentially substantial group of people who are not actively seeking work but would do so if conditions in the labour market improved. Arguably it is precisely the discouraged young people who are most in need of intervention in terms of education, training and/or Active Labour Market Policies in order to prevent them from becoming entirely detached from the labour market;

b) gives a sense of the size of youth labour market problems in relation to the youth population as a whole. The youth jobless rate is an indicator of the incidence of youth labour market problems amongst young people as a whole[18]; and,

c) in combination with youth unemployment rates would also help in the interpretation of the employment adjustment process and consequently throws further light on cross-country differences in youth unemployment rates.

The youth jobless rate is a particularly relevant indicator in times of recession because it is precisely those people who drop out of the labour market entirely who are most in danger of permanent exclusion. That is, the long term negative consequences of the recession is likely to be most severe for those young people who risk being permanently excluded from the labour force as a consequence of the relatively short-term fall in labour demand. Indeed, a recent OECD report authored by Scarpetta et al. (2010), has argued that priority should be placed on ensuring that the current recession does not have the effect of permanently augmenting the 'youth left behind' (as well as 'poorly integrated youth') groups – the jobless.

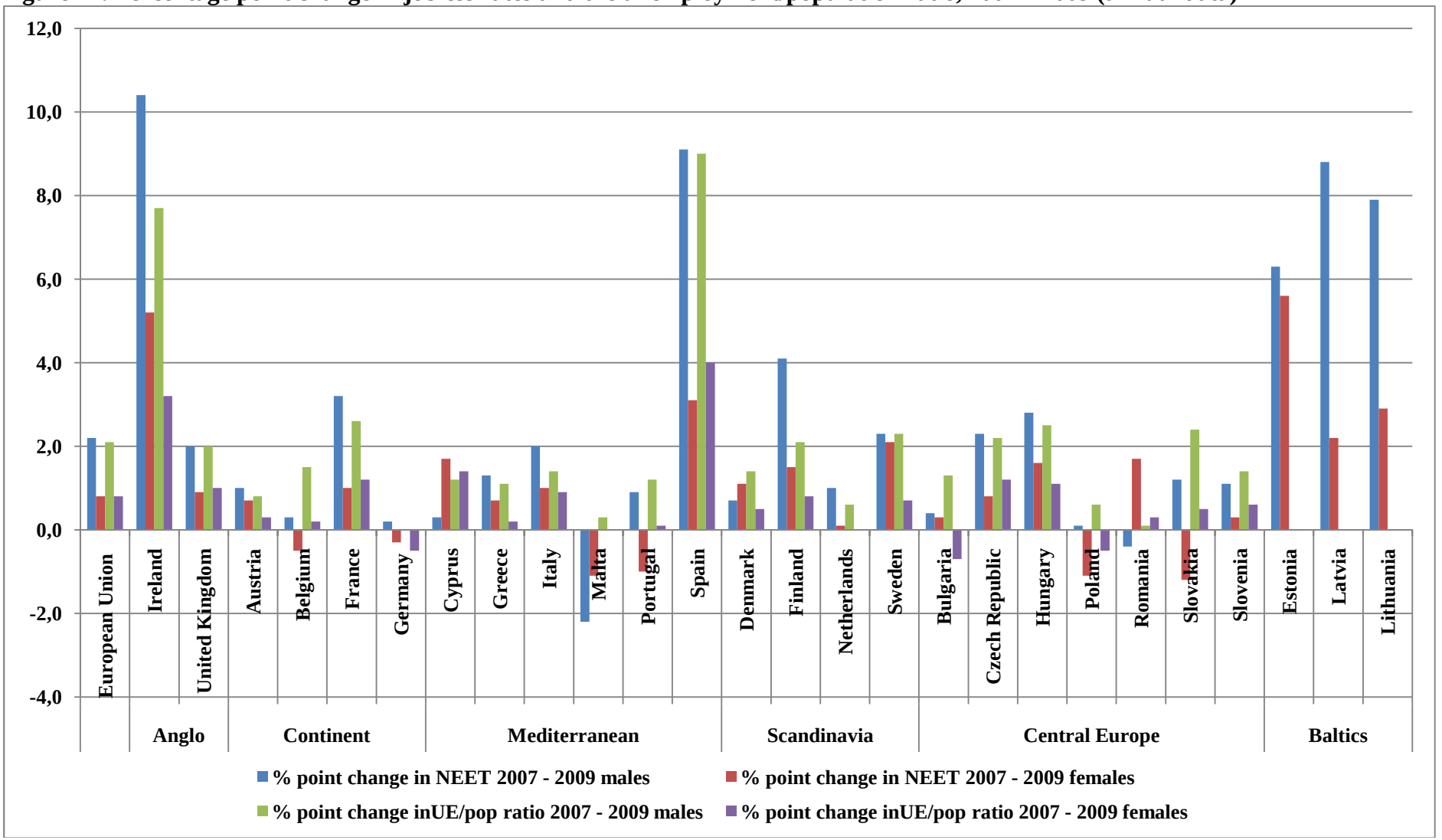
Comparable annual data are now available and allow us to get a general overview of changes in unemployment and joblessness. Figure 14 reports the change in the jobless rate and the unemployment/population ratio. The figure illustrates that whilst for the EU as a whole, the increase in joblessness and unemployment was broadly similar, there is much variation in the relation across countries with once again, no clear pattern either in the EU as a whole or by country grouping. In Ireland the worsening unemployment situation was compounded by substantial increases also in joblessness not included in unemployment, whilst in Spain the increase in youth unemployment accounts for almost all the increase in youth non-employment. In some countries, most notably Belgium and Denmark, the increase in the unemployment-population ratio was larger than the

[17] The OECD (2009b) has recently further refined the concepts underlying this indicator and suggested two new albeit related categories – poorly integrated (young people who do not find stable jobs, but move between temporary employment, unemployment and inactivity) and left behind youth (those young people who face long-term joblessness).

[18] Thus, for example, if almost all young people continue in education until they are 24, then even if the youth unemployment rate is very high, the youth jobless rate will be low. One might argue consequently that this is not strictly speaking an indicator of 'labour market' problems amongst young people. The debate is ongoing. I would argue that it is, at the very least, a useful additional indicator of youth labour market problems – or possibly more accurately school-to-work transition problems – for the reasons given above. Precisely this type of reasoning has lead the European Commission to include the youth unemployment ratio (i.e. youth unemployment narrowly defined as a percentage of the youth population) in addition to the youth unemployment rate amongst the standard indicators reported in its *Employment in Europe* annual reports.

increase in the jobless rate which implies that there was movement from inactivity to unemployment over the period. In some countries there was also substantial variation by gender. In Sweden, for example, amongst young men, the increase in non-employment was accounted for largely by an increase in unemployment, whereas for young women similarly sized increase in non-employment principally involved labour market withdrawal. The correlation between EPL strictness and the change in jobless rates is -.14 for young men and -.25 for young women.

