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Francesco Pastore

The Youth Experience Gap

Explaining National
Differences in the
School-to-Work
Transition



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The Youth Experience Gap

Explaining National Differences
in the School-to-Work Transition

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To Linda and Serena for they are my heart

Preface

In one of the lectures in which I have presented the content of this book, a discussant said that this is a book written with the *esprit d'un maître à penser*, because it is written to orient and guide the reader—not only academic economists, but also practitioners and policy makers at all levels—to think more in-depth about the issues discussed and in particular the available policy options. I hope this book is also able to orient and guide the choices of young people, and their parents and relatives, when deciding the optimal amount of human capital investment or choosing among the job offers they receive.

In fact the aim of this book is twofold. On the one hand, it aims to provide to the academic reader an original and rigorous interpretation of the scientific literature on youth unemployment and the school-to-work transition. The book presents a new and unitary theoretical and interpretative framework which should allow the reader to catch the heart of the youth labor market problem. On the other hand, the book also aims to simplify, to clarify, to popularize a large strand of literature, with the aim to extract the essence of it for the use of a large audience of interested young people and of their families, as well as of practitioners and policy makers.

Simplifying without trivializing the content of academic and scientific research for the use of a large audience is an important task for academicians. It allows understanding the practical content and utility of scientific research. Popularizing scientific and academic research should be still considered as a completion of the process of academic production. Without this final stage, economic research would be condemned to social and political irrelevance, which would be against the essence itself of “political economy.”

Youth unemployment is perhaps the most important social problem that contemporary economies are facing. It is probably a consequence of the increasing complexity of the economic system and the increasing body of knowledge and competences that the labor market is requiring from young people. At the same time, young people feel lost because they do not have sufficient guidance. With few exceptions, like Germany, the educational system assumes as its mission only the aim of building general education, rather than all-round human capital. Therefore, when completing their education, young people still miss the other two components

of human capital, namely generic and job-specific work experience. They have then to struggle to develop their skills almost on their own. They have to develop the skill of applying general and abstract knowledge to specific cases, which they will meet in their professional life. Also parents and relatives are in trouble: in the past, young people were learning from their parents. Now this is not possible anymore, because the young generation is more educated than the older one and enters labor markets that are more and more complicated and different from the way they used to be only 20 years ago.

Under these conditions, the risk that inequality will grow is bigger and bigger. Only few young people are able to cope with this condition and it is not by chance that they tend to belong to the social classes that are already in a better economic position. I hope this book will help to address the problems that young people have to meet during the most challenging time of their life.

Naples, July 2014

Francesco Pastore

Acknowledgments

This book is the result of about 15 years of research and teaching activity. I started working on the youth experience gap in 2001, during one of the biggest economic and financial crises of our time. I am publishing this book while another not less problematic crisis is ongoing. The labor market position of young people seems to become worse and worse. This has pushed me to think about the possible solutions more and more in-depth. I have had the possibility to see the effects of the liberalist policies that were implemented at the end of the 1990s. They have brought new opportunities to young people while also generating new challenges for them. This book mirrors also all of these changes in youth employment policy.

During all of these years, I have had the opportunity to present earlier versions of the book on many occasions: V International Conference in honor of Marco Biagi, University of Modena and Reggio Emilia (March 2007), University of Rome “La Sapienza” (April 2007), Ljubljana Summer School (July 2007), University of Perugia (November 2007), Seconda Università di Napoli (Santa Maria Capua Vetere, November 2007; and March 2012), XXIII and XXIV AIEL Conference (Brescia, 2008; and Sassari, 2009), Global Human Resources Forum (Seul, November 2009), Isfol (Rome, July 2011), Province of Perugia (October 2011), University of Naples “Parthenope” (November 2011), University of Bergamo (February 2012), Fondaciòn 1º del Mayo, Madrid (May 2012), University of Camerino (May 2013); CGIL (Rome, June 2013), University of Palermo (October, 2013); Eötvös Loránd University (ELTE, Budapest, May 2014); Brancusi university (Targu-Jiu, May 2014).

Over the years of conception of this book, I have had the opportunity to dialogue and exchange ideas with a large number of colleagues. I am grateful to many of them for interesting suggestions and comments. The current version has greatly benefited from this exchange of ideas. I would like to gratefully remember and thank Tindara Addabbo, Roger Blanpain, Hans Dietrich, Polona Domadenik, Luigi Frey, Gianna Claudia Giannelli, Torild Hammer, Enrico Marelli, Steve Nickell,

Niall O'Higgins, and Marcello Signorelli for useful comments on earlier drafts of this paper. A special thank you is due to Floro Ernesto Caroleo for having shared with me the elaboration of the first theoretical nucleus of the analysis. However, the opinions expressed and the remaining errors and omissions are the sole responsibility of the author.

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Abstract

The school- or university-to-work transition is a long dark tunnel around the world, although national differences are striking: in Germany, young people are no worse off than their adult counterparts, while in southern European and East-European countries they fare three through four times worse. The current economic and financial crisis has further worsened the condition of young people in many, but not all advanced economies. This work points to the youth experience gap as a key concept that provides the basis for an interpretative framework to explain the meager youth employment opportunities and earnings, but also national differences in youth labor market outcomes. Observers are divided as to the optimal design of youth employment policy. Liberalist economists believe that the market itself should address the youth disadvantage by allowing firms to pay a lower than market clearing entry wage for young people, which should be proportional to their lower human capital and productivity. More flexible labor markets should also guarantee greater labor turnover, including temporary work, so as to allow young people to move from one job to the next until they accumulate the work experience they need to become more employable and find the right career. In contrast, other economists criticize entry flexibility and temporary work, claiming that the former type helps only the most skilled and motivated target groups, while the latter only allows young people to gather generic, not job-specific work experience. The *pars construens* is a policy mix, whereas labor flexibility goes together with more employment stability according to the flexicurity objective, while the educational and training system should be more integrated with the labor market so as to help young people build their competences before completing their educational career and starting to search for a job. OECD countries dramatically differ in their strategies to address the youth experience gap, which remains high even in a time of ever-increasing education attainment. To help young people fill in the gap and ease the school-to-work transition, every OECD country provides its own mix of policy instruments, including different degrees and types of labor market flexibility, of educational and training systems, of passive income support schemes, and fiscal incentives. Five different country groups are detected whose outcomes in terms of

youth unemployment are dramatically different: (a) the North European; (b) the Continental European; (c) the Anglo-Saxon; (d) the South European; (e) the New Member States. The Lisbon strategy and the European Youth Guarantee provide guidelines in line with the theoretical framework discussed here, but they are costly and hard to implement in countries, such as the South and East European countries where labor market institutions, such as public and private employment agencies, are not as efficient as in Central and North European countries.

Keywords Youth unemployment problem · Youth experience gap · Youth employment policy · Lisbon strategy · European youth guarantee

Abbreviations

AD	Absolute Disadvantage
AEP	Active Employment Policy
ALMP	Active Labor Market Policy
ASPI	Social Employment Insurance
AUR	Adult Unemployment Rate
CDU	Christlich Demokratische Union Deutschlands (Eng. Tr.: German Christian Democratic Union)
CEECs	Central and Eastern European Countries
CIETT	International Confederation of Private Employment Agencies
CPI	Public Employment Agencies
CPRI	Private Employment Agencies
DWP	Department for Work and Pensions
EES	European Employment Strategy
ESF	European Social Fund
ESM	European Social Model
ETT	Empresa de Trabajo Temporal (Eng. Tr.: Job placement agency of temporary workers)
EU	European Union
EYG	European Youth Guarantee
FIFO	First-In-First-Out
FIP	Formación e Inserción Profesional (Eng. Tr.: Vocational training and inclusion)
GDP	Gross Domestic Product
IAB	Institut für Arbeitsmarkt und Berufsforschung (Eng. Tr.: Research institute on labor market and occupation)
IDOL	Matching of Work Supply and Demand
ILO	International Labor Organization
INEM	Instituto Nacional de Empleo (Eng. Tr.: Spanish Employment Institute)
INPS	Italy's National Social Security Institute
INSS	Instituto Nacional da Segurança Social (Eng. Tr.: Spanish Social Security Institute)

JCP	Job Centre Plus
LIFO	Last-In-First-Out
NBER	National Bureau of Economic Research
NEET	Not in Employment Education or Training
NPM	New Public Management
OECD	Organisation for Economic Cooperation and Development
PES	Public Employment Services
PLMP	Passive Labor Market Policy
PRES	Private Employment Services
PSA	Personal Service Agentur
PSOE	Partido Socialista Obrero Español
RD	Relative Disadvantage
SEPE	Servicio Público de Empleo Estatal
SNE	Sistema Nacional de Empleo
SPD	Sozialdemokratische Partei Deutschlands
SPRI	Private Employment Services
SWT	School-to-Work Transition
UK	United Kingdom
UPI	Union of Italian Provinces
USA	United States of America
YUR	Youth Unemployment Rate

The Youth Experience Gap

The aim of this book is threefold. First, it aims to provide an up-to-date overview of the available empirical evidence on the youth disadvantage at the labor market across countries.¹ Second, it aims to offer a frame of mind which should allow the reader understanding the roots of the youth disadvantage, its causes and consequences. At the same time, the reader should be able to understand the prior and possibly also the probability of success of any youth employment policy and especially the policy inspired to the two main theoretical approaches, namely the liberalist (also called mainstream) and the interventionist one.

Third, the book aims to catch also some important shifts in the recent evolution of the debate on the causes and remedies to youth unemployment across countries. In particular, the paper will show that recently the old emphasis on labor market flexibility has much weakened in two main directions: on the one hand, there has been a shift from the concept of job to that of employment stability; second, there has been a shift from labor market flexibility to the flexibility of educational systems. There is increasing consensus, which is witnessed also in this book, toward the idea that the fight against youth unemployment should start already at school, not after school. This implies changing the philosophy and mission of educational systems: they should not only aim at providing general education, but rather marketable skills the only ones that will allow young people finding a job once entering the labor market.

The empirical evidence on youth unemployment across countries, summarized in the first section of this book, suggests the existence of a number of stylized facts that the economic literature has strained to explain. They can be summarized as follows:

- (a) the youth absolute disadvantage, proxied, for instance, by the youth unemployment rate (YUR), exhibits strong cyclicity;

¹ The previous enlightening surveys of the literature (such as Freeman and Wise 1982; Blanchflower and Freeman 2000; Hennan et al. 1996; Ryan 2001; O'Higgins 2001; Hammer 2003) do not cover the period of the recent economic and financial crisis, although, as it will be further discussed below, there are indeed studies of the impact of the economic crisis on young people labor market.

- (b) and, nevertheless, with few exceptions, it is almost in every country about twice as big as or more times bigger than the unemployment rate of the adults (so-called relative disadvantage (RD));
- (c) there is large cross-country (and within-country) variation in both the absolute and RD of young people vis-à-vis adult people;
- (d) this variability tends not to follow a continuous line, but rather to generate clusters of countries with similar indices of youth absolute and RD.

While trying to explain the above stylized facts, first of all, it is important to spell out that despite the strong cyclicity of youth unemployment, macroeconomic factors alone fail to explain the permanent nature of the youth unemployment problem. This does not mean that macroeconomic factors are not important. Just the opposite! Without economic growth, no youth policy can be ever effective. This should be clearly stated and never forgotten, when talking of youth employment policy. Nonetheless, there is plenty of evidence to say that economic growth is indeed able to reduce more the absolute youth disadvantage, say the YUR, but is not necessarily able to cancel out their RD, say the ratio of theirs to the adult's unemployment rate (AUR).

Moreover, similar macroeconomic trends tend to generate different outcomes in terms of youth unemployment across countries. In other words, countries exhibiting similar levels of development and growth rates tend to still maintain large differences in the youth absolute and RD. These differences ought to be explained by other factors from the supply side, such as the way labor markets and the educational systems are organized. Certainly, such supply side and institutional factors cannot explain all the gap across countries in the youth disadvantage, but they do explain an important part of it. The reason is that the efficiency of labor markets and educational systems affects the ability of the actual to reach the potential employment (and GDP) level: there are many market failures in the educational system and in its links to the labor market that cause the actual youth employment level to be much below its potential. In addition, the inefficiency of the educational system and of the labor market tends to increase the size of the frictional and structural component of youth unemployment, which is also an important part of overall frictional and structural unemployment.

This book will just touch upon macroeconomic aspects. Again, this is not because such factors are not important. Simply, by its very nature, aggregate demand management policy applies to young as well as adult people and there is hence nothing specific about young people which should be discussed in a context like the one of this book.

The permanent nature of the youth disadvantage at the labor market can be better understood by looking also at the specific weaknesses of youth participation to the labor market in every country, namely what I call the "youth experience gap", and the way different education, training, and welfare systems are organized and are able to affect and reduce it. Indeed, the main difference between young and adult workers is to be found in the lower degree of work experience of the former, also in a period of increasing levels of education attainment. In other words, young people

miss two of the three components that the Nobel Prize winner Gary Becker (1962) consider as constituting human capital, namely generic and job-specific work experience.

Moreover, while everywhere in the world the youth unemployment gap depends on the youth experience gap, which is a constant across countries, instead, differences between countries in the youth disadvantage depend on the way different welfare system and school-to-work transition mixes seek to address the youth experience gap.

In the early 1990s (for an overview of that discussion, see, among others, OECD 1994; Krugman 1994), labor market flexibility in sclerotic EU countries was seen as a tool able to abate also youth unemployment. A higher job finding rate, *also* by means of temporary work, *also* introduced through reforms at the margin, namely reforms affecting especially the new entrants, were expected to reduce the length of unemployment spells and, hence, also the youth experience gap. Temporary work, more than proactive policy tools were expected to effectively increase the chances of young people to get the work experience they need to compete with the adults.

The unsatisfactory practice of implementation of two-tier reforms inspired by this mainstream approach has made the theoretical debate shift away from the early 1990s emphasis on labor market flexibility as the key, if not the only policy tool, to fight youth unemployment. In fact, the past stress of the academic and policy debate on labor market flexibility alone is considered nowadays more and more ill posed. This implies also a reconsideration of the virtues of two-tier reforms of the labor market like the ones implemented in South European countries under the pressure of international organizations and local liberalist political parties (see, among others, Blanchard and Landier 2002; Dolado et al. 2002; Bentolila et al. 2012).

A first stream of this revisionist literature has moved in the direction of reconciling theory and facts on the labor market by arguing that the failure of flexibilization policies is to be attributed to the way reforms were implemented and the insufficient mix of flexibility and flexicurity that was introduced. This means that the reforms failed, on the one hand, because they did not affect the job security of the insiders and, on the other hand, because they did not provide legal arrangement to substitute job with employment protection. The keyword of flexicurity, as based on the Danish experience, has inspired this literature.

Another stream of the literature has instead argued that the countries that are more successful in reducing the youth unemployment problem are not those countries with the most flexible labor market, but rather those countries which have a better developed educational and training system. This stream of the literature supports the hypothesis that more important than the degree of flexibility in the labor market to reduce the youth disadvantage is the way the school-to-work transition process is organized within a country. An education-to-work regime is identified by the set of institutions that affect the ability of new entrants to smoothly move from education to the world of work, namely the educational system itself and its links to the labor market, the legal arrangements existing in the labor market, the availability of effective placement services, as well as of passive income support

and proactive schemes (for a more detailed definition of the concept of transition system, see Raffé 2008).