Figure 14: Percentage point change in jobless rates and the unemployment/population ratio, 2007 – 2009 (annual data)



Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database

3. Policies to Mitigate the Effects of the Crisis on Young People

Policies to mitigate or counteract the effects of recession on employment can be broadly divided into macroeconomic policies, educational policies and labour market policies and programmes (LMPs) which in turn may be subdivided into active (programmes promoting employment or employability) and passive (income support). The distinction between these three groups is not always entirely clear-cut; for example, a training programme might be considered educational if it is undertaken in schools and/or under the auspices of Ministry of Education or an active labour market programme (ALMP) if the same programme is run by the Ministry of Labour. Moreover, large-scale labour market programmes may well have macroeconomic effects. More generally, passive labour market policies are often a significant component of (mainly non-discretionary) fiscal policy. The main emphasis here is on labour market policies and programmes and above-all Active Labour Market policies and programmes (ALMP) although all three are clearly relevant to the situation of young people and all relevant here.

As regards labour market policies, one may first divide these between passive and active policies. Passive policies are those which provide income support and generally comprise unemployment and some social security benefits for the unemployed, whilst active programmes are concerned with improving the employment or employability of participants. Here too there is overlap. Public works programmes are usually considered a part of active labour market policy, however, they tend to do very little to enhance the employment or employability of participants (Betcherman et al., 2004). This has led some commentators to suggest that they should more properly be considered as income support rather than employment promotion mechanisms. Passive and active elements may also be combined and in general, the distinction is becoming more blurred with more innovative approaches to the promotion of employment through such policies. Confining attention to programmes which aim to increase the likelihood of finding work and/ or the employability of participants, active labour market programmes may be classified into:

a) Programmes to enhance human capital – usually through training and/or education;
b) Programmes to promote employment – in particular, employment subsidies and support for business start-ups and/or expansion; and,
c) Job search assistance.

Very often programmes involve more than one of these elements and indeed, some studies consider ‘comprehensive’ programmes involving elements of all three of the above as a separate category (e.g. Betcherman et al., 2007). One well known example of this type of programme is the ‘New Deal’ for young people, which was introduced in the United Kingdom in the late 1990s and with some changes remains operative to this day.

In addition to active and passive labour market interventions, policies affecting youth labour markets also include legislation affecting the ease and costs of hiring and firing workers – in particular, minimum wage regulations and Employment Protection Legislation (EPL). The strictness – and type – of EPL is likely to have significant effects on the depth and duration of the

employment effects of recessions as well as having important implications for the specific effects of recessions on the youth labour market as was noted above[19].

3.1 What do we know?

One major difference between the situation facing countries today and that facing countries going through recessions even ten or fifteen years ago is the much greater availability of timely information and analysis to support policy and programme choices. We know much more now than we did even a few years ago on the effects of these different choices and we have more and better data on which to inform current choices.

3.1.1 Macroeconomic Issues and Policies

The recent crisis of 2008-2009 represents the deepest downturn experienced throughout the world since the Second World War. Several recent studies have highlighted issues from past recessions which may inform our understanding of the current crisis. In particular, the IMF have analysed past recessions noting that:

a) Recessions in advanced economies have become less severe (and expansions more lasting) over the last two decades;
b) Recessions associated with financial crises have been more severe and longer lasting than recessions arising from other shocks; and,
c) Recessions which are synchronised across countries have also been deeper and longer lasting than those confined to one region; moreover,
d) Recessions associated with both financial crises and global downturns have been particularly severe and durable (IMF, 2009a, chapter 3).

Although not terribly surprising, the findings are not very encouraging since the 2008-2009 downturn was both global in extent and financial in origin. On the other hand, remedies are at hand. At the macroeconomic level, Keynesian expansive fiscal policies are found to be particularly effective in counteracting recessions associated with financial crises[20] and, although less effective, monetary policy may play a useful supporting role. The IMF (2009a) finds that during financial crises both expansionary fiscal and monetary policies tend to shorten the duration of recessions[21].

One might also observe that the crisis in Spain which began in 1977 was characterised by a lengthy slowdown rather than a precipitous fall – somewhat similar to Japan – yet during this period unemployment rates and in particular youth unemployment rates exploded. Unemployment rates amongst prime age men rose from 3.5% to 15.4%, for young men they increased from 8.5% to 39.5% and for young women from 10.6% to 50.6%. Indeed, youth unemployment rates only started to fall significantly in the late 1980s with the widespread

[19] See, for example O'Higgins (2001) and/or O'Higgins (2010) for a discussion of the impacts of these policies.
[20] Although the ability of countries to react through fiscal stimulus packages as well as their effectiveness is limited for countries with high levels of public debt, as is the case in many Central European countries, as well as in Italy and Greece.
[21] Although, in their analysis of around 120 recessions, the IMF finds that impact of monetary policy is not statistically significant (IMF, 2009a, p. 123, table 3.3).

introduction of temporary employment contracts. Moreover, as noted above, the extensive use of this type of contract along with the maintenance of existing EPL regulations for the prime-age workers may well have contributed to turning a **relatively** small fall in GDP into a major collapse in employment.

Recently the ILO (2010a) has analysed the nature of employment multipliers of expansionary fiscal policy and has found that:

a. The employment multiplier is positively correlated with the extent of cyclical unemployment – as indeed was suggested by Keynes some eighty years ago. The further implication is, however, that it is important to act quickly so as to reduce the risk of long-term unemployment and informality which will subsequently reduce the employment multiplier;
b. The employment multiplier is low for highly indebted countries due to the higher interest rates payable on such debt[22]; and,
c. The appropriate use of above-all ALMPs can increase the employment multiplier by promoting employment at the microeconomic level whilst sustaining income and consequently demand at the macroeconomic level.

3.1.2 Educational policy

It is now well established that higher levels of education amongst the population contribute to the longer run growth performance of countries (Sianesi and Van Reenan, 2003). Although some methodological issues remain to be resolved in the academic literature, the general findings are that a one-year increase in average education raises the level of output per capita by between three and six percent or over one percentage point faster economic growth (according to one's methodological point of view). Whichever way one looks at it, education promotes growth. Indeed, the encouragement of educational participation up to the age of 18 is a key element of European Union policy. Yet, change in the educational sector is by its nature rather slow and ponderous. It takes substantial time to alter curricula and so on. The relevance of this point in relation to the current recession is that the reduction in employment opportunities for young people may well provide an opportunity for governments to adopt measures which promote participation in education in the longer run.

Much ink has been spilled on the role of educational policy in supporting the effective transition of young people from education to employment by providing them with the appropriate skills so that they can more easily find productive employment once they enter the labour market (O'Higgins, 2001). An important element in such discussion concerns the issue of quality and appropriateness of education[23]. However, during a severe recession, the central reasons for encouraging young people to remain in education are:

[22] Specifically, the effectiveness of fiscal measures tends to weaken when government debt exceeds 85-90% of GDP (Reinhart and Rogoff, 2010).
[23] See, for example, World Bank (20076) and/or O'Higgins (2010) for more extensive discussions of these issues.

a. the availability of new employment opportunities is severely curtailed. That is, the opportunity cost for young people (and for society as a whole) of doing so is relatively low. Indeed, to some extent this will occur without any governmental encouragement; and,
b. doing so will support the process of recovery. Once employment opportunities begin to re-appear, the better educated cohort and their employers will reap the benefits of their greater productivity.

Once in place, the greater participation in education, particularly if based on legislative reform will become more permanent. In this sense, the recession actually facilitates the introduction of measures which will enhance countries' longer term economic performance.