To sum up, when attempting to reduce the youth experience gap, which is the main long-term cause of the youth disadvantage at the labor market, one should consider different sets of policy interventions, namely:

- (a) the degree of labor market flexibility and of job security, but also;
- (b) the effectiveness of the educational system in smoothing the transition to work;
- (c) all the factors able to affect the intensity and effectiveness of job search, such as the coverage, generosity and length of passive income support schemes, the effectiveness of public and private placement services and training programs;
- (d) the spells and length of unemployment;
- (e) the quality of employment.

Based on such criteria, this book proposes to group EU countries into five different school-to-work transition regimes. Such classification tends to largely overlap the Esping-Andersen' (1990) classification of welfare systems into: (a) liberal; (b) conservative; and (c) social democratic. It includes also the Latin Rim, theorized by Ferrera (1996) and Rhodes (2009), and the former socialist world, theorized, among others, in Fenger (2007), Burlacu (2007). Section 6 will highlight the main characteristics of each of the above school-to-work transition regimes.

The outline of this book is as follows. We begin from highlighting several stylized facts about youth unemployment that any interpretative framework should seek to explain (Sect. 1). Section 2 conceptualizes the theoretical hypothesis of the youth experience gap which is the key concept on which the entire book is built. We then set out the theoretical framework of the analysis starting from what we call the liberalist or mainstream approach to filling the youth experience gap (Sect. 3). In Sect. 4, we raise a number of criticisms to the mainstream approach and survey the empirical literature on the stepping stone versus dead-end effect of temporary work. Section 5 highlights the main directions that the interventionist approach is raising as alternative to neoliberalism in terms of the challenges posed by flexicurity and the greater integration of the educational system to the labor market. In Sect. 6, we show that every EU country addresses, in fact, the youth unemployment problem with specific forms of state intervention that are more or less efficient. This section brings to the fore a classification of European school-to-work transition regimes, which are analyzed in the rest of the book. Some final remarks conclude the essay after discussing the main policy implications.

1 Some Stylized Facts

1.1 Indicators of Absolute Disadvantage

Before starting the analysis, it may be useful to make a number of clarifications. First, when analyzing young people behavior in the labor market, it is misleading to think of it only in terms of employment/unemployment rates especially if focusing on teenagers (aged 14–19 years), because education and/or training are a better option for them than many types of employment. Looking at employment rates is more meaningful when considering young adults (aged 20–24 years) and older age groups (aged 25–34 years), who have already completed their education. In recent years, also for young adults there is often a trade-off between employment, which is a short-term objective, and increasing their investment in education and work experience, which are the most important long-term objectives.

We should keep in mind this caveat when looking at the YUR, the most common indicator of the absolute disadvantage (AD_Y):

$$AD_Y = u_Y = \frac{U_Y}{E_Y + U_Y} = \frac{U_Y}{LF_Y}$$

where E , U , and LF represent respectively the number of employed, unemployed, and job seekers. As usual, the lower case letter indicates the rates, while the upper case letters indicate the relative stocks. The subscript y refers to young people in general or, case by case, to specific subgroups of teenagers, young adults, and older age groups. While the first two categories are commonly used in Anglo-Saxon countries and correspond respectively to the end of high secondary school (18 years) and of the university (21 years), instead, in the non-Anglo-Saxon world, older age brackets are usually considered. In most European countries, where the university is usually completed after the age of 24, the young adults include also those who are aged 25–29 or, in some countries, the group from 25 to 34. In Italy, for instance, most youth employment programs regard young people up to the age of 29 years.

Other indicators of absolute disadvantage could be the employment and inactivity rate, the Not in Education Employment or Training (so-called NEET) rate and the like. It is worth noting that especially the NEET rate is becoming a more and more popular indicator in analyzing the youth labor market. Considering that often young people are discouraged from seeking actively a job, especially in periods of high unemployment, but are still jobless and not involved in education or training, the NEET rate may be an interesting indicator of the absolute youth disadvantage. In fact, the concept of NEET was elaborated exactly to take into account the case of young people and their tendency to be ready to accept a job, but not to search always actively for it. The NEET rate proves to be less affected by the business cycle and may be useful especially in periods of strong economic recession, when the so-called discouraged worker effect is stronger, giving, sometimes, the wrong

impression of a reduction in the YUR. Nonetheless, many influential observers have criticized its use in setting targets for interventions with young people (Furlong 2006; Yates and Payne 2006). For shortness sake, the following analysis will not consider such indicators, but will focus on the YUR only.

The ILO (2004) has proposed a new indicator of absolute disadvantage for young people. The YUR is considered unsatisfactory for young people not only because they tend to search less actively, but also because, more than the adults, they tend to search for a job also while in employment. In fact, their job search is taken as a measure of the degree of dissatisfaction that young people have while in education or in some forms of employment. The innovative ILO classification takes into account the “stage of the transition” from school toward “decent work” reached by the young person. The ILO defines “decent work” as the work that is productive, generates adequate income and guarantees rights at work and social protection. Very often, young people work with informal, intermittent and insecure arrangements, meaning low productivity, earnings and employment protection, or they are simply underemployed. Instead of the classical employment, unemployment, and inactivity statuses, the ILO defines:

- (a) the youth who have not yet started their transition;
- (b) the youth in transition;
- (c) and the youth transited.

Matsumoto and Elder (2010) provide comparative evidence relative to the above classification relative to a number of developing countries.

1.2 The Relative Disadvantage

AD indicators do not allow understanding whether the youth disadvantage is due to the same macroeconomic factors that affect also other age groups. To understand the specificity of the disadvantage of young people as compared to other age groups, relative indicators are more important. The most common measure of RD is:

$$RD_{Y,A} = \frac{u_Y}{u_A}$$

$RD < 1$ if young people’ disadvantage is lower than that of adults; the opposite is true if $RD > 1$, in which case specific policy measures are necessary to support young people. Macroeconomic measures might not be able to reduce the RD to the same extent to which they may possibly reduce the AD. In other words, RD is more resistant to the business cycle than AD.

1.3 The AD and RD

For shortness' sake, this book provides only a short chapter on selected stylized facts relative to the issue under discussion. Quintini et al. (2007) and Dietrich (2012, 2013), among others, provide a more detailed analysis.

Figure 1 has the merit to show both measures at the same time. The adults' (25–64 years) unemployment rate (*AUR*) is measured on the horizontal axis, whereas the vertical axis reports the *YUR* (15–24 years). The coordinates of each dot represent the *AUR* and *YUR*, respectively, of a given country in 2000. The horizontal dotted line represents the OECD average *YUR*, whereas the vertical dotted line represents the OECD average *AUR*. The diagonal lines represent different ratios of the *YUR* to the *AUR*, starting from a ratio of one down to the right to a ratio of four up to the left. The green line is the regression line, which, in this year, lies just below the diagonal line corresponding to a ratio of two.

The year 2000 has been taken to represent a situation of expansion of the business cycle, before the September 11 attacks, when the average unemployment rate was relatively low for both age groups. A number of facts emerges from observation of the figure:

- (1) nowhere $RD < 1$ or $RD > 4$;
- (2) RD tends to 1 only in a few countries, namely Germany and, to a lesser extent, Austria and Denmark;
- (3) In most countries, RD lies from just below 2 and 3;
- (4) some Eastern and South European countries—Spain, the Slovak republic and Poland—exhibit particularly high *YUR*s, while others—Italy, Greece, and Slovenia—also exhibit an $RD > 3$;
- (5) almost all former socialist countries are in the upper right rectangle, with both a high *YUR* and *AUR*, and quite a high RD ;
- (6) Germany and other Central European countries, such as Austria and Denmark, have the lowest RD , lower than 2, despite the hardship of reunification and the difficult economic condition of the Eastern *landers*;
- (7) Anglo-Saxon countries—United Kingdom, United States, Australia, Ireland, New Zealand—lie in the first rectangle down to the left or exhibit relatively low *YUR* and *AUR*;
- (8) several Scandinavian countries, such as Norway, report high values of the RD , but low *YUR* values.

How did the situation change after the recent economic and financial crisis exploded? Overall, the analysis confirms the strong variability of the *YUR* to the ups and downs of the business cycle, but also the greater stability of the RD . Two main factors should be considered under this respect. First, the LIFO (last-in-first-out) principle is almost always implemented by managers during mild downturns:

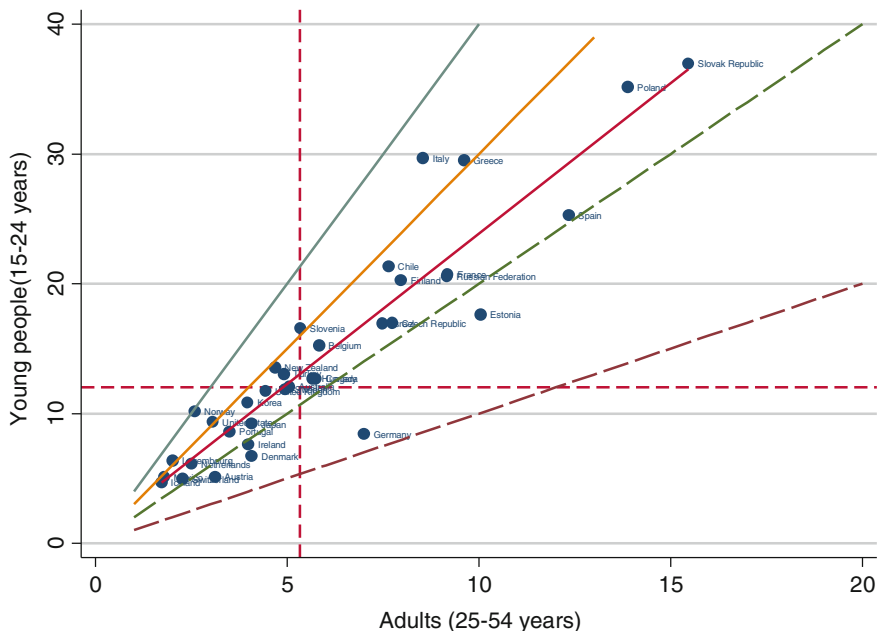


Fig. 1 Youth and adult unemployment rate in OECD countries (2000). N.B.: Data on Estonia and Slovenia refer to 2002. *Source* Own processing of OECD data

they prefer to fire first the last hired workers, who are generally younger.² In some way, the LIFO principle mirrors the existence of seniority rules within firms, obeying also to equity considerations: firms and workers consider less harmful or more socially acceptable that the youngest segment of the workforce are fired, rather than the oldest one also because the latter has often a family to sustain and is more hardly reemployable.

Jimeno and Rodriguez-Palenzuela (2002) and DeFreitas (2008), among others, argue that the YUR has a strong cyclical component which is able to explain also most part of the variability of the average unemployment rate over the business cycle. Within the context of panel data econometrics based on 70 countries observed over the years from 1980 to 2005, Choudhry et al. (2012) confirm that financial crises have an impact on the YUR that goes beyond the impact resulting from GDP changes; and the effect of financial crises on the YUR is greater than the effect on overall unemployment. Moreover, their results suggest that financial crises

² There are exceptions, though. In some cases, it may be more convenient for the firm and also for workers to apply the FIFO (first-in-first-out) principle. When the most senior and skilled workforce is also the most expensive and easy to reemploy, the firm might ask them to leave the firm, in exchange for some financial incentives. This allows the firm to reduce dramatically the labor cost and therefore reach greater internal financial stability.

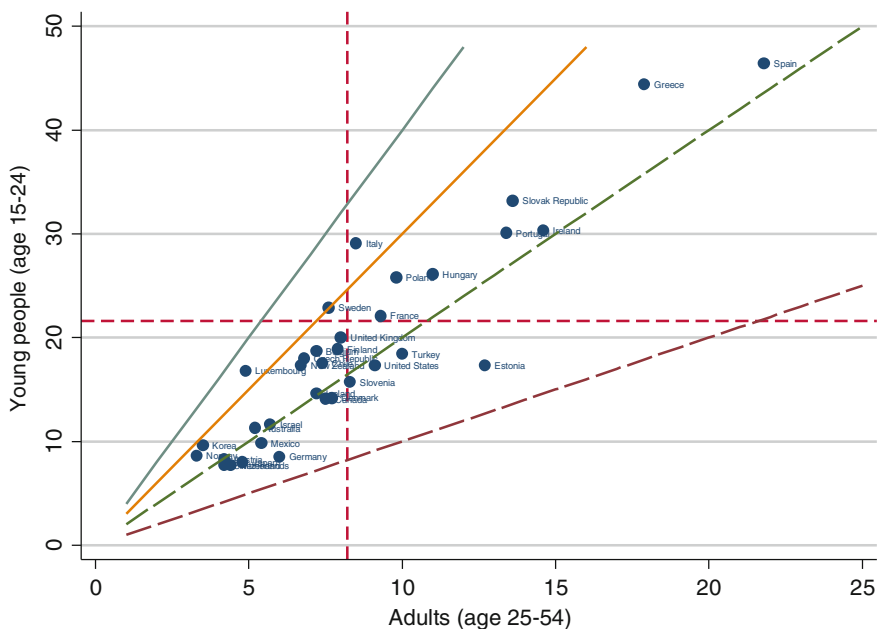


Fig. 2 Youth and adult unemployment rate in OECD countries (2011). N.B.: Real time data. Data for Brasil refer to 1011 and data for China and India refer to 2010. *Source* Own processing of OECD data

affect the YUR for up to 5 years after the onset of the crises, although the most adverse effects are found in the second and third year.

On the other hand, Newell and Pastore (1999) argue that one of the main features of episodes of dramatic structural change as opposed to cyclical downturns is the large share of firm closure and hence collective, when not mass layoffs, which, by their very nature, tend to involve not only the youngest segment, but also prime-aged workers, beyond the LIFO principle. The share of mass layoffs and the extent to which the downturn is affecting also the adults within the workforce should be taken then as one of the most specific indicators of the depth of economic crises.

Figure 2 reproduces the previous figure with data relative to 2011, when the great depression hit the labor market of all OECD countries. This is apparent in the first place from the fact that both the average YUR and AUR have increased. Several observations are in order:

- (1) with few exceptions, differences between countries are rather persistent, but with some interesting switches;
- (2) despite the financial crisis, Germany, Denmark and Austria lie still below the $RD = 2$ diagonal, together with a new entry, Japan, and few other countries;
- (3) South European countries worsen their position, overcoming also Eastern European countries, both in terms of the size of the YUR and RD;

- (4) Ireland and other Anglo-Saxon countries have been among the most hit countries in terms of YUR, but not of RD.

The case of Japan is very interesting: in fact, Japan is returning the traditionally lowest AD and RD of the pre-2000 crisis. This country has always scored a very low RD, not far from that of Germany and deserves special attention in the following analysis.

1.4 The RD Over Time

A typical question that observers and policy makers ask is whether the conditions of young people in the labor market have actually worsened in the last decades, as commonly believed and often reported in the mass media. To address this popular issue, Fig. 3 shows the evolution of the RD in a selection of OECD countries over a long period of time, from 1970 to today. Clearly, this is only a very simple quantitative assessment, and should be hence considered with caution. It is notable, though, that RD remains overall quite stable over time and across countries. If anything, we note a certain reduction of RD over time, reduction which is particularly apparent for Italy, where RD, which was at around 6 in the early 1970s, goes up quite a lot, up to about 9 during the 1970s economic crisis, thereafter falling down to below 4 from the mid-1990s. Italy has always been one of the worst performers. The dynamics of the series is essentially driven by the increase in the AUR, rather than by a reduction in the YUR: from the 1970s onward, the AUR has increased from close to 1 to an average of about 10 % or above. The convergence of the mid-1980s itself is due to the increasing unemployment rate of the adult segment of the labor force.

Germany has been stubbornly close to a value of one, except for the mid- to late-1970s. It suggests that, for some reasons, which we will address in the rest of the book, in Germany, young and adult people have almost always maintained the same relative chances of unemployment. After Germany, Japan has been the country which is the closest to the line of one, being able to fall under a ratio of 2 in many occasions during the considered period. The RD of the United Kingdom and the United States, the best examples of the liberalist school-to-work transition regime, exhibits a strong cyclicity, as it is typical of countries where the labor market is more flexible; therefore, the LIFO principle is easier to apply for firms.

In Sweden the ratio has recently escalated, after a period of reduction, returning to the value of four typical of the 1970s. Also the dynamics of the Swedish RD is essentially related to that of the AUR: the ratio goes down when the AUR is going down; and vice versa.

The depth of the crisis is visible in the reaction of RD in the United States: in 2009, as a consequence of the closure of many firms, the RD fell down from about 3 to almost 2 in a couple of years (see also Cahuc et al. 2013, page 7).

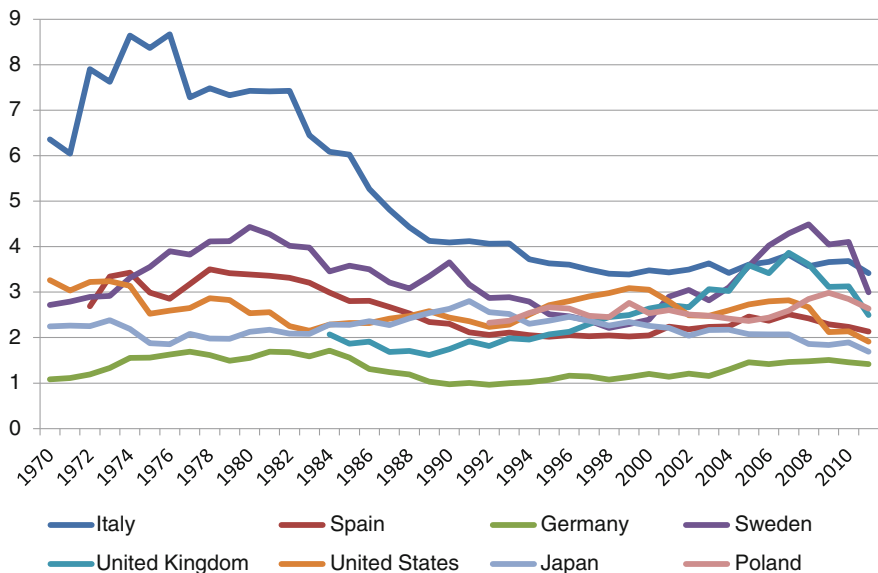


Fig. 3 Evolution of the relative disadvantage across countries (1970–2011). *Source* Own processing of OECD data

Overall, the figure confirms that also the RD is affected by the economic and financial crisis, but to a lesser extent than the AD. In addition, in some countries, especially the liberalist and the Scandinavian ones, the RD fluctuates more than in other countries.

1.5 Gender Differences

Another common belief that the statistical evidence does not fully support is the one according to which young women are worse off than young men at the labor market. This is not any more the general case.

To show this, Fig. 4 compares YURs by gender across OECD countries in 2010. Each dot has as coordinates the male and female YUR in a given country. The first diagonal line, down to the right, represents the case of a ration of a half between the female and male YUR. The second diagonal line is the bisector, along which men and women fare the same. The third diagonal line, up to the left, indicates the case when women fare twice worse than men. The figure shows that, in most countries in the sample and, hence, on average, young men fare worse than young women, since most dots lie below the bisector (red diagonal line) although in no OECD country the RD of women is twice smaller than that of men. The relative advantage of women is due to: (a) their increasing educational levels, both quantitative and

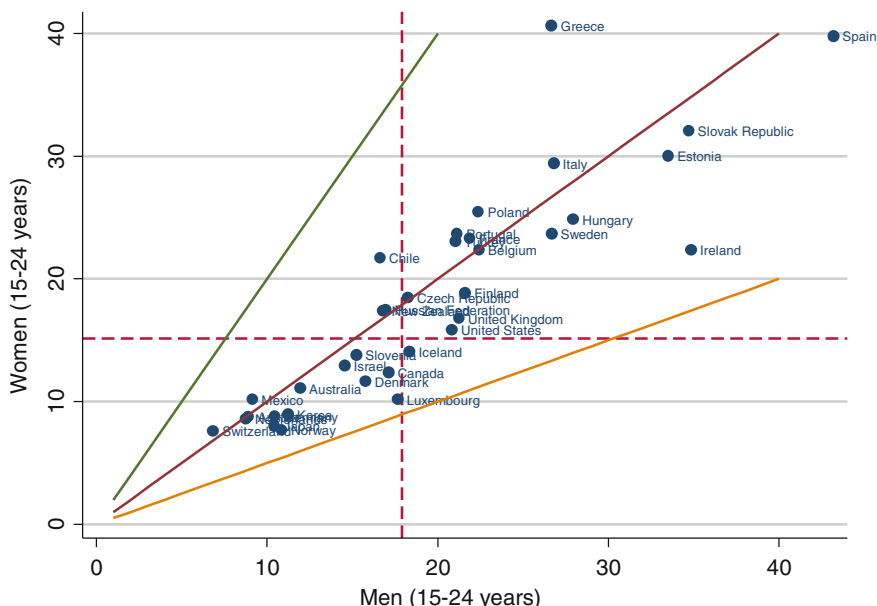


Fig. 4 Gender differences in YURs by country (2010). Source Own processing of OECD data

qualitative; (b) the tendency of women to delay maternity decisions to avoid discrimination on the job.

Only in few cases, young women fare worse than young men: Chile, Greece, France, Italy, Mexico, Poland, Portugal, Turkey. A common trait of these countries could be religion: Catholic, Orthodox, or Muslim, rather than Protestant, Jewish, or others. This suggests that cultural and religious values are important determinants of the AD and RD, especially when talking of young women. For instance, they may affect the labor supply decisions of women according to whether a one or a two-breadwinner family model is prevailing. This issue will be further investigated in what follows.

1.6 Employment Protection Legislation

Another underlying phenomenon is the strong and rapid convergence in the degree of strictness (or better of flexibility) of the labor market regulation of advanced economies also within the EU. Figure 5 reports the OECD index of employment protection legislation over the years from 1985 to 2008, the latest available one. Almost all the countries in the EU have reduced the value of the index, converging around a value of 2. Three exceptions are notable. The United States of America and the United Kingdom maintain a position of greater flexibility than elsewhere in

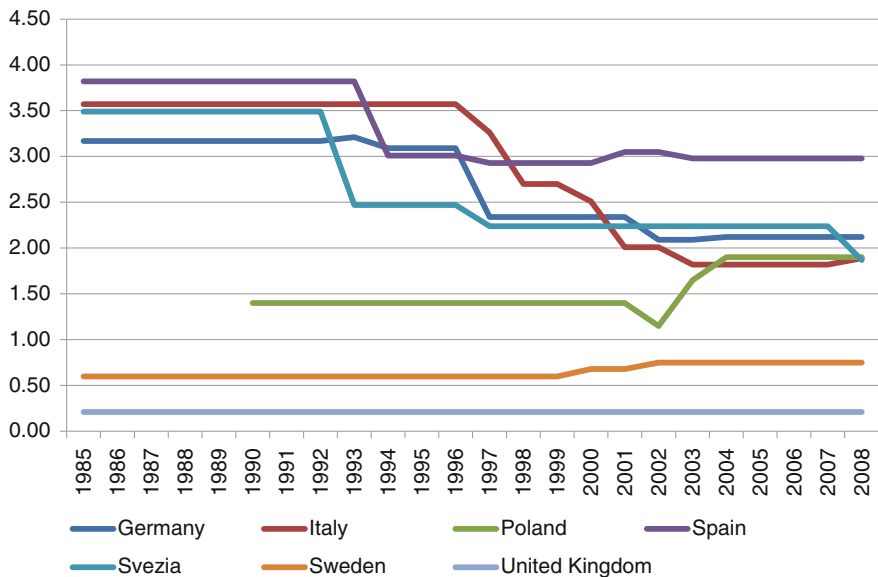


Fig. 5 Strictness of employment protection legislation (version 1, 1985–2008). *Source* Own processing of OECD data

the world, with values of the index, respectively, of about 0.5 and 1.5. Vice versa, in Spain the convergence has stopped in the early 1990s at around a value of 3 of the index.

2 The Youth Experience Gap

The specificity of youth behavior in the labor market was for the first time brought to the fore in the academic and policy debate by a collective volume edited by Freeman and Wise (1982) for the National Bureau of Economic Research. The issue has been further developed in a more recent NBER volume edited by Blanchflower and Freeman (2000).

As Clark and Summers (1982) noted in a seminal paper contained in the first of these volumes, the specificity of the youth behavior in the labor market may be caught by looking at the labor market dynamics of young and adult people. Then what appears is that the flow in and out of unemployment and inactivity is dramatically higher for young as compared to adult people. Why? The reason is that:

- (a) young people are in search for their best job-worker match, which they do not know yet, when entering the labor market;
- (b) in the meantime, they aim to accumulate work experience to become substitutable to the adults, which they are not;

- (c) employers are also in search for the best job-worker match;
- (d) the least skilled young people go back to education and training after an employment or unemployment spell, since they realize that they have some educational gaps.

The consequences of what has been sometimes called “job shopping”, namely the process of moving from one job to the next in search for the best alternative, are:

- (a) average duration of young people unemployment spells, which is shorter than that of the adults;
- (b) but, especially for the least skilled, a higher average risk of falling into a chain of low pay, temporary, or part-time work;
- (c) there are two distinct paths: one for low and the other for high skill young people.

The first two outcomes (short duration of youth unemployment spells and a higher risk of precariousness of labor market experiences) seem to be inconsistent with each other, but, in fact, they are not. To reconcile them with each other one should keep in mind the third outcome (the existence of a strong segmentation in the youth labor market). As Freeman and Wise (1982) argue in their Introduction to the first historical NBER volume, on the one hand, the most skilled young people are able to take advantage of the high degree of turnover to gain the work experience they need. On the other hand, though, the low skilled might start with unemployment spells early in their life, which leads them to experience long unemployment spells also later.³ As also, among others, Ellwood (1982), Ruhm (1991), Arulampalam (2001), Schmillen and Umkehrer (2013) argue, early unemployment experiences may generate a permanent scar in some cases, in terms of both lower employment opportunities and earnings for the rest of the lives of those who experience them. Besides, the effect is associated with the incidence rather than the duration or frequency of early joblessness.

The reason why every country shows an RD higher than one is to be found exactly in the evidence now discussed. What could be called the “youth experience gap” explains the continuous flow of young people among labor market statuses. Even in a time of ever increasing educational levels, in fact, young people lack the other two components of human capital, namely generic and job-specific work experience. Such a gap makes the human capital of young people lower than that of adults and, above all, hardly employable by prospective employers. Firms need competences in their employees, not general education, but competences could be gained only through work experience. Because of the lack of work-related skills, young people are less productive than their adult counterpart becoming, hence less employable for firms. It is the need to overcome the youth experience gap that pushes young people to practice frequent moves from one labor market status to

³ This extreme segmentation of the labor market has been often recalled to explain problems of sample selection bias in some econometric analysis (see, for a handbook treatment of the issue, Borjas 2007).

another. They move from one job to the next, from employment to unemployment and inactivity, and to education and training, often occupying different statuses at the same time to overcome their experience gap.

3 The Mainstream Approach to the Causes of Youth Unemployment

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

According to liberalist observers, the best option for policy makers wishing to reduce youth unemployment is to minimize the effort of young people in filling their gap of work experience. To such an end, every country should make the labor market more flexible so as to increase the chances of young people to find a good job and gain the work experience they miss in the shortest possible time. The mainstream approach has three key policy implications:

- (a) reducing hiring and firing costs for firms is strategic to increase the job finding rate and, therefore, also the chances for young people to accumulate work experience and marketable skills;
- (b) if it is impossible to reduce the firing costs of permanent work, it is at least as imperative to reduce that at the margin for the new hires of especially young people, for instance, through the introduction of temporary work arrangements;
- (c) temporary work is also a way to allow firms to pay lower entry wages for the less productive young people.

Within this framework, point (a) was based on the hypothesis of negative duration dependence of the job finding rate, a typical verdict of the early literature on the determinants of job finding: such studies established that the higher the length of an unemployment spell is, the lower the probability will be of finding employment (Lancaster 1979; Nickell 1979).⁴ Two main arguments could explain this outcome, in turn: from the supply side, unemployment causes a process of deskilling of those who experience it; from the demand side, employers prefer those

⁴ Berkowich (1985) and Blanchard and Diamond (1994) provide a macroeconomic interpretation.

Table 1 Job finding and job separation rates in various countries and years

Paese	Job finding	Job separation
Stati Uniti, 1992–1993	65.9	2.8
Polonia, regioni a bassa disoccupazione, 1994–2005	36.3	2.5
Polonia, regioni ad alta disoccupazione, 1994–2005	31.5	4.4
Russia, 1994–1995	40.8	3.7
Italia, 1994–1995	13.1	1.6
Italia, 2001–2002	20.3	1.5
Italia, 2007–2008	33.5	1.6
Italia, 2008–2009	28.3	2.3
Italia, 2009–2010	26.9	2.3

Fonte: For Poland, see Newell and Pastore (2006, Tabelle 6 e 7); for Russia and the United States, see Boeri and Terrell (2002); for Italy, years 1994–1995 and 2001–2002, see Istat (various years) for the year 2007–2008, see ISTAT (2010)

candidates who have shorter unemployment spells, because they take this as a signal of greater motivation to work. An important tenet of this line of reasoning is that once entering the labor market, transitions among labor market statuses follow a Markov process and, therefore, the probability of job finding is initially similar across individuals independent of their skills. However, once an individual has become unemployed his probability to remain unemployed increases, while that of job finding reduces, generating negative duration dependence of the job finding rate. In other words, almost by chance some individuals rather than others fall into some kind of “unemployment trap,” which is bound to generate permanent effects in terms of wages and employment opportunities.

From this approach it follows that youth unemployment must be higher when the degree of labor turnover is lower in a country’s labor market. As an example, compare two extreme cases of rigid and flexible labor market, respectively, Italy and the USA, like in Table 1. In Italy, in the early 1990s, the job finding rate was about 13 %, which means that 13 out of 100 unemployed job seekers found a job after a year of their unemployment spell. On average, an unemployment spell has the probability to last about just less than 8 years. Conversely, in the USA, the job finding rate is above 60 % and every unemployed has an average chance to find a job in less than 2 years.⁵ As influential and authoritative studies of the early 1990s argued after observing these figures (OECD 1994; Krugman 1994), the higher (youth) unemployment rate of the former country must be an obvious consequence of differences in the degree of labor market flexibility. The sclerotic European labor market was considered to be especially harmful for young people who could not

⁵ Nickell and Layard (1999), note that the unemployment duration equals the reciprocal to the job finding rate. In the case of the USA, for instance, unemployment duration equals 1.6 years, the reciprocal of 0.6.

manage to gain marketable skills and competences after completing their educational path and entering the labor market.