3.1.3 Passive Labour Market Policy

By their nature, income support measures do not promote the employment of those receiving them, and, in as much as they may raise reservation wages, may impede a return to employment. However, in the context of a severe recession, passive income support is likely to play a major role in the short–run. Unemployment and social security benefits constitute a major automatic macroeconomic stabiliser. Thus, they do have an important role to play in maintaining incomes in the short-run.

The experience of the transition-induced recessions in the countries of Central and Eastern Europe (CEE) in the 1990s is informative here. Transition to the market was of course a rather specific shock, involving a collapse in demand for some sectors and a rapid expansion in others, thus necessitating a rapid shift in industrial structure. The initial approach adopted throughout the region was one of rapid expansion of passive labour market policy – income support measures. These were followed by measures to maintain employment in failing enterprises. It was only rather slowly that countries began to introduce active labour market policy measures – such as training and wage subsidies to support the development of new and/or expanding industrial sectors. Thus, the approach was essentially remedial. Over the transition period, the countries of Central and Eastern Europe and in particular those which subsequently joined the European Union became more pro-active in their approach. Specifically, in the second half of the 1990s there was an increasing trend to shift labour market policy towards promoting employment in new and/or expanding sectors. The Commonwealth of Independent States' countries, on the other hand, tended to be more conservative and remedial in outlook and in particular, were more protective of existing low productivity forms of employment. Recovery was much quicker in the former group and part of the success is clearly to be attributed to the shift in policy focus.

At the same time, many countries significantly reduced unemployment benefit entitlement both in terms of its level and its duration. Here, the findings in the literature are relatively clear. In most studies, the duration of unemployment is positively linked to the level and duration of unemployment benefits in CEE as is the case also in studies of Western Europe[24]. However, in the current context, several observations on this are necessary. First, the disincentive effects are generally small. Second, the finding regarding disincentive effects is not universal, Lubyova and Van Ours (1999) find little evidence of disincentive effects in Slovakia and Earle and Pauna (1998) clearly reject the idea of disincentive effects in Romania. Third, in several studies, whilst the exit from unemployment is clearly increased, much of this exit is to inactivity rather than employment[25].

[24] See, in particular, Vodopivec et al. (2003) on CEE and Atkinson and Micklewright (1991) and more recently Bassanini and Duval (2006) on OECD countries.
[25] For example, Cazes and Scarpetta (1998) on Poland and Micklewright and Nagy (1998) on Hungary.

Fourth, unemployment benefits played a fundamental role in reducing poverty during early transition[26]. That is, they did what they were designed to do; play a redistributive role during transition. The implications of this will be returned to below.

The crisis of 2008-2009 is rather different. However, some useful lessons may be taken from that experience and indeed the development of different forms of ALMP adopted in transition countries during that period. One lesson is that, in a region where open unemployment had not existed to any significant degree, were suddenly faced with large numbers of jobless people. When the recovery came, some groups got almost entirely left behind – the Roma being one obvious example[27]. Throughout the region, the immediate reaction of governments was to introduce widespread and relatively generous income support for the unemployed and to protect existing employment through employment subsidies to firms experiencing a fall in demand. The policies of wide-scale passive income support over a long period, with little or no active labour market policy led to the creation of substantial numbers of long-term unemployed; a legacy which still remains in some of these countries. This is not to say that income support was mistaken, just that such measures need to be accompanied by others which will constructively support the long-term employment and employability of those currently unemployed. The widespread use of subsidised employment in failing firms, rather than putting policies in place to constructively support the shift in industrial structure, however, proved to be a completely misplaced strategy. Much better to employ the unemployed on public infrastructure projects than maintaining employment in uneconomic firms.

3.1.4 Active Labour Market Programmes

There is now a fairly substantial body of literature including several meta studies on the effectiveness of different types of active labour market policy[28]. Some of the relevant findings are as follows:

a) *Business Cycle* - Of central relevance here, there is general agreement that training programmes appear to be less useful in times of recession. Training programmes performed better when they were instituted during periods of economic expansion (Betcherman et al., 2004). This appears to be quite a general finding[29]. During a recession, more emphasis should be put on employment subsidies and other measures aimed at creating employment and providing income support. This view has now been supported also by the analyses of the OECD (2009). Once economies start to return to positive economic growth, then training and other policies (such as appropriate educational policy) may also play a more constructive role in supporting recovery.

[26] Vodopivec et al. (2003).

[27] Although the context is very different, one is tempted to draw a parallel with what happened in Japan during the 1990s with the emergence of substantial numbers of young people – the "freeters" mentioned above – with little or no labour market attachment. The point is that, although the specific circumstances were peculiar to the region and time, the lessons to be learned are arguably more general.

[28] These include Betcherman et al. (2004), Betcherman et al. (2007), Card et al. (2009), Fay (1996), Grubb and Ryan (1999), Heckman et al. (1999), Kluve (2006), Martin and Grubb (2001) and Quintini and Martin (2006).

[29] Although not by Kluve (2006). This study concludes that programmes work better in times of recession. The author's suggested explanation for this somewhat odd result is that in times of recession, the pool of potential candidates for programmes - which, *de facto* or *de iure*, are for the unemployed - will be of a higher average quality. Thus, the author's conclusion is that it is not that programmes are more effective during recessions, but rather that the average quality of participants tends to rise during such periods, leaving the basic conclusion outlined above unchallenged.

b) *Targeting* – In general, evaluations have found discouraging results as regards their impact on young people. Indeed, one of the central findings of the most recent study by Card et al. (2009) confirms this result. However, the analysis of Betcherman et al. (2007) finds that programmes which target **disadvantaged** youths seem to be more effective. Moreover, a general result from several reviews – going back to the relatively early analysis of Fay (1996) is that targeted programmes are more effective.

c) *Time period considered* – The most recent meta analysis undertaken by Card et al. (2009) looks specifically at the timing of evaluations, and finds that this is an important characteristic in determining estimated effects. In particular, over the medium term (2-3 years after programme participation), job-training programmes are found to be particularly successful, and longer duration programmes which appear to be less effective than short programmes when looking at immediate impacts, are found to have significant positive effects in the medium-term.

d) *Job Search Assistance* – Again, going back to the early study of Fay (1996), measures to improve job search assistance are found to be the most cost effective form of active labour market intervention. Having said this, once again, job search assistance is likely to be of greatest value when there are sufficient jobs available, so the problem is one of matching workers to jobs. In times of recession, this type of intervention is likely to be less effective.

e) *Comprehensive interventions* – Comprehensive programmes involve some combination of subsidized employment, training, self-employment support, guidance and counselling and so on. They have a long history in OECD countries and above all in the United States where experiences are mixed to say the least. In Europe, however, as well as in Latin America such programmes have achieved substantial success. One of the most cost-effective programs, the United Kingdom's New Deal for Young People is illustrated in box 1.

f) *Training Context* – Amongst training programmes, those which involve on-the-job training have universally found to be more effective.

g) *Public vs. Private* – Similar to the above, programmes which involve some form of placement with private employers also appear to work better.

h) *Social partner involvement* – Here again the general consensus is that the involvement of social partners – above-all private employers – is likely to enhance the effectiveness of programmes. Employers' and workers' organizations are involved in the design and implementation of ALMPs in many countries. However, the extent to which formal involvement is actually translated into a real input into the policy-making process varies enormously. Involving the social

Box 1: The New Deal for Young People

In 1998 the British Government launched the New Deal for young people under the age of 25.

The program is composed of several parts, with different options offered to different groups of the unemployed. The New Deal for young people is compulsory for all those aged 18-24 who have been receiving the Jobseekers allowance for more than six months. Initially, individuals enter a "Gateway" period, where they are assigned a personal adviser who gives them extensive assistance with job search. If the unemployed person is still on JSA at the end of the Gateway period (formally a period of 4 months), they are offered four options:

i) Entry into full-time education or training for up to 12 months for those without basic qualifications (without loss benefits);

ii) A job for six months with a voluntary sector employer (paid a wage or allowance at least equal to social assistance plus £400 spread over six months);

iii) A job on the Environmental Task Force (paid a wage or allowance at least equal to social assistance plus £400 spread over six months);

iv) A subsidy to a prospective employer for six months, with training for at least one day a week (£60 per week plus an additional £750 training subsidy spread over six months).

If an option is refused, the claimant is liable to suffer a benefits sanction. Initially, sanctions take the form of withdrawal of benefit for two weeks, and further refusal may result in repeated four-weekly withdrawals. Individuals returning to unemployment within thirteen weeks after leaving an option go onto the follow-through program of job assistance, which is essentially the same as Gateway.

Impact evaluations show that the programs have been effective and Young unemployed men are about 20% more likely per period to gain jobs as a result of the New Deal. Part of this effect is due to subsidized jobs, part a pure "Gateway" element (enhanced job search), at least one fifth of the total effect. The job search assistance element of the New Deal element is more cost effective than the other ALMP options as there is no subsidy involved.

The New Deal stands as the least costly comprehensive intervention for youth in OECD countries. The cost per beneficiary served ranged from £454 to £790 (at constant 1999 prices). In addition, the cost per job created is under £4,000 (at constant 1999 prices) given an average placement rate of 17,250 participants per year (Van Reenen, 2003). The relative success of the programme is reflected also in the fact that is it is still operative some 12 years after its inception, and indeed, for young people (18-24) participation is obligatory after 6 months spent claiming job-seekers allowance. The initial programme was less successful with some ethnic groups, women and jobseekers with low qualifications. Also, sustainable employment outcomes proved difficult to achieve. In 2007, one in five young people who found work through the programme held a job lasting less than 13 weeks. As a result, the

most difficult beneficiaries alternate short employment spells with benefit dependency

In October 2009, the "Flexible New Deal" was launched with some additional services being added particularly for disadvantaged young people. However the main policy shift was the introduction of obligation on the part of participants. That is, refusal to accept an offer of a placement leads to disqualification or reduction of benefits. Whilst this approach undoubtedly has the effect of reducing social security claimants, the evidence suggests that it is of limited usefulness in getting young people (back) into appropriate and productive employment.

Sources: OECD (2009c), O'Higgins (2001, 2010), Puerto and Rother (2007) and Van Reenen (2003).
See also: http://www.direct.gov.uk/en/Employment/Jobseekers/programmesandservices/DG_180442 and Knight (2010).

partners in the formulation and implementation of ALMP is likely to increase the effectiveness of such policies. There are several reasons why this may be so. The involvement of employers and workers implies a commitment on their part to the success of policies and programmes. The quality of programmes is also likely to be higher if the social partners are involved. Numerous studies have demonstrated that programmes which are more closely linked to private employers are likely to be more effective. Employers may use programmes as a recruitment and/or screening device. Also, the relevance of training is probably greater in the context of private employer involvement. The skills acquired are likely to be closer to those required by the labour market than those taught on programmes without such direct labour market links. The involvement of workers' organizations can also help avoid some of the pitfalls of work experience and training programmes. In promoting the training content (and, through careful monitoring, ensuring the effective implementation) of programmes, workers' organizations can guard against the exploitation of programme participants, at the same time helping to promote their long-term prospects of good quality employment. They can also ensure that programme participants are not substituted for other categories of worker.

3.1.5 Labour market regulation and EPL

Labour market regulation can mean many things. Here, the concern is with minimum wages, and employment protection legislation. For fairly obvious reasons, both types of regulation are likely to affect young people more than other groups. Since young people are usually, by virtue of their age, either new or recent labour market entrants, they are more likely to be affected by employment protection legislation in as much as this impedes new hires. Similarly, they will likely to be disproportionately represented amongst the low paid and so may well be more affected than other groups by minimum wage legislation. Indeed, one explanation of the peculiarity of the Spanish experience both lies in the dual nature of its labour market with heavy reliance on temporary employment contracts for new labour market entrants combined with strongly protected primary employment.

As regards minimum wages, despite the apparent plausibility of the argument that high levels of minimum wages tend to discourage the employment, particularly of young people, the evidence is somewhat mixed. The most recent review evidence presented by Neumark and Wascher (2007) finds estimates of the teenage employment elasticity with respect to the minimum wage which range from below -1 to above 0. The authors conclude overall that the existing evidence points towards negative employment effects of minimum wages for young people. Of 102 studies considered, nearly two-thirds found negative albeit often not statistically significant employment effects of minimum wages, whilst only eight found 'convincing' positive effects. However, an emphasis on demonstrating that the effects are generally negative rather than positive rather misses the central point which is that the effects of minimum wages in the vast majority of cases are found to be small. In this sense, these results are in line with the review of evidence presented in O'Higgins (2001, chapter 6) which found small or zero (i.e. not statistically significant) employment effects of minimum wages for young people[30]. Furthermore, Neumark and Wascher (2007) find that the effects of minimum wages vary considerably (from negative to positive) according to the presence of other labour market institutions (employment protection legislation, active labour market policies and so on) and, in particular, the negative effects are most pronounced in unregulated labour markets.

As regards EPL, there seems to be a general idea that stricter EPL tends to lead to shallower but longer recessions. This view has been propounded recently by both the OECD (2009) and the IMF (2009b). Evidence already available on the 2008-2009 recession, presented here and elsewhere, confirms that countries with stronger EPL indeed have thus far suffered smaller employment losses than countries with weak EPL, such as Canada, the United Kingdom and the United States. There are exceptions and, in particular, the example of Spain suggests that the relation is not so clear cut, partly because of the way flexibility (through fixed term contracts for new labour market entrants) and security (through the protection of established workers) have been combined. Clearly, the issue is a little more complicated than simply being a question of more or less EPL.

Perhaps more importantly, the evidence on the positive relation between the strength of employment protection legislation and the duration of the employment consequences of recessions is to say the least, not very convincing. For example, IMF (2009b, pp. 13-17) presents a consideration of current and past recessions comparing:

a) the United States and Germany as examples of countries with weak and strong EPL, respectively; and,
b) groups of countries identified as having weak and strong EPL.