In this framework, labor market flexibility has another important implication. It not only reduces the length of unemployment spells, and hence the share of long-term unemployment, but also the youth experience gap. For this reason, it is important that point under heading (b) above be taken adequately into consideration: the market should provide on-the-job training to young people by any possible means, also by means of temporary work. If labor turnover is a tool for young people to become adults, especially in countries where the employment protection legislation is particularly strict, temporary work has been used to increase entry and exit flexibility “at the margin”, namely for the new entrants (Ochel 2008).

Temporary work is a probation instrument for firms (Loh 1994) and a way for young people to signal their skills and motivation to employers (Booth et al. (2002). Its main advantages are:

- (a) to guarantee low entry wages to low productivity young people;
- (b) to reduce firing costs. According to Booth et al. (2002), and Ochel (2008), this is one reason why these contracts are preferred where the employment protection legislation is particularly strict, namely in South European, rather than in Anglo-Saxon countries;
- (c) to reduce the youth experience gap;
- (d) to provide a springboard (stepping stones) to permanent work;
- (e) to allow firms to meet two sometimes concurrent requirements: (1) to have a buffer stock of young workers to deal with sudden demand fluctuations (buffer stock hypothesis); (2) to solve ex ante asymmetric information at the time of hiring, without the commitment to hire for life (probation post hypothesis: Loh 1994; Booth et al. 2002);
- (f) to provide a less costly solution to active labor market policy (ALMP).

On the one hand, in fact, temporary work would increase the cost of job search by making jobs more precarious, but, on the other hand, it would also ensure a better and more stable job matching in countries where due to the low average job finding rate such job search is more difficult (Ryan 2001). In addition, the use of temporary work, a solution that does not require public spending, is able to free resources for different use. One such use would be to sustain special intervention—including passive income support and proactive schemes—in favor of particularly weak young people.

Another important policy implication of the liberalist view is that the policy maker should contrast wage-setting mechanisms at a national level, such as minimum wage arrangements and incomes policy agreements. The latter, in fact, would tend to equalize wages across age groups. In turn, equal pay for different human capital and skill levels are a possibly important factor of youth unemployment.

Lower entry wages for lower productivity would be instead the best solution to the lower degree of work experience of young people. For instance, Rees (1986, p. 624) asks for a lower minimum wage for young people as a compensation for

their lower human capital level (see, among others, also Neumark and Wascher 2004; Laporšek 2013, and references therein).⁶

4 Weaknesses of the Mainstream Approach

The discussion about the interventionist approach to the youth experience gap will be divided in two parts. I will, first of all, bring to the fore the main criticisms (*pars destruens*) and, subsequently, I will discuss the new policy proposals (*pars construens*). There are several formidable arguments against the use of labor market flexibility, two-tier reforms, and temporary work as the solution to the youth experience gap. The available empirical evidence and applied research on the impact of temporary work on youth labor market outcomes seems to confirm caveats based on theoretical reasoning. This explains the recent shift of emphasis away from labor market flexibility as the main policy option against the youth labor market problem.

4.1 The Argument Against Negative Duration Dependence

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

According to the seminal papers by Heckman and Borjas (1980) and Heckman and Singer (1984), however, the empirical evidence does not fully support this view. Once controlling for unobserved heterogeneity, in fact, duration dependence in unemployment disappears. More specifically, the probability to find a job at a given time is not any more negatively related in a statistically significant way to the duration of the unemployment spell, but becomes flat. Therefore, long-term unemployment appears to be the consequence of low motivation to work and low skill level of the unemployed involved rather than of the time spent in unemployment itself.⁷

⁶ The literature on the advantages and shortcomings of the minimum wage is so large that summarizing it would go beyond the specific scope of this essay. For recent cross-country evidence, see Addison and Ozturk (2012), Dolton and Rosazza Bondibene (2012), and Laporšek (2013).

⁷ For a survey of this literature, see Heckman and Singer (1986); Hosmer and Lemeshow (1999); Borjas (2007, Chap. 9).

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

This innovative approach to the causes of long-term unemployment calls also for a different attitude to the economic policy to fight it, an attitude which is becoming more and more common in the recent literature (see, among others, van den Berg and van Ours 1999). If the high unemployment rate of some young people is the consequence of low motivation and skills, rather than of low job opportunities, then, reducing the degree of employment protection might increase the chances to find a job only of some of the unemployed young people, not of all of them. The least motivated and skilled individuals would not benefit from greater labor turnover. Employment policy in general and active labor market programs in particular should help them instead.

4.2 Becker's Argument of Market Failure for Job-Specific Training

Another key criticism to the mainstream approach and the use of temporary work to reduce the youth experience gap is that, under certain conditions, fixed-term contracts might be seen as a solution only to reduce the gap in generic, but not in job-specific work experience. In fact, the short time horizon of fixed-term contracts may represent a strong disincentive (as already Becker 1962, noted) for young people to invest in job-specific competences for both the employer and the employee.

Lower wage costs, which are attached to fixed-term contracts, might not be themselves a sufficient incentive for young people to overcome the youth experience gap, and thereafter for employers to hire young people.

A large literature has provided different rationales to explain the worldwide diffusion of lifelong jobs: they provide the context to push workers and firms to invest in the accumulation of job-specific work experience (see, among others, Lazear and Rosen 1981).

Again, formal training may be able to raise employability more than lower wages or short-term employment experiences for the long-term unemployed youth. In the interventionist approach, well designed and fine-tuned proactive schemes are

not substitutable with temporary work arrangements. The length of temporary contract may be an important component to make them more effective in helping young people. Moreover, lifelong jobs are the only ones able to generate the competences that young people need.

4.3 Temporary Work: Stepping Stones or a Dead-End Jobs?

The argument of the previous section provides also an explanation as to why fixed-term contracts are not always seen as an achievement, but rather as a further cause of distress for young people. As the recent experience of several South European member states shows, temporary work often becomes a low pay trap. In other words, some young people tend to accept low pay jobs and instead of accumulating work experience to find later high pay, high quality jobs, they remain trapped for many years or also for the rest of their lives. This has led a number of researchers in Europe to ask whether fixed-term contracts should be considered stepping stones or dead-end jobs. Bentolilla and Dolado (1994), for example, showed that in Spain the expansion of temporary work (more than 30 % of employment) has led to strengthening insiders power and wages, since outsiders are unable to accumulate job-specific work experience, preventing them from being substitutable to insiders. The failure of two-tier reforms has been the object of analysis also in Blanchard and Landier (2002), Dolado et al. (2002), Boeri and Garibaldi (2007a, b), Ochel (2008), Bentolilla et al. (2012), and Maselli (2012).

Rigorous empirical research has shown that much too often temporary work causes precariousness of labor market experiences (see, among others, Booth, Francesconi and Frank 2002; Güell and Petrongolo 2007; Berton et al. 2011; and the references therein). Using a macroeconomic model, Nunziata and Staffolani (2007) find that fixed-term contracts have worked as stepping stones to permanent employment, whereas flexible temporary agency work regulations seem to induce a substitution of permanent with temporary contracts in the EU15.

The evidence on the stepping stones versus dead-end job hypothesis is increasingly large and differs with regard to the conceptual content, the type of data and the econometrics used. The literature suggests a gross and net positive effect on the likelihood to access permanent work as compared to that of an unemployed person. The magnitude of the effect, however, depends on factors that need further investigation.

The stepping stones effect might be strongest in Anglo-Saxon countries, where the stigma caused by unemployment is greater and temporary work is accompanied by high-level training courses that, hence, work as a selection device for detecting the most skilled and motivated candidates (Autor 2001).

However, in the United Kingdom, Arulampalam and Booth (1998) find that temporary workers tend, on average, to receive fewer training hours as compared to their colleagues in permanent employment. According to Booth et al. (2002), the costs incurred by temporary workers also in terms of lower job satisfaction and

wages are brief, though it should be noted that this conclusion applies to women only: when men accept temporary jobs at the start of their careers, they have a lower skill and motivation than their colleagues. However, it should be noted that seasonal or occasional work produces permanent scarring effects.

Similar studies find a springboard effect of temporary work in Germany (Hagen 2003) and Holland (Zijl et al. 2004). The empirical evidence for the United States is not uniform. In contrast to Autor (2001), both Hotchkiss (1999) and Autor and Houseman (2005) find that when controlling for observed and unobserved heterogeneity, temporary work has no causal springboard effect.

When controlling for observed as well as unobserved heterogeneity of the target and control group, Ichino et al. (2005, 2008) find a net positive effect of 19 % in Tuscany and 11 % in Sicily, where, however, the effect is only weakly significant from a statistical point of view. These figures compare to gross values of 31 and 23 %, respectively. These results are confirmed experimenting with several estimators and matching methods.

Barbieri and Sestito (2008) use Labor Force Survey data. Picchio (2008) uses three waves (2000–2004) of the Bank of Italy’s Survey of Household Income and Wealth. The obtained measures of the springboard effect, net of observed and unobserved differences, are similar to those of Ichino et al. (2005), though the estimation method is different. Using the Longitudinal Survey of Italian Families, Gagliarducci (2005) finds a springboard effect only in the case of temporary contracts of sufficient duration.

Some authors suggest that in Spain agencies provide employment of lesser quality and shorter duration than direct recruitment of temporary workers, because of sample selection (Amuedo-Dorantes et al. 2008).

In short, the type of contract is very important and strong differences between countries are detected in empirical studies. Generally speaking, fixed-terms contracts are more effective than agency work. Contracts of longer duration and including some training content are more effective. This conclusion recalls Solow (1990) statement that the labor market is a social institution, and any attempt to change its regulation has to be confronted with the existing economic and social structure.

Even a simple comparison between averages shows that while the growth of temporary work reduces the length of individual episodes of unemployment, this is not the case for the aggregate length of the transition from school to permanent work. Despite a dramatic reduction of the unemployment duration, still the time needed to find a permanent job remains more than 55 months in Spain (see Table 1 of Quintini et al. 2007). The case of Spain is striking and suggests that the macroeconomic evaluation of the impact of temporary work is important. Similar findings refer to other South European countries.

4.4 Labor Market Flexibility: Cause or Consequence?

In a well-known public lecture, the Nobel prize winner, Robert Solow (1990), defined the labor market as a social institution, meaning that not a standard good or

commodity, but a special one is exchanged in the labor market. Labor is a special commodity since individual and social aspirations are attached to it. As a consequence, the price of this commodity is not fixed only based on simple interaction of demand and supply; it mirrors also the bargaining power of individual contracting parties, but also their social class. The unions themselves should be seen as important social institutions. Being socially and historically determined, labor market institutions, including the degree of labor market flexibility, should not be considered as a control variable or a cause of economic change, but rather as an endogenous variable, and hence a consequence of economic change.

During Fordism, labor market rigidity was functional to both parties. Workers exchanged low mobility for low wages, although wages were still above market clearing levels because of the low productivity of jobs. Lifetime jobs were a consequence of this system. Due to the infrequent unemployment spells, unemployment benefits were granted only to dismissed workers insured against the risk of unemployment. Employment services were managed by the state under the conditions of legal monopoly: a list of unemployed job seekers was maintained to fulfill job vacancies, although informally firms still used to hire workers on a personal basis.

The move to post-Fordism has implied dramatic changes in the production system, and hence in the organization of labor. Assembly lines have become almost automatic; therefore, they generate a reduction in the demand for unskilled labor. This has implied also the quest for increasing labor market flexibility. The demand for skilled labor has accordingly increased in relative terms. Labor mobility is not necessarily associated with income losses anymore and may also imply promotions. Firms ask for more labor flexibility at all levels, and workers tend to slowly accept it as an opportunity rather than a cost.

The historical nature of labor market institutions might help in understanding why firing costs and severance pay have no clear and univocal impact on the unemployment rate in the long run or in a cross-country perspective, as found, among others, in CEPR (1995), Nickell (1997), Bentolila and Dolado (1994) and Blanchard and Portugal (2001), and Nickell et al. (2005). Figure 6 shows a positive correlation between the degree of employment protection legislation registered by the OECD in 2008 and the AUR in 2010; nonetheless, such correlation is rather weak. Figure 7 confirms the same result when looking at the YUR.

As Blanchard and Portugal (2001) note, a greater labor market rigidity has, in general, an ambiguous effect on unemployment, which can be understood by thinking at the flow approach to the labor market: on the one hand, labor rigidity reduces unemployment, by reducing the flow into unemployment; on the other hand, it increases unemployment and also its average duration, by reducing also the flow out of unemployment. Similarly, greater labor market flexibility does not necessarily correlate to (and, therefore, in principle, it can neither be considered a cause of) lower unemployment as the Krugman (1994) hypothesis states.

This should not, however, lead us to consider that labor market institutions, in general, and labor market flexibility, in particular, are totally uninformative. In fact, as Nickell (1997) notes, if, on the one hand, it is true that there are countries where labor markets are rigid, but the unemployment rate is relatively low (among others,

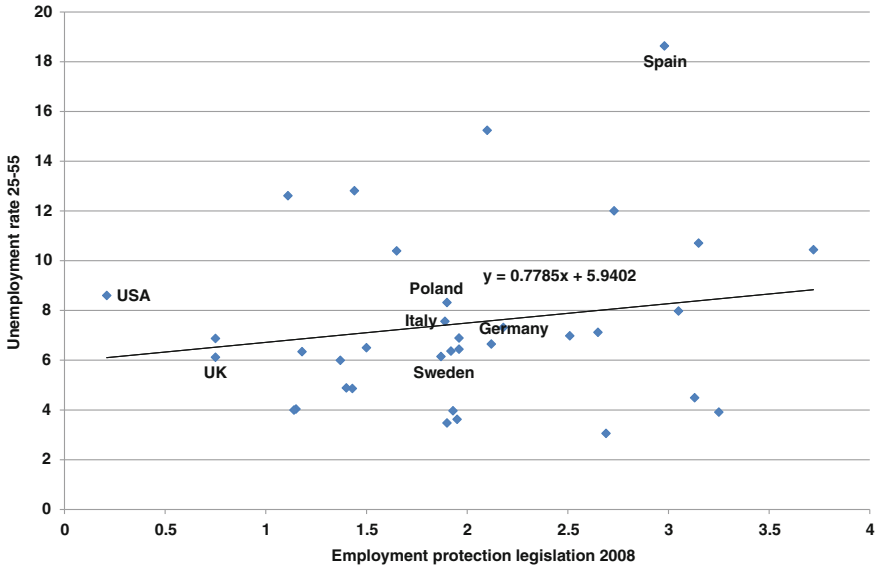


Fig. 6 Employment protection legislation and unemployment rates (25–55 years; 2010). *Note* The adult unemployment rate refers to 2010. *Source* Own processing of OECD data

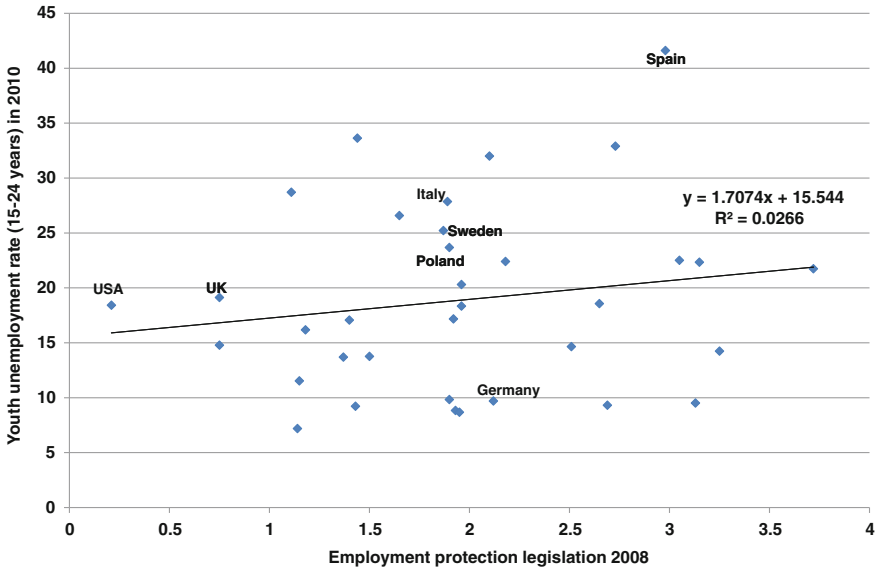


Fig. 7 Employment protection legislation and youth unemployment rates (15–24 years; 2010). *Note* The youth unemployment rate refers to 2010. *Source* Own processing of OECD data

Portugal, Germany and Sweden), on the other hand, there are resounding examples of countries with rigid labor markets, whose unemployment rate is extremely high (among others, Italy and Spain). This, in turn, suggests that while some rigidities tend to lead to higher unemployment, conversely other rigidities may lead to lower unemployment. As Blanchard and Tirole (2004) put it, we still know very little about which rigidity is harmful and which is not.

The most likely candidate factor to explain the low degree of correlation between labor market flexibility and unemployment is the growth rate. Moreover, this indirectly confirms that labor market flexibility is also clearly only weakly related to productivity growth (Bassanini et al. 2009).

A simple analytical framework, borrowed and adapted from Blanchard and Portugal (2001), could be used to think of the impact of labor market flexibility on labor demand and unemployment:

$$Pmg_L = Pmg_LE + Pmg_I - Pmg_O$$

where the average marginal productivity of labor (Pmg_L) is the sum of the marginal productivity of employed workers (Pmg_LE), plus the marginal productivity due to the new hires (Pmg_I), minus the marginal productivity of the separations (Pmg_O). It is clear that the aggregate labor productivity and hence labor demand may increase (or reduce) according to whether $Pmg_I > Pmg_O$ (or $Pmg_I < Pmg_O$). In other words, if the labor productivity of the newly hired workers is greater than the labor productivity of the workers who have been fired, then labor demand will increase, and so will also do employment. Clearly, this will automatically translate in unemployment changes, if the discouragement effect is null, which is realistic in the long run. In other words, labor flexibility a priori has no foreseeable effects on employment /unemployment, and this explains why in some countries greater labor market flexibility leads to less, not more employment.

An interesting interpretative key of the above equation, when thinking of young people is based on historical considerations and the move from Fordism to post-Fordism. As the reader might well know, Fordism is a production system and related social organization whereas mass production and consumption is the norm. As already noted above, increased labor turnover may lead to a rightward shift in the labor demand curve if those who are hired have higher human capital than those who are fired, assuming that the main determinant of labor productivity be human capital. Recall from the previous discussion that human capital is not measured only by general education, but also by generic and by job-specific work experience. Now, on the one hand, it is clear that those who find employment are on average younger, and hence tend to have a higher educational level. Nonetheless, on the other hand, those who flow out of employment are older, and tend hence to have higher work experience. That education increases human capital more or less than work experience from the point of view of firms may be a consequence of the dynamics existing in the labor market and the prevailing type of production system. In a period of dramatic structural change, for instance, work experience could be less important than in a period of relative stability of production methods.

Therefore, we may conclude that the impact of labor flexibility on employment depends, first of all, on the human capital level of those who find and those who lose their job and, secondly, on the degree of technological innovation existing in the economy. In other words, when innovation is high, labor flexibility could increase employment, whereas when the economy is essentially static, labor flexibility could increase unemployment. Moreover, labor market flexibility may be considered complementary to human capital upgrading.

These conclusions are consistent with Solow argument that labor market institutions are a *consequence* rather than a *cause* of economic change. In other words, labor market rigidity and a high degree of employment protection legislation were a consequence of Fordism in the same manner as increasing labor market flexibility may be a consequence of the evolution of the production system toward what is called Post-Fordism.

5 The Interventionist Approach

The above criticisms have raised the doubt that labor market flexibility is not the best solution to the youth experience gap. But then, what is the alternative? Two appear to be the main directions of what could be called the interventionist approach to diminishing the youth experience gap:

- (a) the challenge of flexicurity;
- (b) the role of school-to-work transitions.

The rest of this section will shortly review the main arguments, guidelines, and policy tools suggested around the above two directions of intervention. Before starting to discuss these issues, however, some considerations will be devoted to macroeconomic policy.

The following section will provide a classification of countries according to the specific school-to-work transition adopted, and will discuss the extent to which the interventionist approach is followed in each school-to-work transition regime.

5.1 *The Challenge of Flexicurity*

According to many scholars, the evidence that too many fixed-term contracts are *in nuce* dead-end jobs calls for imposing constraints to the free utilization of temporary work. Also the OECD has contributed to recently shift the debate from the dualism flexibility/rigidity to the definition of the optimal mix of regulation to make fixed-term contracts more efficient in providing training and job opportunities for young people (Bassanini and Duval 2006).

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

In recent years, accordingly, the legislation has shifted away from the idea of flexibility toward that of flexicurity (see, among others, Wilthagen and Tros 2004; Bredgaard et al. 2006), which can be summarized in three main points:

- (a) increasing the degree of security associated to temporary work, by providing passive income support during unemployment spells and social security provisions to increase the cost of temporary relative to work for firms;
- (b) introduce more effective proactive schemes to increase employability;
- (c) substitute *job* with *employment* stability.

Instead of temporary work and other short-term contracts, Boeri and Garibaldi (2007b) propose a *single contract* with increasing guarantees for the new hires. In other words, if the reason why firms prefer to hire on a temporary basis or also on other unpaid training programs in South European countries is that they want to escape the labor cost of permanent jobs, then, instead of having temporary jobs renewed for a long period of time, firms should provide increasing guarantees of job and income stability the longer the period the worker spend within the firm. This would allow a better matching between jobs and workers and a less costly manpower to employers. The so-called single contract should substitute the current insertion contracts, with the only exclusion of apprenticeship, which would remain the only insertion contract for young people under the age of 29 years.

Nonetheless, in addition to changing the labor legislation and finding new legal arrangements to guarantee employment and employment stability, flexicurity requires more resources on passive and ALMP. In many East and South European countries resources for employment policy is really unsatisfactory and public and private employment services are not sufficiently well organized (Giubileo 2011; Pastore 2013a, b).

5.2 *Employment Services and Job Search Strategies*

Within each school-to-work transition regime, the role of the state, the education system, the family, trade unions is very different, as different is also the role of PES. They cannot be fully considered as a control variable for the legislator, as if it were possible to create more employment only by changing PES. On the contrary, in order to increase the PES intermediation capacity, it is important to consider the labor market as a whole, starting from school and university, up to social partners and local institutions. As the next sections will show, efficient public and private employment services are key to implement European flexicurity policy and, in particular, the European Youth Guarantee (EYG).

Furthermore, to better understand the role of PES, a key point is to be considered, namely that it depends on how the work relationship and the process of job

search are conceived in every country (Albrekt Larsen and Vesán 2012; Pastore 2013a). As the theoretical literature outlines, both the process of job search by the unemployed and the labor relationships are characterized by strong information asymmetries on both sides. On the one hand, businesses would like to know the working skills of those who apply for a certain job vacancy before hiring them. When hiring a worker, firms make a long-term investment, which is often dominated by uncertainty. Many ways exist, in which businesses acquire information about the quality of candidates to a specific job position. As already noted, these ways change from country to country. Also workers have many doubts on wage and career opportunities actually offered by the job they are applying for. Both subjects, businesses and workers, look for appropriate signs to know *ex ante* the interlocutor's feature and decide whether to realize *matching* is convenient.

How this sign is to be conveyed depends on cultural factors, whose origin dates back in the old past and is difficult to identify in full. Moreover, even if identified, it is hard to control for policy makers. In the countries belonging to the liberal school-to-work regime, mostly countries of the Anglo-Saxon tradition, direct interaction among the bodies involved in *matching* is universally considered to be the most effective solution. Seen as a potentially spoiling factor, the state has the task to encourage this interaction between individuals. The liberal regime reduces the public role to the minimum. The latter is in the first place assigned the task to coordinate the process of *matching* among private operators and in the second place, "marginal" actions of guidance and employment of the most vulnerable bodies, leaving the rest to private bodies. A fundamental role in the *search* process is carried out by "independent authorities" and the so-called *old boys*, namely influential personalities who know the candidate because the former have had a role in the career advancement of the latter. *Old boys* are typically school teachers or university professors for those who have just pursued a school diploma or a degree, or a business manager in a firm where the candidate has worked in the case of those who already have some work experience. Recommendation letters signed by *old boys* are a key sign for businesses to know candidates' characteristics, together with the grades obtained at school or under training by students. Letters may talk more than grades or the professional qualifications pursued, as they can provide information about important traits of the personality of workers, such as the degree of motivation, determination, dedication to work, observance of the rules, and of the distribution of functional and hierarchical roles within the organization. In the countries of Anglo-Saxon tradition, the system of recommendation letters is considered to be the best to convey information to businesses about candidates' actual professional skills. It is also important the opposite pathway, e.g., the transparency of the information conveyed from businesses in the labor market as regards the actual wage and career perspectives of the job offered is fundamental, because it allows workers choosing the best job for them (*the best job-worker match*). Trade unions, the state, the family, and any intermediate body are seen as spoiling the direct interaction between workers and companies. Their intervention causes "noise" within the direct channel of communication between businesses and workers.

Within such a system, Private—more than public—Employment Agencies (PRES) are considered to be the most effective in spreading information about job vacancies from businesses to workers. Unemployment benefits are generally public and are delivered by public employment agencies. Under this regime, little trust is given to active employment policies, which are considered to be effective only when they perform upon limited groups, whose difficulties are well identified. Despite skepticism, these policies are diffused and managed, in general, by public agencies in collaboration with public schools. Also many private vocational training courses exist, which are considered to be more efficient in general, as their existence would guarantee usefulness.

Diametrically opposed is the role assigned to PES and active employment policies in the continental European and Scandinavian model. In both cases, operators tend to believe that the best way to solve the *ex ante* information asymmetry between businesses and workers is through the state's intervention that may guarantee correctness of the process of selection of the best candidates. The continental European regime extends the role of public operators to all fields and envisages, at the same time, strong involvement of social partners in PES organization, as well as in active employment policies. More recently, also private services of vocational training have been diffused.

Likewise to the continental European model, the role of intermediate bodies, in particular trade unions and employer's associations, and of the state, is much more important than in the liberal model. Citizens consider this role fundamental and impossible to eradicate to the extent that the idea of "marketing" public employment agencies cannot be conceived. The professional qualification system, which the state's authority together with social partners supervises, guarantees the quality of labor services that the candidate will be able to offer to firms. The issue concerning the correctness of the signal about labor skills in candidates to a certain work position to the firm is provided by the guarantee of the professional qualifications possessed. Of importance is also the principle of equity when accessing work, as guaranteed by the state through educational and vocational training systems. When managing unemployment benefits, the Scandinavian regime follows the Ghent model, called after the name of the town in the Flanders where it was established for the first time in the nineteenth century. In other words, social partners, especially trade unions, supervise the delivery of unemployment benefits, which are, however, released by public employment agencies. In recent years, unemployment benefits—which once were of universalist nature—are more often provided on a contractual basis with the unemployed persons who are committed to increasing their employability by taking part in vocational training courses, and to being active in job search.

Finally, in European-Mediterranean countries, unemployment, especially youth unemployment, is a very common, nearly endemic issue, also due to poor institutional infrastructure of the labor market. In the absence of a strong role played by other bodies, like public employment agencies, which—also when present—are not fully acknowledged by firms and potential workers as capable to impact on the labor market, operators prefer to utilize the mediation of their personal networks of

family and friends. Euro-Mediterranean countries generally believe that the existing relationships in the personal network of family and friends may represent the most effective tool for businesses to know the real characteristics of candidates and for candidates to know the available jobs and their characteristics in terms of wages and career advancement. Informal networks are essentially considered by everybody as the best tool to find adequate information to achieve the best possible *matching* for firms and workers. In a certain way, the personal and family interaction plays the role to ensure the applicant's quality, like the recommendation letter in the Anglo-Saxon system. The problem with this model of labor market is that the signal given by family and friends may not be transparent and not ensure, therefore, the actual candidate's quality. Nepotism and familism are the most common distortion of the South European school-to-work regime. The open competition exam is seen as an alternative tool of *ex ante* evaluation of the candidate's quality and as a constitutionally recognized guarantee for accessing jobs in the public administration. Every attempt to insert another body in the interaction between businesses and workers, already mediated in the way which is considered to be the best by families, is seen as an unacceptable interference. Other aspects of the European-Mediterranean regime are also important:

- (a) unemployment benefits are only insurance-based and access to them is hence restricted to subscribers only;
- (b) social assistance is managed by the National Social Security Institute (thereinafter INPS). This reduces the available funds, that must draw not from general taxation, but only from social security resources;
- (c) public employment agencies are often undersized in terms of both human and financial resources and, subsequently, also in terms of the functions that they can carry out.

5.3 The School-to-Work Transition

Another stream of the literature has argued that youth employment policy should be a mix of different instruments including not only labor market flexibility, or flexibility, but also efficient educational, training and, more generally, welfare systems and the system of fiscal incentives to hire the weakest groups of young job seekers (see, among others, Hennan et al. 1996; Ryan 2001; O'Higgins 2001; Hammer 2003; Raffe 2008).

Interestingly, Cahuc et al. (2013) note that the crisis calls clearly for the urgency of structural reforms: in fact, it has shown that the countries where school-to-work transitions are more effective, such as Germany, are able to reduce the AD and RD more than any others and are almost unaffected by the economic crisis. This calls for important structural reforms able to change the organization of school-to-work transitions.

Theoretical reasoning and the available empirical evidence suggest that school-to-work transition regimes differ in their effectiveness in fighting youth unemployment based on which institutional arrangements they have:

- (a) Rigid versus flexible education;
- (b) Sequential or school based versus dual educational system;
- (c) With Institutionalized links to the labor market.

5.3.1 Rigid Versus Flexible Educational Systems

As Hammer (2003) argue, rigid educational systems impose strong constraints on individual decisions of investment in human capital, reducing the size itself of the investment or its return. There are many examples of how the rigidity of educational systems may affect negatively the transition from education to work. One such an example is the German early tracking: students are forced already at the age of 10 to choose among different high secondary school systems (see, for instance, Dietrich 2007; and Büchel 2002). Again in Germany, but also in most South European countries, the educational system discourages movements across curricula, fields of study and so on. In Italy, the rigidity of tertiary education reveals itself in the hardship of study programs which cause, in turn, dramatically delayed graduations and a largest number of dropouts (Aina et al. 2011; Pastore 2009; Aina et al. 2013). These and other examples of rigidity of educational systems are discussed at more length in what follows.

5.3.2 Sequential (or School Based) Versus Dual Education Systems

Sequential education systems allow for engendering work experience and professional training only after finishing general education, whereas dual education systems allow for simultaneous general education and professional training. In sequential education systems, producing general education is the only mission of the education system. In dual education systems, instead, the mission of the education system is to generate (well rounded) human capital. In other words, sequential education system generates notions, which comprise general education, but not competences, which cannot be generated only in classrooms, but require also to spend some time on the job. In fact, sequential systems tend to generate educational qualifications, whereas the dual education system generates professional qualifications, which are directly employable in the public/private organizations.