The report argues that the evidence also supports the idea of strong EPL countries being characterized by longer recessions. However, if one examines the dynamics of employment rates over past recessions in both cases, the evidence is rather weak. In the case of the United States, employment growth became positive nine quarters after the recession began, whereas in Germany, it took all of ten quarters to do so (IMF, 2009b, p. 15). Bearing in mind that the employment effects of the recession were much more severe in the United States than in Germany, this does not provide strong support for the proposition of a longer recession in the unregulated United States. Comparing groups of countries, the return to positive employment growth occurred on average after fourteen quarters in both low and 'not low'[31] EPL countries. Moreover, the difference between the severity of the employment loss in the two country groups was even more pronounced than for the United

[30] Similar findings are reported also be Kolev and Saget (2005).
[31] The IMF distinguishes between low EPL countries – Canada, UK and USA – on the one hand and "others" (with medium to high EPL) on the other - comprising the other major OECD countries. See IMF (2009b, pp. 15-16) for details.

States-Germany comparison. What is very evident is the significantly greater volatility in employment growth in low EPL countries. Thus, whilst it is undoubtedly true that the rate at which employment growth recovers is greater in low EPL countries following a recession, since the drop in employment is so much more severe in such countries, this does not necessarily (nor it would appear in practice from the evidence presented by the IMF) imply that employment returns to pre-crisis levels more quickly.

The idea of quicker employment adjustment being desirable may be appealing in theory; however, there are a number of reasons why this may not be so desirable in practice. As pointed out by Keynes nearly eighty years ago, the maintenance of income by reducing recession-induced job losses (as well as through unemployment benefits) will tend to attenuate the negative multiplier effects of the initial macroeconomic shock. In practice, the issue is an empirical one and not simple to resolve since many of the factors affecting outcomes are endogenous. It is evident however, that the simple descriptive evidence is not supportive of the idea that the solution to a essentially temporary albeit global negative shock to labour demand arising from the recession lies in greater labour market flexibility. This is of course somewhat different to the issue of a permanent shift in the structure of labour demand witnessed in the countries of Central and Eastern Europe following the transition to the market.

3.2 What is being done? An early assessment of the Policy response to the crisis

All countries considered have adopted interventions at both macroeconomic and microeconomic levels in order to counteract the recession and to mitigate its negative labour market consequences, but the type of action adopted varies across countries[32]. It is useful to take a look at the current policy responses adopted in the European Union, the United States and Canada and, although it is far too early to effectively evaluate the impact of the differing approaches to the crisis, to undertake a preliminary assessment.

3.2.1 Macroeconomic intervention

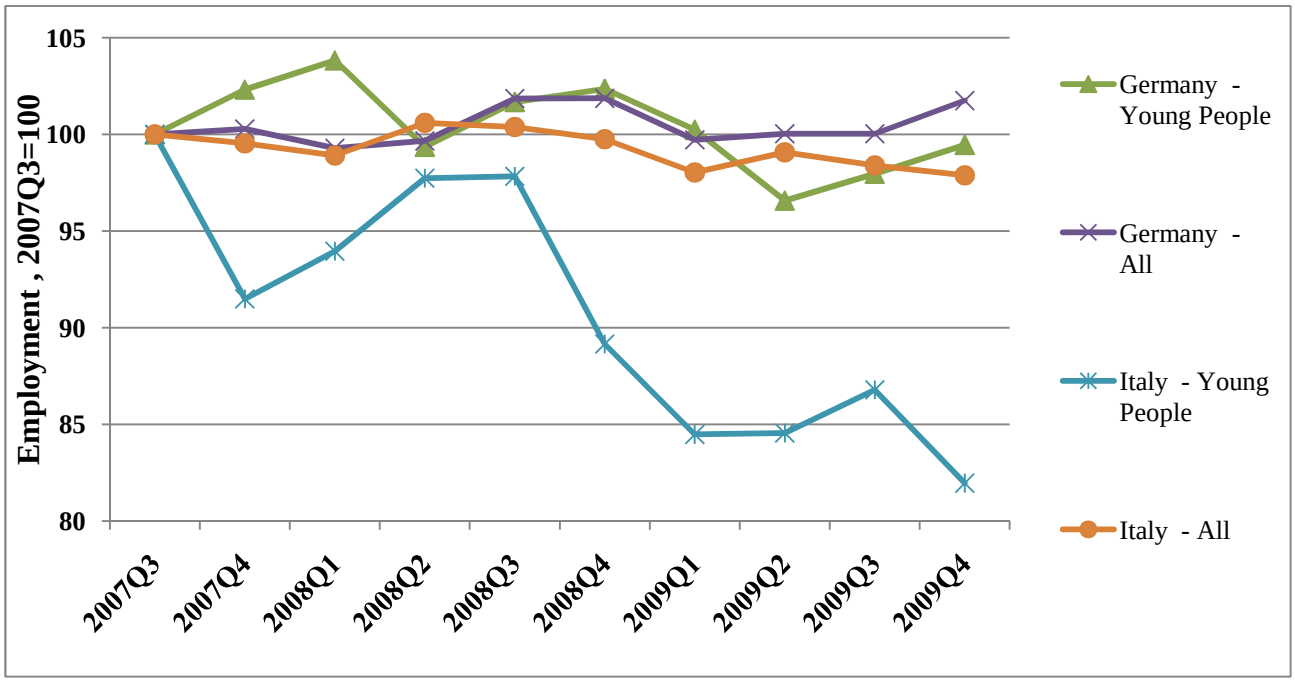
Throughout the European Union, the United States and Canada, countries have adopted substantial expansionary fiscal policies[33]. There is general agreement – and indeed, the evidence reported above supports this – that expansionary fiscal policy is a necessary central element of the response. The early evidence suggests that countries which swiftly adopted aggressive stimulus packages, such as Germany, managed to attenuate the effects of the crisis (ILO, 2010) whereas countries such as Italy which took little substantive action, and above-all, made no attempt to adopt a expansionary fiscal stance, fared much worse. Looking at the movements in the employment of young people, and all those of working age since the third quarter of 2007 (figure 14), one may observe that in Germany the aggregate employment has already surpassed its pre-crisis level and youth employment has almost returned to that level. Moreover, both aggregate and youth employment is on an upward trajectory. In contrast, in Italy, the aggregate and youth employment

[32] Appendix 1 includes a more extensive inventory of the specific labour market policy measures adopted as a response to the crisis.

[33] The obvious exception to this is Italy, where virtually no expansionary fiscal response at all. See, for example, Boeri (2009), O'Higgins (2011) and/or contributions to LaVoce website (www.lavoce.it) for further discussion of the Italian experience.

continues on a downward trend so that by the end of 2009, youth employment was almost 20% below its pre-crisis level. Of course, it would be improvident to attribute the evident difference in employment performance entirely to the difference in fiscal stance adopted by the two countries, yet the figure is suggestive and it is not unreasonable to suggest that differing fiscal policies played a significant role in determining the contrasting outcomes. This is line with the findings of ILO (2010a) which suggests that a swift and aggressive stimulus package was a key element of the response in the six countries (including Germany and Canada) identified there as having been relatively successful in containing the effects of the crisis.

Figure 14: Youth and aggregate employment in Italy and Germany, 2007-2009



Note: 2007Q3 = 100

Source: Eurostat, European Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/data/database

3.2.2 Education

Some countries have extended support for education: for example, Canada has introduced extensions in funding of graduate scholarships and internship places and the United Kingdom has introduced support for 16 and 17 year olds remaining in education. Thus far, however, action has been piecemeal and some commentators (for example, Bell and Blanchflower, 2010 and OECD, 2009a,b) have argued that a period of reduced labour demand may well provide an opportunity for more systemic reform in the education system –for example, by increasing the school leaving age.