The advantage of the latter, which are generally associated to lower YUR and RD, is that when completing their education, young people have at least in part already overcome the youth experience gap, becoming immediately employable by firms and more easily substitutable to adults.

Apprenticeship is the best, if not the only example of the duality principle inasmuch it implies on-the-job training and school based general vocational

education on related issues. It is a typical feature of the German education system. The well-functioning of the system requires an institutionalized collaboration between educational institutions, trade unions, and firms for continuously finding a large number of training places, and for defining the content of study programs. This is what makes the German apprenticeship system unique and, at the same time, hard to reproduce (Ryan and Wolter 2010; Ryan et al. 2013).

The experience of implementation of the dual education system in East Germany and France from the early 1990s show how hard it is to reproduce the German apprenticeship system. The social dialog in Germany is implemented after a long, secular practice, and requires a long process of learning by doing in other countries, which no legislation can impose.

The documents based on the so-called Bologna process state the need for both secondary and tertiary education systems within the EU to implement the dual principle in different forms and not necessarily through the apprenticeship system. The 3 + 2 reforms implemented in many EU countries in accordance to the Bologna process, for instance, foresaw that both the 3-year and the 2-year programs contain some periods of on-the-job training. Unfortunately, not every university has implemented this aspect of the reform, due to the unpreparedness and lack of know-how on the way of functioning of the dual principle.

Another important aspect of building competences rather than general education is in the teaching methods themselves. In Anglo-Saxon countries, for instance, more than elsewhere, teaching is based not only on learning general abstract principles, but also on problem solving. Although this might seem to be not fully satisfactory from an academic point of view, for the final result of knowledge, which may be specific, rather than general, nonetheless, teaching through problem solving may help young people build their skills in applying to specific cases the general notions they have acquired like they will mainly do in their professional life. In countries, where teaching is based on abstract general principles only, young people have to develop on their own the ability to apply to specific cases their general knowledge only after completing their education. This is for many a further obstacle to overcome to develop their professional competences.

5.3.3 Linkages to the Labor Market

The third most important feature of an educational system is the strength of the institutional linkages between education and labor market (Hennan et al. 1996; Ryan 2001). The ability of an educational system to integrate young people into the labor market is generally important also to increase the motivation in investing in human capital accumulation. *A contrario*, when such linkages are missing, investment in general education may be slow, like in South European countries.

The linkages are generally stronger where employers and/or trade unions have a larger role in the design, updating, delivery, and assessment of vocational programs; there is frequent contact and communication between educational and labor market institutions, and labor market signals to education are strong and clear. The countries

having strong linkages between education and work also have strong institutional networks, which can support transitions from education to work. Linkages thus influence transitions through the content of education/training and its relevance to employers, the clarity and credibility of signals between education and the labor market, and school-leavers' access to recruitment networks (Raffe 2008, p. 285).

Three different models of integration between educational systems and the world of labor can be found in the experience of advanced economies:

- (a) the aforementioned dual educational system, typical of Germany and the continental European tradition;
- (b) the *Jisseki Kankei* typical of Japan;
- (c) the job placement services typical of the Anglo-Saxon tradition.

According to Mitani (2008), the *Jisseki Kankei* implies the existence of continuous and strong informal links between high secondary schools and firms. Such links allow schools offering to over 30 % of young people aged between 18 and 24 years a stable job through their own letter of recommendation to firms. Meeting between candidates to the diploma at their last years and companies are organized every year to allow them meeting and knowing each other. This is by far the biggest share of the kind in advanced economies.

Finally, job placement services may be provided by high secondary and tertiary educational institutions to their students in the last years of their studies. They imply the provision of information on job vacancies and of guidance on the most effective job search strategies. Such services are conceptually more in line with the Anglo-Saxon idea of the process of job search, which should be developed by individuals, in the first place, and where justification is provided only for an agency role of the educational system. In the Anglo-Saxon tradition, the decision of a match should be eventually left to individual students and firms.

Every model of integration between education and labor market has advantages and shortcomings. The dual educational system and the *Jisseki Kankei* are less affected by the business cycle, since a certain number of job vacancies and job-worker matches are insured whatever the economic situation is. In fact, as noted also in Sect. 1, the countries adopting these systems have been the least affected by the economic crisis. On the other hand, they imply a greater interference of the education system in the individual decisions of firms and individuals, which may be partly reducing the efficiency of matching. In addition, in the dual education system, professional qualifications are very specific and therefore workers less easy to adapt in periods of structural change.

5.4 The Role of Family Networks

Also family networks and cultural values may play an important role in shaping school-to-work transition regimes (Raffe 2008, p. 286). Without adequate support from the state, individuals' success in the labor market tends to dramatically depend

on family background. The level of education and income of fathers and mothers, their employment status income, and social condition tend to be good predictors of those of their children especially in countries where the welfare state and the school-to-work transition regimes are less developed. Family background affects the level of education attainment, the probability to find a job, the quality of the jobs found, namely whether they are stable, well paid, in the official economy (see, among others, Caroleo and Pastore 2012). The literature considers several dimensions of the influence of family networks:

- (a) income support as a factor able to affect the intensity of job search;
- (b) informal networks as factors to affect the type of matching adopted;
- (c) the role that families tend to have on female strategies to reconcile family duties and market work.

The family affects the choice of working rather than studying, by reducing the opportunity cost of education. Especially in South European countries, young people live with their parents well in their thirties, also when they hold a job. This issue, which is particularly typical of Italy, has been the object of a number of contributions. Giannelli and Monfardini (2000, 2003) elaborate a model of the choices of residing with parents or forming a new family, jointly with those of investing in either work experience, or further education, or stopping investment. In their empirical analysis, they find that family background has a major impact on the decision to study. Manacorda and Moretti (2006) highlight the role of parents' tastes for coresidence. They see the decision to leave with parents as based on bargaining within the family: parents compensate their offspring who remain at home by offering them higher consumption in exchange for their presence at home. Becker (2006) shows how it can affect job search intensity.

Family networks are also an important factor in the process of job search. The latter is affected by double *ex ante* asymmetric information: on the one hand, firms are interested in knowing the skills candidates actually possess; on the other hand, workers would like to understand whether the job is really satisfactory to them. Albrekt Larsen and Vesán (2012) note that cultural factors regarding the conception of informal networks, letters of reference and other tools of job search may importantly affect also the design of the role of public and private employment services. In Anglo-Saxon countries, individuals should interact directly on the market; private agencies should only provide more information to both parties regarding the available job vacancies and job seekers. The *ex ante* asymmetric information can be solved directly in the labor market through a process of trial and error. This is also why labor contracts should be flexible. Letters of reference by third parties—school or university professors and former bosses, for instance—may contribute to solve the information asymmetry. In South European countries, during Fordism, jobs were lasting the entire life and were very few: public employment services (PESs) were conceived as a way to redistribute this scarce resource. However, this was a paternalistic view that failed to work because, for cultural reasons, family networks only are able to solve the *ex ante* asymmetric information of workers and firms, granting on the quality of candidates or, at least, finding a way to rationalize a scarce resource. In

continental European and Scandinavian countries, it is the state who should grant the quality of candidates through the system of qualifications and related training programs (for a cross-country comparison of models of employment services and job search systems, see, among others, Pellizzari 2010; Weishaupt 2011; Albrekt Larsen and Vesán 2012; Pastore 2013a, b).

Last, but not the least, cultural and religious values affect the role of women in the labor market. The prevalence of a one or two-breadwinner family models are able to shape female participation to the labor market, also among young people, sometimes shifting the perception of economic convenience (see, among others, Bettio and Villa 1998; Guiso et al. 2003; Olivetti and Petrongolo 2008; Pastore and Tenaglia 2013).

School-to-work transition systems differ also according to a number of other parameters, such as:

- (a) the overall amount of resources allocated to employment policy;
- (b) the relative share of proactive versus passive income support schemes;
- (c) targeting, scale, and evaluation of spending in employment policy;
- (d) the size and type of fiscal incentives to hire young people.

Different types of transition regimes are able to importantly affect the size of the youth experience gap, and hence the smoothness of school-to-work transitions, contributing this way to reduce or to increase youth unemployment.

5.5 Youth Guarantee and Macroeconomic Stimulus

The recent interventions of the EU Parliament and European Commission in favor of young people, including the EYG, are often inspired by the quest for flexicurity.⁸ The EYG aims to extend to all member states a model of management of the labor market that is typical of the Central European and the Northern European countries.⁹ With its obligation for the state to provide young people with a job, training or educational opportunity within 3 months from the beginning of their unemployment spell, the EYG implies a radical change in the way of thinking the labor market in South and East European member states. As it will be discussed in the rest of this book, the European member states are very different in the way they address the school-to-work transition. In the Southern European countries, it is entirely up to the individuals and their families to identify the best educational attainment level and an effective school-to-work transition strategy for their children. When PESs exist, they are very inefficient. Proactive schemes cover only a small share of the young people in need and are of very low quality. Much too often a temporary employment contract is the only chance offered to them. In Eastern

⁸ This section is a reproduction with some changes of Pastore (2013b).

⁹ For a more detailed description of these school-to-work transition regimes, see Sect. 6.

European countries, there are different approaches and traditions, but everywhere employment services are still not very efficient.

Aggregate demand management (or the fight against austerity) is sometimes considered to be opposed to structural reforms. Quite too often observers contrast one type of policy with the other. Some observers, especially in Central and North European countries, call for aggregate demand policy, rather than structural reforms, which are considered to be useless when one needs to contrast a high YUR. The EYG does not create new jobs, is the argument. Other observers, generally from the center-right-wing side, argue just the opposite: aggregate demand policy will not work unless there is more flexibility in the labor market and we reduce the cost of labor.

In fact, both arguments own some rights and, especially when the YUR is very high like it actually is in South European member states (Spain, Italy, Greece), it is clear that interventions at both levels are necessary. When youth unemployment is so high, in fact, all of its components coexist at the same time: Keynesian unemployment, neoclassical unemployment, as well as frictional and mismatch unemployment. Keynesian unemployment is due to insufficient aggregate demand: in recent years, youth unemployment has further escalated also because of the low growth, especially in the peripheral areas of the EU. Without stimulating economic growth, the EYG is bound to fail as a tool to bring full employment.

Nonetheless, youth unemployment was already high in the countries where it has increased more, such as the Euro-Mediterranean and Eastern European countries. The reason is that in these countries also other components of youth unemployment are massive. This suggests that the EYG is a possibly important policy tool if it is able to change the management of the labor market in these countries. It is already important to stress that it is not only labor market flexibility which may be important, but also a more efficient organization of the labor market. It is in line with flexicurity and the role of proactive schemes within school-to-work transitions.

On the one hand, without some fiscal stimulus, the economic outlook will not be favorable to the fight against youth unemployment. Nonetheless, the important point to bear in mind is that not any public spending will do it. Public spending has increased in many Mediterranean countries in the last years, sometimes with the only result of dramatically further increasing the already very high public debt and fiscal pressure. As a consequence, all Mediterranean countries have experienced a dramatic worsening of the budget constraint on public finances. In Italy, public debt has increased in few years from 103 to 130 of GDP. And nevertheless, youth unemployment has further escalated. This means that not any public spending is helping youth unemployment. In fact, increasing public debt may be (though it does not need always to be) recessive if it further increases taxes and if the new taxes weigh eventually on labor incomes, hence depressing the already very low consumption level. With the Maastricht criteria, public deficit becomes soon recessive for the economy because it is immediately followed by taxes. "Spend and tax" becomes almost instantaneous, not only because of the rational expectations of operators, as some macroeconomists would argue, but also because of the EU constraints on public debt.

A discussion on aggregate demand policy cannot escape the problem of where to find the necessary financial resources, and therefore either on the instruments to fight tax evasion and elusion or on an in-depth spending review. It is clear that the European Parliament should elaborate on criteria to implement an effective spending review both at the EU level and at a country level in order to free public resources for the implementation of the EYG. Labor income earners—the working and middle class—pay already too many taxes and need alternatives to raising taxes on them to support social spending. Otherwise, it becomes a vicious circle, which will quickly put under threat the European democracies, like the last European elections suggest.¹⁰

A possibility could be that South and East European countries be allowed to spend on implementation of the EYG the money of the structural fund and other funds destined to them and that they cannot spend. This money is currently out of reach because of the low absorption capacity and also because the criteria are very hard to fulfill for peripheral countries. Why should not the EU Parliament allow peripheral areas, especially the Mediterranean countries, to use this money to reinforce the PES or to finance proactive labor market schemes? This would be a more effective way of reaching the declared aims of the EU funds than using them in the way they are currently used. They tend to finance a number of small projects that help renovate the current way of working of the PES in Central and North European countries, but in Italy and other Mediterranean countries are almost totally ineffective because they do not have well-functioning labor market institutions, especially public and private employment services. The latter are often underfinanced, poor of human and financial resources, which do not allow them to organize well their activities.

What criteria should a spending review follow in South European countries? To answer this question, it is important to consider that the origin of the crisis lies in the Euro, which has produced many benefits, but also some problems that many countries especially the Mediterranean countries have not been fully aware of. The move from a weak to a strong currency, from competitive devaluations to permanent monetary stability has meant a dramatic loss of competitiveness for the manufacturing sector, which is the backbone of Italy and the other Mediterranean economies. It is necessary to facilitate the ongoing structural change by providing tools to move resources from the declining low technology to the expanding high technology sectors. Public money should be cut from traditional public sectors and concentrated on promoting education, research and development, and innovation. Industrial policy should be resumed to help moving more quickly resources and jobs from traditional to high tech manufacturing.

These measures will not have a direct impact on Neoclassical unemployment, which is due to the high cost of labor for firms. The cost of labor is not only the net

¹⁰ It is not surprising that Matteo Renzi, the new young Italian Prime Minister succeeded to win the 2014 European elections thanks to his defiscalisation by €80 per month of labor incomes below €1500.

wage, which goes to workers, but also the wedge, namely the tax on labor, spending on social security, and other types of social and health assistance. It is important to reduce this type of cost for firms also because it is going to increase the income of wage for employees actually available for consumption. One can fight neoclassical unemployment by also reducing Keynesian unemployment if resources are freed from other less productive public spending.

But also structural reforms should be encouraged. Without them, frictional and mismatch unemployment will remain high. Structural reforms will have several positive effects. First, they will reactivate a lot of jobless young people, not only the unemployed, but also the out of the labor market. In turn, this will increase the number of tax payers and, indirectly, consumption by generating a redistribution of resources from high to low incomes and especially to the unemployed. This is in fact a precondition for a really expansionary fiscal policy.

Also before the crisis exploded, Eastern and Mediterranean countries experienced a dramatically high unemployment rate. One direction for a modern European New Deal able to unite the low with the middle class could be that of increasing public spending on developing services, which have been excluded from the welfare state up to now. I will talk more of the actual structural reforms that are necessary in a while. It is not by chance that young people find about 13 % of the new jobs in Germany and about 7 % of the new jobs in the UK through PESs, whereas in Italy only 3 % of workers find their job through the public and private employment services. In fact, in Germany there are only 25 unemployed young people per staff of the PES, in the UK this number goes up to 30, but in Italy it reaches the remarkable figure of 150 unemployed. That is the argument that observers from Central and Northern European countries do not consider when discussing youth unemployment in South European countries and could jeopardize also the EYG. For them, the EYG is a natural policy to implement; PES work pretty well and there is a problem of reducing a little bit the spending in passive and proactive schemes. In East and South European countries, youth unemployment is very high because the educational system and the labor market do not provide sufficient guidance to young people. If the EYG could bring the number of young people who find a job through the PES to the level of other Northern and Central European countries it would be a success. And a full understanding of the inefficiencies of the educational and training system of Mediterranean countries strongly suggest that these jobs would be additional, not substitutive to the existing jobs.

6 A Classification of School-to-Work Transition Regimes

A stylized fact of Sect. 1, was that OECD countries tend to cluster around similar values of the YUR, AUR, and RD, which, as Smyth et al. (2001, p. 277), among others, notes, are partly independent of economic conditions and compositional

differences in young people's educational and social background. Also the evolution of the AD and RD are similar within given groups of countries. This may suggest that countries cannot be ordered along a continuous of some key variables, but each country belongs to a given school-to-work transition regime. School-to-work transition regimes comprehend the whole set of institutions that affect the complex process of transition, including not only the education and training system, but also the way labor markets are regulated, the welfare state is organized, and families are structured. All these factors, in fact, may importantly affect youth outcomes at the labor market. Smith et al. (2008, p. 19) define a transition system as "the relatively enduring features of a country's institutional and structural arrangements, which shape transition processes and outcomes".

Following, among others, Vogel (2002), at least five different school-to-work transition regimes can be identified:

- (a) the North European or Scandinavian;
- (b) the continental European;
- (c) the Anglo-Saxon;
- (d) the South European;
- (e) that of former socialist countries, which include the new EU member states.

These school-to-work transition regimes overlap very well with the welfare state regimes that Esping-Andersen (1990) identified—namely the social democratic, conservative, liberal—with the addition of the so-called Latin Rim (identified for the first time in Ferrera 1996; see, also, for a recent appraisal, Rhodes 2009) and of the former socialist world (identified, among others, in Fenger 2007; and Burlacu 2007). At this stage, it is still hard to say whether (some or all of) the school-to-work transition systems of New Member States belong to a specific new group or rather to one of the existing groups. The common socialist heritage would suggest considering them as an autonomous group, but a number of differences across countries do not allow disentangling clearly the specificity of such group. Moreover, many legislative changes are still ongoing and the final outcome is not clear as yet.

The study of differences across countries may help finding the systemic causes of youth unemployment. The attention is not paid so much to macroeconomic, but rather to microeconomic and institutional aspects. This does not mean that *aggregate demand management* policies are ineffective or are of no importance, as already argued in earlier in this book. They are absolutely necessary to abate the YUR in all countries, but would not probably change much of differences between countries, which are the main focus of this essay.

The remaining chapters shortly explore the main feature of these school-to-work transition regimes, with the aim of understanding, first of all, how they are structured and, second, what are the advantages and disadvantages of each in smoothing school-to-work transitions discussing.

6.1 North European System: Active Labor Market Policy

The North European regime was originally inspired to the lesson of Lord William Beveridge, more than Bismarck. It includes the Scandinavian countries (Finland, Norway, Sweden and, according to some observers, also Denmark and the Netherlands, that others include, instead, in the Central European regime). The flagship of Scandinavian Social Democracies, the welfare state, is characterized by its universal scope of coverage and citizenship, a noncontributory tax funding, envisaged flat rate, high levels of spending and supplied services, a substitutive rather than complementary role of the state (Leibfried and Mau 2008).

In this regime, the state undertakes the aim of full employment and each citizen is guaranteed the “right to be employed”. In fact, this feature of the Scandinavian regime is at the core of the EYG. The state is the employer of last resort. Employment is key to access citizenship and social rights. Accordingly, the welfare state is very well developed, while labor markets are far from flexible. Job search through public and private employment agencies is frequent.

The labor force has a high level of unionization. The strength of trade unions depends heavily on the so-called Ghent system, namely the role of trade unions in the management of income support schemes and ALMP, together with the PESs (Skans 2007).

Passive income support schemes are available not only for the unemployed, but also as a last resort for the poor in means-tested schemes. Recently, unemployment benefits are given on a contractual basis, namely provided based on the obligation to attend training courses to increase employability.

Active labor market policy is implemented on a large scale. Attendance of training schemes and other programs is mandatory for young people who are unemployed. Any unemployed young person is guaranteed an employment, educational, or training opportunity within 4 months from the beginning of their unemployment spell. Proactive schemes are the typical Scandinavian solution to the youth experience gap, since the educational system is sequential and young people enter the labor market with very little work experience and work-related competences.

There is large evidence of a gross impact of ALMP on youth employment opportunities for those individuals who attended training programs, though the net impact is a matter of discussion. By net impact of ALMP we mean the gross impact—namely the overall chances of finding a job after training—minus the chances that the target group would have obtained anyway if unemployed and, hence, independent of attendance of training schemes (see, for a more in-depth assessment, Sianesi 2004).

The European Employment Strategy is already largely in place in as much as education, training, or job opportunities are offered to each unemployed young people within 4 months of the unemployment spell. Overall, young people experience a high degree of employment protection, based on a long welfare state tradition. As already noted, the EYG is inspired to the Scandinavian model and

proposed to South European countries where the educational system is also sequential, rather than dual as it is instead the case in Germany.

The main shortcomings of this school-to-work transition regime include the low degree of social mobility and the high cost for the State budget of the overall school-to-work transition. Especially the spending in ALMP is extraordinarily high, considering that it should be provided to any unemployed person as an alternative to employment or education.

Different from Germany, the Swedish labor market—especially the youth labor market—has been experiencing severe hardship for over two decades. Until the eighties, Sweden was one of the countries with the lowest unemployment rate (1.5–2 %) and the highest employment rate (83 %) in the world. In the early nineties, however, the average unemployment rate grew up to 8 % and the employment rate reduced down to 73 %. The recovery of the mid-nineties was interrupted again in the 2000s, when both the YUR and the ratio to the AUR were high (see Figs. 1 and 2).

By contrast, the long-term unemployment incidence, namely the share of the long-term unemployed over total unemployment, is among the lowest (less than 10 %) among OECD countries (Quintini et al. 2007, page 30). This last figure, which would abstractly suggest that a high *turnover* rate exists, is apparently in contrast with the extremely low figure—among the lowest in the world—concerning the job destruction rate (Quintini et al. 2007, page 32). The most obvious explanation is to be searched for in the broad utilization in Sweden of temporary work (concerning at present over 50 % of young unemployed; Quintini et al. 2007, page 38) as well as of vocational training schemes provided, together with unemployment insurance, to all persons out of a job after a certain length of time since unemployment occurred. This suggests that vocational training conceived in the framework of active employment policies produces in Scandinavian countries effects of precarious work similar to those generated by temporary work. We will return on the locking-in effect of training programs, also called training trap, in what follows with reference to the South, Eastern, and Central European countries (see, among others, van Ours 2004; Caroleo and Pastore 2005; Wunsch and Lechner 2008).

If one considers the many deep similarities between the welfare systems of Germany and Sweden, the factor that could explain the difference between the performance of Sweden, which has become weak in recent years, and that of Germany, which is always outstanding, is clearly the education system. The German *dual education system* is not only an instrument of social integration for most young people, but also a formidable tool to simplify the school-to-work transition. In Sweden, the education system is flexible, which is an advantage, but still sequential, which forces young people to enter the labor market with low human capital levels and insufficient competences to spend on the job.

A comparison of the effectiveness of employment services between Sweden and other EU countries suggests that the level of effectiveness of the Swedish system of employment services is high relative to both the liberal and continental European ones. The proportion of workers who find a job through public employment agencies equaled 12.4 % in 2007, a bit lower than in Germany (13 %), but nearly double that in

the United Kingdom (7.7 %) and about four times bigger than that in Italy (3.7 %) (Cicciomessere and Sorcioni 2007, Table 3; Giubileo 2011; Pastore 2013a).

Against this excellent performance, in terms of the quantity of work mediated by PES, the relevant item cost of public spending in Sweden is much lower than in other EU countries. The share of GDP equals 0.8 % and is, hence, closer to that of the United Kingdom (0.6 %) rather than to that of Germany (1.3 %). Also the number of staff employed in the PES (10,250 people) is much lower than in Germany (about 74 thousand people) and Britain (about 67 thousand people).

It is difficult to say what the secret of the Swedish PES system is. Maybe, it is the continuous attention paid to the unemployed, also due to the small number of unemployed per employee of the PES, which equals nearly 28.9 units—one of the lowest among developed economies—together with the UK and Denmark. This indicator depends on both the low density of population and the effectiveness of the PES action. An important contribution is no doubt due to the attention toward businesses and their occupational needs, rather than to bureaucratic activities, and the continuous monitoring and evaluation of the services provided.

6.2 Continental European: The Dual Educational System

The Bismarckian regime is also named the “continental European regime” (Flora and Heidenheimer 2003; Bertola et al. 2001). It is based on a wage payment system or industrial achievement performance (Titmuss 1958). It is also called corporate conservative (Esping-Andersen 1990) or still occupational pure (Ferrera 1996). It is a model of welfare state (and, within the welfare regime, also of school-to-work transition) in the middle between the liberal and residual model, typical of Anglo-Saxon countries, and the social democratic and universalistic model, typical of Scandinavian countries. It is ruled by a wage payment or social insurance system aimed at workers, rather than at all citizens; it provides average performances and prefigures a state intervention, which can be defined complementary.

The Bismarckian regime is typical of Germany, Austria, as well as—in someone’s opinion—of Belgium and Denmark. After Belgium, the continental European regime surely takes after—at least partially—the so-called Ghent model of trade unions relationships (Weishaupt 2011).

The countries belonging to this regime have always featured the lowest youth-to-adult unemployment ratio worldwide at around 1 and, in any case, always below 2 in the case of Germany and slightly more than 1.5 in Denmark (see again the aforementioned Fig. 3). In other words, in Germany the risk of unemployment for young people is roughly the same as the risk of the adults. Despite the German reunification and the high unemployment rate of the Eastern *länder*, still the German youth-to-adult unemployment ratio has remained astonishingly low in the last decade. Moreover, as also Cahuc et al. (2013) and Dietrich (2012) noted, the current economic and financial crisis has only marginally affected the YUR and the RD in Germany and other countries in the continental European school-to-work transition regime.

As Steedman (1993), Ryan (2001, pp. 55^{ss}, 2008), O'Higgins (2001) and Ryan et al. (2013) argue, the main candidate to explain the success of the continental European model, and especially the German model, is the specific nature of the dual educational system, which is adopted also in Austria, Denmark, the Netherlands, and Switzerland.¹¹ Apprenticeship is perhaps the most important tile of the mosaic.

Dietrich (2007) and Büchel (2002) report that at the end of primary school (*Grundschule*), at the age of 10 years, children are offered the opportunity either to attend the gymnasium, which gives access later on to the university, or to attend vocational school and go into apprenticeship programs (*Realschule*) or to the general high secondary school (*Hauptschule*).

The apprenticeship contract between the student and the firm lasts from 4 to 6 years according to the type of qualification aimed to and is part of high secondary school. It implies an obligation to attend general vocational education at school for 1–2 days a week and practical on-the-job training for 3–4 days a week. The young person guarantees a constant commitment and availability to work in the firm. The firm provides a master of training, a wage, which is about a third of that of an adult worker with the same qualification, and social security contributions. At the end of apprenticeship, the apprentice has to seat an exam at the local Chamber of Commerce to obtain a professional qualification.

This partition dramatically reduces the YUR, by offering to workers not wishing to attend the University a high degree of integration in the educational system and, in the meantime, an important training opportunity to become a skilled and professionally qualified manual worker in the labor market. In addition, young workers already have all the qualifications necessary to their prospective employers to hire them immediately. In fact, most apprentices find a job already after finishing their program. The dropout rate from the apprenticeship system and in general from high secondary education is, in fact, very low. Generally speaking, after primary school, around 40 % of pupils choose the gymnasium, from 50 to 60 % go into apprenticeship and the rest enter the general high secondary school.

Only few students, especially immigrants or children of immigrants remain outside of these two options—gymnasium and apprenticeship. This is sometimes because of the lack of training places in the firms. They have no choice but entering general high school. The latter does also provide some type of vocational education and training. Nonetheless, in this case, training is not on the job, but rather in simulations of enterprises; as a consequence the quality of the competences acquired is lower than for apprenticeship. Most part of the young people who chose this third option will constitute the bulk of unemployment later on and will be the object of specific intervention by the PES and other institutions in charge of active employment policy. Fortunately, they represent a small minority of each cohort.

¹¹ France, several former Yugoslavian countries and China have also recently adopted the dual educational system. In fact, the Bologna process has introduced elements of the dual educational system also in other EU countries.

The degree of labor market flexibility is low in Germany, but high in Denmark, the homeland of the “flexicurity system”. As already noted, job search happens mainly through public employment agencies. There is a high level of unionization of the labor force. Apprenticeship is provided on a large scale for many high school students to fill in their experience gap. ALMP is provided for the weakest groups who are excluded from apprenticeship. Passive income support schemes are available for the unemployed in the form of an unemployment insurance and after sometimes also to long-term unemployment as based on means-tested passive income support schemes.

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

The advantages of this system are: (a) Low youth unemployment; (b) Smooth school-to-work transitions; (c) High degree of social integration; (d) High degree of protection for young people; (e) Being based on a long tradition of social dialog between educational system, social partners and PESs.

The main weakness of the continental European educational system is its rigidity, especially the obligation for students to choose their future very early at the age of 10 years, when the influence of parents is stronger (so-called early tracking). Those who have chosen to go into vocational education have little chance to change their mind and attain higher levels of education later. A typical consequence of early tracking is that social mobility is extremely low in the country.

Moreover, in a period of increasing tertiary education, early tracking might represent an important constraint to the development of a skilled workforce. In fact, by tending to reproduce the current skill composition of the workforce it prevents the supply of human capital from further increasing: according to the OECD (2013), Germany still lags behind the OECD average in tertiary attainment. Only 28 % of younger Germans, aged 25–34 years, have attained a tertiary education, while the OECD average for this age group is 39 %.

To sum up, the main shortcomings of the German school-to-work transition system include the following. First, although very successful, the system is hard to export, as shown by the experience of the Eastern lander and also of France and other countries, which have adopted the apprenticeship system. In these countries, after many years, the dual system is still less effective than in West Germany. There are many reasons why this is the case. First, it requires a big effort by all the social partners, PES, and educational institutions. The experience of social dialog, which is essential to find always new training places, is rooted in the juridical system, including the constitution, and also in a long tradition, which no other countries has. The state does little to make the apprenticeship system work. Social partners do most of the job, following a practice developed over several hundred years.

Second, the few who drop out of apprenticeship have big problems to integrate. They represent the bulk of unemployment for the rest of their lives. Third, too many young people are excluded from academic university education, although

professional university education is supplied to those holding an apprenticeship diploma. Fourth, early tracking causes very low social mobility (Checchi and Flabbi 2013). Fifth, it is very costly for schools, firms, and young people. Sixth, there is also some evidence that the employment opportunities offered to several young teenagers through the dual system do not last forever, and in fact tend to vanish when they become young adults (Hanushek et al. 2011).

6.3 The Anglo-Saxon System: High Quality of Education and Labor Market Flexibility

The case of the Anglo-Saxon youth labor market, especially the USA and the UK, is, perhaps, the most difficult to summarize in a short section, since it is the most studied, and therefore the relevant literature is very large (see, for instance, Freeman and Wise 1982; Blanchflower and Freeman 1990; Ryan 2001; O'Higgins 2001; Bell and Blanchflower 2011).