There are a number of reasons why now is a good time to take such action. In the European Union, at least, there is broad agreement that raising the school leaving age is desirable and indeed, the European Employment Strategy includes, as one of its key elements, the provision of education

and training opportunities for all young people until eighteen years old. Since countries are now going through a period of reduced labour demand, the opportunity costs of increasing the duration of educational participation across the board are relatively low, both for young people themselves and society as a whole. A lack of adequate employment opportunities for new labour market entrants – particularly those with low levels of education – means that staying on in education will involve relatively little sacrifice for the individuals involved. Similarly, the costs of supporting additional places in education should be set against the costs of inaction – more youth unemployment and joblessness with its associated direct (increased social security payments and so on) and indirect (for example, increased crime and poorer health) social costs.

On the evidence presented here, there are arguments to be made for support for greater educational participation at all levels, however, the nature of the intervention may differ for those with lower and higher levels of education. For those with low levels of education, problems associated with labour market entry are chronic in nature. Although these have been worsened by the crisis, the problem is of a permanent nature and should be confronted independently of the crisis. In this sense, the economic and financial crisis of 2008-2009 provides an opportunity to do so, but once introduced, such measures such as the raising of the school leaving age, perhaps associated with financial support for students from low-income families, need to be made permanent.

On the other hand, the crisis has also created serious problems of labour market entry also for those with higher levels of education. Here, it is to be hoped at least, the problem is more temporary in nature and arises directly from the crisis itself. Intervention to support, for example, participation in further education and/or training beyond secondary level need only be temporary in this case. Again, the relatively low opportunity costs of supporting young people in education make it opportune to intervene now.

In both cases, the potential longer term costs of inaction are high. The risk is of significantly enlarging the group of the long-term unemployed and/or jobless and disaffected youth; of creating a ‘lost generation’ of young people who entered the labour market at just the wrong time. Increasing educational participation is an important, albeit be no means the only, element in a strategy aimed at avoiding this.

3.2.3 Labour Market Policies

As regards labour market policies, the approaches have been more varied as indicated by the specific interventions reported in appendix 1. As regards passive policies, several countries have increased support for the unemployed in one way or another. In some cases, this is explicitly temporary. For example, Poland introduced ‘refundable’ support for unemployed workers to pay their mortgages. The maximum period for support is 12 months. Italy on the other hand has extended, in principle, the coverage of unemployment benefits to include those on temporary or fixed-term contracts and those on apprenticeships. The extension is discretionary in as much as it requires action by regions to activate it, which are also required to pay 30% of the costs. In practice, the measure has been implemented in a rather limited way.

3.2.3.1 Combining income support with training – a fruitful avenue to pursue

One of the more common approaches amongst governments in Europe has been the introduction or extension of support for short-time working. This is a policy which lies on the borderline between passive and active labour market policy and generally comprises one or both of two elements: work-sharing – so that subsidies are conditional on additional workers being taken on; and/or training undertaken during the 'unemployed' time. For example, France and Germany have extended their short-time (or work-sharing) "chômage partiel" and "Kurzarbeit" schemes, extending the duration and level of subsidy for the employee or the employer. By March 2009, 1.26 million workers were covered by this scheme, up from only 155,000 a year earlier (Cazes et al., 2009). Canada has also extended its Work-Sharing Program to 52 weeks from a previous level of 38 weeks (Messenger 2009). Latvia and Luxembourg have also introduced programmes which combine short-time working with support for training. The basic idea underlying such measures – is that income support is provided for those working less than usual, but at the same time firms and individuals are encouraged to take advantage of low product demand to undertake productivity enhancing training to the long-run benefit of all. Thus, these measures combine short-term income support and employment maintenance aspects with longer term productivity enhancements. As with support for the greater educational participation, this type of intervention is likely to be relatively cost effective during a recession. It avoids some of the costs and negative consequences of redundancies but at the same time allows the upgrading of workers skills at a time when the opportunity cost – the lost productive capacity – to firms is relatively low (Bassanini et al., 2005).

Most countries have also introduced new and/or extended subsidised employment and training programmes for young people. As noted above, the usefulness of training programmes in particular, has been questioned; however, these do provide income support in the short-term and, if carefully designed, may support the recovery process. A key issue here is how long the recovery is going to take. The same logic which was applied to increased educational participation applies here too. Such programmes have several functions whose usefulness will vary with the economic cycle. Typically, for the participants, training and employment programmes provide income support, training and, if based with private firms, access to potential longer term employers. Similarly, for employers, such programmes will subsidise the employment and training of its workforce. In the short-term, during the crisis, the income support and low opportunity cost aspects are of key importance. In the longer-term, the training element becomes of more significance and may play a useful role in enhancing the productivity of firms and individuals. It is important, however, to avoid some of the mistakes of policies adopted in the past to deal with acute labour market entry difficulties of young people. Thus, for example, in the United Kingdom in the 1980s, widespread rioting and alienation amongst disaffected young people who, in the context of rapidly rising unemployment found it impossible to find work, led to the priority of getting young people "off the streets". One of the negative effects of the consequent Youth Training Scheme which provided subsidised employment and training for unemployed young people was that it included inadequate mechanisms of the monitoring of training provision and more generally the operation at the firm

level of the programme. As a result, the programme did little to enhance the employment prospects of participants[34] and indeed tended to lower the post-programme earnings of trainees[35].

In any event, the approach adopted in several countries which seek to combine income support with measures to enhance the productivity, and therefore the longer-run employability, of young people seems to be a particularly fruitful avenue to pursue. It is far too early to make any kind of reasonable evaluation of these measures – all the more so, bearing in mind the recent findings in the evaluation literature mentioned above[36] which suggests that the positive effects of longer programmes only emerge in the medium to long term – yet it is plausible to expect that such programmes, if appropriately implemented, are likely to produce good results in the longer term.

3.2.3.2 Job Search Assistance

A number of countries have put emphasis on enhancing the role of Public Employment Services in providing job search assistance (JSA). As noted above, it has been generally found that JSA-type measures are amongst the most cost effective type of ALMP. In times of recession – where the problem is not so much matching of job seekers to available jobs, but rather the absence of available jobs, such measures are likely to be much less effective as noted by OECD (2009b). Thus, whilst JSA is of central importance in facilitating the job-matching process in general, it is extremely unlikely that expansion of JSA in times of recession is likely to be effective in significantly raising the entry rates into jobs. If used as a policing mechanism, it may reduce the numbers of unemployment and social security benefit claimants; however, this, if anything, is likely to promote inactivity and exclusion for those who are thus discouraged from making claims. It may also encourage young people to accept job offers which are not commensurate to their skills thus reducing rather than increasing the efficiency of job matching, and, it may push young people towards informality and other inappropriate employment forms.

3.2.4 Labour market regulation and EPL

The evidence considered above suggests that whilst countries with less flexibility have, for the most part, faced a less severe recession with employment rates falling and unemployment rates rising much less than in countries with more flexible labour markets, there is little evidence to support the notion that recoveries are quicker in countries with more flexible labour markets. In Lithuania, one the countries mostly severely hit by the current recession, the approach adopted has been to increase flexibility in the labour market by simplifying firing procedures. Whilst the general argument that greater ease in firing may make firms less hesitant to hire new workers may have some validity – although the evidence is rather mixed on this - when a country is going through an

[34] O'Higgins (1994). Indeed, one analysis of the programme argued that it actually reduced the likelihood of post-programme employment of participants (Dolton et al., 1994).
[35] In practice, the scheme was to improve the employment prospects of participants through two, more or less, explicit mechanisms: first, by reducing the wage expectations of participants; and second, by enhancing the skills of trainees. O'Higgins (1995) in a detailed analysis of the effects of the scheme on participants' wage makes it clear that it was the first of these mechanisms which dominated.
[36] In particular, Card (2009).

extremely deep recession, the main effect of greater flexibility will be to further worsen the labour market situation in the short-run. The reason is that the greater flexibility argument ignores the macroeconomic effects of mass redundancies. Increased flexibility will allow even more workers to be laid off in the short-run which will have the effect of further reducing incomes with the consequent negative Keynesian multiplier effects. In as much as greater flexibility improves efficiency in the labour market, this occurs at the microeconomic level, and, when demand is buoyant, may plausibly increase employment with also consequent beneficial macroeconomic effects. In the context of a substantial negative external shock, however, the increase in flexibility will simply provide incentives for firms to lay-off more workers and further worsen the macroeconomic situation. Thus the benefits of greater flexibility are contrasted by the negative multiplier effects of higher short-run unemployment, impeding the macroeconomic recovery.

In Estonia, similar measures to increase flexibility have also recently been adopted, however, in this case the reduction of firing costs has been combined with an increase in unemployment and social security benefits. Thus, the negative multiplier effects of the likely resultant layoffs will to some extent be offset. At the time of writing, Spain has also moved towards introducing further flexibility in the labour market. Since now the economy has begun to improve in that country, it is arguable that such an approach may bring some beneficial effects and may indeed support recovery encouraging firms to hire more workers. It remains to be seen whether this is the case, however, it is very clear that introducing greater flexibility in the midst of the recession is only going to make a bad situation worse.

3.3 What is to be done? Some issues of concern

As noted in the introduction, 2010 has seen the return of positive economic growth in the European Union, the United States and Canada. As yet, the recovery is both gradual and uneven; however, it is timely to consider some issues concerned with the policy approach to be adopted during the recovery.

The key issue concerns the longer term effects of the recession on the job prospects of young people entering the labour market during this period. It was noted above that one particular group of concern are the jobless – the 'youth left behind' in the words of the OECD. Although comparable data is not yet available for a broad range of countries, the signs are that this group has increased during the recession. Labour force participation rates have fallen in many countries (ILO, 2010b) and Scarpetta et al. (2010) argue that this group – comprised above all of low educated young people – are more susceptible to the scarring effects of unemployment and joblessness on leaving school. Possible policy options to contrast the growth of long-term joblessness and unemployment include, first and foremost, policies to reduce early school leaving discussed above. Now is a good time to enact such reform due to its relatively low opportunity costs, moreover, preventative action has generally found to be more effective than remedial intervention (Betcherman et al., 2004). These can be complemented by guaranteed placements on a programme for those at risk of entering long-term unemployment particularly those with low levels of qualifications. The concept of such a youth guarantee has long been part of the European Employment Strategy and indeed has been a part of youth employment policy in a number of

countries – particularly in Scandinavia and Northern Europe for some years. Recent initiatives, such as the Young Person's Guarantee in the United Kingdom have re-affirmed this commitment during the crisis.

A second area of particular concern regards the forms of employment available to young people. It was noted above that a number of countries have already seen a rise in the incidence of temporary employment amongst young people. It is predictable that one of the longer run effects of the crisis will be to further increase the diffusion of temporary employment forms as a means of facilitating labour market entry. Although, temporary employment contracts can and do facilitate young people's entry into work, there is also the danger that these may lead to persistent job insecurity (ILO, 2010b). The experiences of Spain referred to above stands out in this regard, but the development of such dual labour market forms is also clearly observable in other Mediterranean countries. Temporary employment forms involve not only less stable employment relations but also lower pay and fewer opportunities for training (ILO, 2008).

4. Conclusions and Policy implications

A number of points have emerged from the above analysis which may be informative for policy formulation in Europe and North America – and indeed elsewhere:

1) *Youth, the hardest hit* - Young people are clearly a major loser from the crisis throughout Europe and North America. Having said that, the degree to which young people, and different sub-groups of young people, were affected has varied widely. Of course, the employment and unemployment rates of young people fell most amongst those countries with the severest drop in GDP – Ireland and the Baltics - but in Spain, with a relatively moderate downturn in GDP, for young men, the fall in employment rates was only exceeded by Ireland and the increase in unemployment rates, by Latvia and Lithuania
2) *Lessons from the past – avoiding the emergence of hard core excluded youth* – One lesson from the past which should be well learned are the dangers associated with long-term unemployment and particularly long-term unemployed, or more generally, jobless young people. It is to be hoped that recovery from the recession is already underway and employment will sooner rather than later return to its former levels. However, even if this happens, there is a danger that substantial groups of young people who have the misfortune to be entering the labour market in this difficult period run the risk of remaining permanently excluded from productive employment. A, if not the, key lesson from the past – both in the countries of Central and Eastern Europe, but also in Western Europe and North America, is that policies need to have as their first priority the avoidance of a hard-core group of long-term unemployed.

3) *Lessons from the past – avoiding the emergence of permanent instability* – times of recession have also typically been accompanied by an increase in temporary and other less stable and less protected forms of employment. Such a trend towards a higher incidence of temporary jobs is already observable in some countries and it is predictable

that such employment forms will expand with the recovery. On the one hand, temporary job contracts may facilitate the entry of young people into long-term employment, although the evidence on this is rather mixed. There is, however, the danger that the widespread diffusion of temporary contracts will significantly increase the number of young people who remain in a permanent cycle of unstable employment forms.

4) *Contrasts with the past, the role of information* – One difference between the context now and that of countries going through recessions even ten or fifteen years ago is that now data is of better quality and is also more up to date – this allows decision-making on policies based on more accurate and up-to-date information. However, there is still room for improvement. In particular, the regular reporting of the NEET or jobless rate would significantly improve the quality of labour market monitoring

5) *No one-size fits all* – It should be very clear from the preceding discussion that there has been a wide degree of variation in the nature and severity of the financial crisis as well as in the specific effects that the global recession had on young people. These differences depend on a number of factors – such as the existing institutional framework – which also interact with each other. The obvious consequence is that specific policy recommendations are conditional on national (and indeed) local circumstances which need to be taken onto account. Bearing this in mind, however, a number of regularities have emerged.

6) *Measures for the more or less educated?* – although there is significant variation across countries, on the whole, employment rates have dropped more for those with higher levels of education. On the other hand, the risk of permanent exclusion is greater for those who are poorly educated. Thus, the discussion above justifies measures for both the more and less educated. For those with little education, the problem is a chronic one, and the crisis has – for the most part – marginally worsened the situation. For those with higher levels of education, for the most part, the problem is, one hopes, of a temporary nature and arises from the demand shock itself. Here the emphasis needs to be on maintaining labour market attachment and improving skills until the crisis is over. Short-time working combined with training and/or educational support is just one way of doing this.

7) *The Role of Employment Protection Legislation* - In part, one explanation for the very severe employment effects of the recession in Spain may lie in the dual nature of that country's labour market with a highly flexible labour market for new entrants combined with more protected employment for established workers. Indeed, also in other Mediterranean countries such as Portugal and Italy with broadly similar dual labour market structures and which also suffered relatively modest initial falls in GDP, and which have progressively introduced more flexibility amongst labour market entrants in the wake of Spain, the fall in youth employment was substantial. More generally, the picture emerging is that those countries with weak employment protection such as the United Kingdom suffered significant drops in employment but these did not disproportionately affect young people. In Italy, Portugal and Spain, with their dual

labour market structures, the drop in youth employment was much more severe than for older workers. Moreover, in countries with relatively strong EPL, the drop in employment was relatively moderate across the board. Recently, Bentolila et al. (2010) have argued that much of the differential in the experience of Spain compared to France is to be sought in the difference in the strictness of EPL as applied to temporary and permanent contracts.

More generally, the findings presented here are consistent with the idea propounded by, amongst others the OECD (2009b) and the IMF (2009a), and experiences of previous recessions, that downturns tend to be shallower in countries with strong labour market institutions. The habitual corollary to this, that the negative effects of recessions last longer in strong EPL countries, is less well supported by the evidence. It is undoubtedly true that in countries with low EPL, employment recovers at a faster rate during the recovery phase, since, however, in such countries it fell further during the recession, the difference in the overall duration of the effect does not appear to differ greatly – at least on the basis of evidence from previous recessions. Labour hoarding by firms during a recession may well play a positive role in mitigating the negative macroeconomic multiplier effects associated with the initial fall in aggregate demand - very much as suggested by Keynes nearly eighty years ago.

8) *Combining passive with active labour market policy* - It is too early to be able to accurately assess the contribution of such schemes, however, given the preceding discussion, it appears that policies which take advantage of the fall in labour demand to promote training, by combining short-time working with subsidised employment may well prove to be an effective response to the crisis. More generally, there is a strong argument in favour of taking advantage of the slack in the labour market to promote policies and programmes which will support the recovery by improving the human capital of the workforce, and particularly of young people. In this regard, programmes involving longer periods of subsidised employment and training for young people may well come into their own in this context. Although longer programmes have generally been found to be less effective than shorter ones, in the context of the recession, they may also play a useful income support role. The most recent findings in the ALMP evaluation literature (Card et al., 2009) support the notion that the positive effects of longer programmes emerge only in the medium term. This may in part account for their relatively poor performance in many previous evaluations. Thus, longer programmes (preferably based with private employers and adequately monitored) which combine the short–run income support role with the longer run goal of enhancing labour productivity may well be the most effective form of ALMP response to the crisis for young people.

9) *A more radical approach to educational reform?* The general principle that a period of reduced labour demand lowers the opportunity cost (for individuals as well as for firms) of participating in other activities – and in particular, of increasing levels of human capital - may also be applied to education. Several countries have introduced minor extensions to support for educational participation. As both the OECD (2009b) and Bell and Blanchflower (2010) point out, now may be a good opportunity to encourage young people to remain in, or return to, education. The OECD (2009b) suggests raising the

school-leaving age to eighteen (where it has not already been done) whilst Bell and Blanchflower (2010) argue for measures to encourage greater participation. The key concern of course, should be avoiding that unemployment spells caused by temporary demand shocks become more permanent. Of course, the raising of the school-leaving age, in particular, would require a significant investment of resources, however, this is certainly the direction in which European Union policy is moving and the recession may well present the opportunity for more radical steps to be taken in this direction.

Appendix: The Jobless rate

In order to further elucidate on some of the advantage of the jobless rate as an indicator, it is worth stating the simple formulas for the youth unemployment and jobless rates explicitly:

$$Youth Unemployment\ Rate \equiv \frac{no.of\ \ young\ \ people\ who\ are\ unemployed}{no.of\ \ young\ \ people\ in\ the\ labour\ market} \qquad (1)$$

$$Youth\ Jobless\ Rate \equiv \frac{no.of\ \ young\ \ people\ who\ are\ not\ employed\ or\ in\ education}{no.of\ \ young\ \ people} \qquad (2)$$

Clearly, the difference between the indicators lies in differences in both the numerators and the denominators of the expressions. Specifically, the numerator and denominator are both larger in the case of the jobless rate[37]; all those who are unemployed are by definition not in education or employment, but the latter also includes those not seeking work. Similarly not all young people participate in the labour market either because they participate in education or for some other reason do not actively search for work. The consequence is that the jobless rate may be bigger (or smaller) than the unemployment rate according to whether the proportion of the inactive population, as traditionally defined, which is not participating in education is greater (or less than) the proportion of the active population who are unemployed[38]. In other words, other things being equal, the higher the educational participation rate, the lower will be the jobless rate *vis-à-vis* the unemployment rate.

In order to see the arguments concerning the superiority of the youth jobless rate, a little basic algebra may help. If U is the no. of unemployed young people, N the number of employed (young people)[39], E the number of young people in education, D the number of "discouraged" (young) people neither in employment, ILO unemployment or education and P is the (youth) population, two equivalent expressions for the (youth) unemployment rate, u, are:

$$u = \frac{U}{U + N} \qquad (1')$$

[37] Strictly speaking, the numerator and denominator respectively of the jobless rate are actually "greater than or equal to" those of the youth unemployment rate, however, for them to be equal, all those not in employment would have to actively seeking work and no young people would be participating in education, conditions which will never be satisfied in practice.

[38] It is a matter if elementary algebra that, $\frac{a+b}{c+d} \rangle \frac{a}{c} \Leftrightarrow \frac{b}{d} \rangle \frac{a}{c}$. If a stands for the unemployed, b the number of those who are neither employed, (ILO) unemployed, or in education, c the size of the labour force, and d stands for the population not in the labour force, then we have the condition stated in the text.

[39] I use parentheses here since these formulas are obviously valid for any group of people, or indeed for the economy as a whole.

and since P = N + U + D + E

$$u = \frac{U}{P - E - D} \qquad (1'')$$

Similarly two equivalent expressions for the (youth) jobless rate, j, are:

$$j = \frac{U + D}{P} \qquad (2')$$

$$j = \frac{P - N - E}{P} = 1 - n - e \qquad (2'')$$

where j is the jobless rate, n the employment rate and e the educational participation rate of young people. Assuming that the youth population is exogenously given, then - from (2'') - the youth jobless rate will fall (rise) if the proportion of young people in either employment or education rises (falls). On the other hand, – from (1'') - the unemployment rate will **increase** if, *ceteris paribus*, participation in education increases, but as with the jobless rate, from (1') will fall if employment increases. The point here is that, using the unemployment rate, an improvement in a 'good' indicator – the educational participation rate – can produce a worsening of a 'bad' indicator – the youth unemployment rate. For the jobless rate, improvements in either of the 'good' indicators, educational participation and the employment rate, improve (i.e. reduce) the bad indicator, the jobless rate.

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