As already noted in Sect. 6.3, in Anglo-Saxon countries, there is a higher degree of labor market flexibility, but fewer temporary jobs than in the average EU country. Booth et al. (2002, page F189) and Ryan (2001, page 66), note that temporary work concerns only about 7 % of women and 10 % of men who are employed, and that these proportions have been very stable over time. This may impress those who are used to thinking of the United States, in particular, and of the Anglo-Saxon countries, in general, as characterized by a low degree of labor market regulation. In fact, in Anglo-Saxon countries, all labor contracts can be easily terminated with little firing costs, and this makes it less useful for firms to turn to temporary work as a substitute for permanent work.

The high degree of turnover of the United States reported in Table 1 of this essay is due, instead, to the fact that also the jobs of insiders are intimately more unstable: firms may dismiss activities and workers more easily than in Europe. On the other hand, though, it is much easier to find jobs. As a consequence, not only the length of unemployment spells, but also that of the transition from education to a permanent work is lower than average in these countries. Interestingly, the overall duration of school-to-work transitions is lower than in Scandinavian and South European countries, but higher than in Germany and Austria (Quintini et al. 2007, pages 30, 34–35).

The rate of unionization used to be high several decades ago, but has dramatically shrunk from the 1980s, while there is a relatively high degree of decentralization of wage bargaining. Nonetheless, the minimum wage is common to all Anglo-Saxon countries, although recently with a different value for young people and the adults.

Job search happens often through private employment agencies. Apprenticeship is available on a small scale. Passive income support is available for the weakest groups, provided that they attend proactive schemes. Already from the 1980s, the

length of unemployment benefits and the possibility of renewal after an employment spell has been dramatically reduced to prevent young people living on the dole for the rest of their lives.

As reported in Weishaupt (2011) and Pastore (2013a), distinguishing features of the employment services are:

- (a) a predominant role of the state in the general management of the services;
- (b) the exclusively consulting role of social partners;
- (c) the tendency to contract out to private agencies an increasing part of placement services and training programs, although under the monitoring and evaluation of the public sector.

In Australia, employment services are entirely contracted out to private agencies, even if they are funded by the state, rather than being paid by users (Webster and Harding 2001). A gradual but progressive privatization of employment services is happening also in the United Kingdom. This is fully coherent with the Anglo-Saxon tradition according to which intermediation between labor supply and demand must have a mere informational role and be launched as such to both public and private bodies, who freely and autonomously manage it, in competition with each other. The basic idea of the liberal regime is that competition among various bodies is a key condition to ensure greater efficiency, although in the framework of clear rules and correctives of failure that are inexorably generated by the market. Within the liberal system, distortions related to the assignment of employment services to private bodies (the so-called creaming or cherry picking of the best customers; discrimination of the most hardly employable; gaming between private agencies, employers and unemployed and so on) are not denied, but rather are considered as minor bottlenecks as compared to the goal of reaching a greater effectiveness of the system as a whole.

Different from what is generally believed, it is questionable whether the core of the Anglo-Saxon school-to-work transition regime and of its success in achieving smoothness is really to be found in the high degree of labor market flexibility. A more convincing candidate to explain this in turn is the educational system, which is sequential, but generally very flexible, of a high quality and with good links to the labor market. An important advantage, often neglected in other countries, is that the competences acquired in education are much oriented to problem solving, which helps students overcoming more easily the passage from general and abstract notions to skills and competences that can be used on the job. Moreover, the educational system is flexible in many ways, which have become more and more important with the expansion of the share of young people achieving tertiary education:

- (1) it allows students moving quite easily from one educational track to another;
- (2) students may complete their educational path with a university diploma already at the age of 21, when they can decide whether to accumulate job-specific work experience or to invest into further more specialized education or training;

- (3) the system of university credits allows achieving postgraduate diplomas in fields that are different from that of tertiary education.

Furthermore, both secondary and tertiary educational institutions provide very good job placement services, which allow young people to find more easily job vacancies suitable to them. Job placement services are especially good for students enrolled in many graduate programs oriented to produce skills, which are on demand in the skilled labor market. It is not by chance that the educational and training system of Anglo-Saxon countries is a model alternative to the German dual system for other countries experiencing longer education-to-work transitions and are based on the sequential concept.

In the UK, the YUR is relatively low at slightly more than 10 %, but the RD is one of the highest among OECD countries, at about 3 (see Figs. 1 and 2). Again this is the consequence of the very low average YUR and AUR and the strong cyclicity of the YUR. Nonetheless, when the crisis is strong and prolonged, as Newell and Pastore (1999) note with reference to transition from plan to market, like the current one, the RD goes down because the AUR has increased more than the YUR. A similar finding regards also the United States.

Ireland has experienced up and downs in the last decades, with values of the YUR and AUR very low in the late 1990s and the 2000s, but high in 2011, after the financial bubble exploded. The Irish RD has remained relatively low, though (compare Figs. 1 and 2).

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

To sum up, the advantages of this system are: (a) Low YUR, but still high if compared with that of the adults; (b) Low share of temporary jobs; (c) High level and quality of education; (d) High social mobility.

The shortcomings of this system are: (a) A bulk of low skill long-term unemployed for those who drop out early from the educational system; (b) Low degree of employment and social protection for young people; (c) Extreme segmentation of the youth labor market; (d) Very costly for individuals and households who have to bear most part of the cost of long-term unemployment.

6.4 The South European System: The Family and ... Temporary Work

The Euro-Mediterranean regime, typical of France, Greece, Italy, Portugal, and Spain,¹² is “rudimentary”, in as much as rights to public services are fully stated

¹² For shortness' sake, most part of the discussion is based on Italy.

and recognized as universal, but the welfare state is only a semi-institutionalized promise (Ferrera 1996). The right to health and to education, among others, is universal and granted to all residents, though. There are important aspects of the school-to-work transition that are common to the countries belonging to this group and allow me considering them as belonging to the same education-to-work regime.

The role of the state is less important than in the Central European and Scandinavian regimes and, with time passing, tends to shrink ever more in different fields. The degree of unionization of the labor force is generally high, though decreasing recently. Passive income support is granted to dismissed workers only and is therefore related to employment as a precondition. Generally speaking there are no means-tested passive income support schemes, which makes poverty quite common and difficult to bear for individuals without the support of their families. Subsequently, considerable responsibilities—as well as costs—of unemployment for new entrants and temporary workers who lose their job lie on their family.

Another typical feature of this regime is the persistent reference to an alleged rigidity of the labor market that a number of reforms seem to have been unable to domesticate. In the last decades, the degree of labor market flexibility has dramatically increased for young people, though, through the use of fixed-term contracts and several types of atypical labor contracts. These last reduce the hiring and firing costs only for those involved, as it is typical of reforms at the margin (so-called two-tier reforms). Nonetheless, as noted in a previous section, such reforms have shown many shortcomings, including the tendency to reinforce, rather than weakening the bargaining power of insiders.

Public spending in ALMP is insufficient and also the institutional context for its implementation is poor. Italy's spending in active policies amounts only to 0.37 % of GDP, a much lower share than Germany and France (1 %), not to mention Denmark (1.48 %), the homeland of flexicurity.

Apprenticeship programs were forbidden in Italy until the Single act of 2011, when they were liberalized and allowed also for university graduates (for an appraisal of the novelty introduced in 2011, see Tiraboschi 2011; Pastore 2012a). Since then, much effort has been put to reinforce apprenticeship and make it more widespread among young people, although the first evaluation studies relative to the implementation of the law are not particularly satisfactory (Isfol 2014). As Pastore (2014) and D'Agostino (2014) note, this is because of the rigid bureaucratic requirements necessary to implement training and that firms should satisfy according to the Single Act and the firms' tendency to prefer cheaper labor contracts, such as stage, training contracts and temporary work contracts, which are much cheaper.

Despite the important labor market reforms of the last decades, aimed at revitalizing public and private employment services, altogether they still intermediate only about 3 % of the overall new employment. Moreover, informal networks of family and friends are the most common job search method adopted by young people (Mandrone 2011). Public spending in PES is in Italy one of the lowest in the EU, at 0.03–0.045 % of GDP, about one tenth of spending in other EU countries, such as Germany, France, The Netherlands, the UK.

The concept of informal network, which is widespread in the countries belonging to this school-to-work transition regime, is rather different from the concept of informal networks typical of Anglo-Saxon countries. The latter are networks developed by individuals during their working career. They include former bosses and managers (the so-called “old boys”), and are hence able to convey important information regarding candidates. Conversely, informal recruitment channels based on family and friends networks tend to obey more to nepotistic considerations. The latter prove to be a *rumor* rather than a *channel* to reduce informational asymmetries between employers and employees. In fact, informal networks tend to generate wage premia in Anglo-Saxon countries and wage penalties in South European countries (Pistaferri 1999; Mosca and Pastore 2009; Meliciani and Radicchia 2011).

As Pastore (2013a) argues, the preference of individuals and firms for informal recruitment channels has its roots, on the one hand, in the role attributed to the family as a safety net for those most in need. It is commonly believed that family networks are the best channels to convey true information about the skill level of job candidates. On the other hand, the legislative history of the PESs, assigned to the state until recently in a regime of monopoly and to private agencies in a regime of competition with the public actor, have contributed to make this channel highly ineffective. After the 2003 reform (the so-called Biagi Law), still only about 3 % of the new employment is channeled through public and private employment services. The low share of financial and human resources assigned to the PESs is also to be noted.

Besides, among the observers, the suspicion that labor market reforms cannot replace a greater effectiveness of the education system, is more strongly diffused than it used to be in the past. According to many observers, also from different perspectives and approaches (Caroleo and Pastore 2005; Gelmini and Tiraboschi 2006; AlmaLaurea 2008; Pastore 2009, 2011), it is in the weaknesses of the educational and training system that may be found the weakest link of the Italian school-to-work transition system.

However, the labor market is designed, the issue of excessively long postsecondary education remains. This, in turn, reduces the incentive to invest in education, and determines a share of university dropouts that is the highest in the world (about 55 % of those enrolled, according to the OECD) (Pastore 2011, 2012a). The OECD (2013) note that younger Italians tend to be better educated than their older compatriots, only 15 % of 25–64 year old Italians have a university-level education, compared to the OECD average of 32 %. The level of tertiary attainment among 25–34 year olds is, however, still one of the lowest among OECD and G20 countries with available data (21%, rank 34 out of 36).

There is an intrinsic contradiction in an educational system that enables access to postsecondary education to all students holding a high secondary school diploma and that, at the same time, sees them dropping out after many years of endless studies. In fact, in Italy, despite the very low proportion of graduates, a high number

of students enrolls at the university.¹³ The educational reforms implemented at the end of the nineties and at the beginning of the 2000s have only slightly affected this problems, which still remain dramatic. As Bratti et al. (2008) note, the reforms have led to an increased number of matriculations, but not of graduates.

The reason for this failure may be found in the low democratic nature of the reforming process, which has not allowed lecturers, students and parents to assimilate the positive content of the reforms, which were in line with the Lisbon and Bologna processes.

Furthermore, also secondary education shows obvious shortcomings, mirroring the low proportion of persons holding a diploma: e.g., still far away is the objective of Europe 2020 according to which 90 % of young people between 15 and 22 years old should have completed high secondary education. Despite continuous but low growth over recent years, in 2011 the percentage of persons holding a high secondary school diploma between 25 and 34 years old was around 79 %, with strong differentials between Center-north and south of Italy (OECD average: 83 %).

Vocational training concerns only a small minority of the employed workforce. There is broad empirical evidence according to which the reforms of 2001 teaching regulations—the so-called 3 + 2 reform—has only slightly contributed toward “democratizing” the postsecondary education system. In recent decades, the proportion of graduates whose parents have low social origins and/or education levels has increased. This is also due to the enlarged training supply (see the AlmaLaurea annual reports).

Yet, as Caroleo and Pastore (2012) document, this improvement has not been able to alter the strongly “classist” features of the Italian postsecondary educational system. The level of education and family social extraction still seems to play a key role in children’s university performance. They affect not only the likelihood to pursue a university degree, but also other successful postsecondary education indicators, such as the field of study chosen, the duration of education and the final degree grade.

The share of I level university graduates whose parents are also both graduates is above average in the case of university degrees that provide a qualification giving access to liberal professions, namely medicine, architecture, pharmacy, engineering. It is clear that for liberal professions the economic value of intergenerational transfers is particularly high. The same proportion of graduates with both graduate parents is lower than average in all other areas.

Very similar conclusions emerge when instead of looking at the intergenerational transfer of educational levels, we consider social welfare. Also in this case, we note a very low level of social mobility, to demonstrate the direct linkage existing between the level of education of individuals and their social class of origin. If one wants to encourage social mobility, ensuring equal opportunities of access to higher education to all is important.

¹³ According to the OECD (2013), the proportion of young people who could be expected to enter a university-level program during their lifetime increased from 39 % in 2000 to 50 % in 2002 and 56 % in 2006, before dropping back to 48 % in 2011 (OECD average: 60 %).

Yet, econometric estimates seem to suggest that the effect of the socioeconomic condition of families on graduates' performance is rather indirect. The influence of parents' conditions on children seem to emerge above all from the choice of and performance during higher education: the latter, in fact, impacts also on university performance.

Paradoxically, if one considers that since 1969 tertiary education may be accessed with any high school diploma, Italy presents a degree of social immobility higher not only than the United States, but also than most continental European countries. Nevertheless, the direct cost of education is generally much higher in the United States than in Europe, and in particular in Italy (Checchi et al. 1999). This suggests that the direct cost of education is neither the only hindrance, nor the main barrier preventing the weakest social classes from accessing higher education. Obviously, there are other aspects of the education system that affect the capacity to offer equal opportunities to the beneficiaries of education. The most likely candidate to explain the strong degree of educational and social immobility is the indirect cost of education—above all postsecondary education, as measured by the foregone income that students would have earned had they worked rather than studying. In the case of Italy, the time necessary to complete the school-to-work transition is particularly long, about 7–8 years on average. In addition, it is clear that educational reforms have been unable to sufficiently reduce either the direct or the indirect cost of education, from which the disadvantage of the weakest social classes originates (Pastore 2009, 2013a, b).

Apart from Poland and the Slovak Republic, that have experienced a dramatic restructuring of the economy due to the transition from plan to market, South European countries score the highest YUR in Europe. Italy and Greece score also some of the highest RD, due to the extremely high YUR (Fig. 1). Over the early to mid-2000s, the YUR has slightly reduced, but at the cost of a dramatic explosion of temporary, often precarious or dead-end jobs. This is particularly true for Spain, but also France and Italy. The crisis has caused a further explosion of the YUR in most of the countries belonging to this regime, as Fig. 2 illustrates. Figure 3 shows that the Italian RD is, however, reducing over the decades and converging to the OECD average, because of the increased AUR. The very high AUR of the countries in the area explains why they maintain a relatively low RD.

The identikit of youth unemployed in Spain and in Italy are similar: (a) New entrants; (b) Women, especially with children; (c) And with low education attainment; (d) Trapped in precarious temporary employment; (e) That causes frequent unemployment spells; (f) With poor family background; (g) As a positive note, youth unemployment shows negative duration dependence, but this is due to the high share of temporary work (Caroleo and Pastore 2003, 2005).

In the case of Italy, ALMP has no impact on the probability to experience unemployment for young people, not even the gross impact. Interestingly, Caroleo and Pastore (2005) find evidence of what they call a “training trap”: participation into training programs does not affect employment chances, but rather the probability to participate into other training programs. This is similar to the locking-in

effect that van Ours (2004) has found in the case of subsidized jobs in the Slovak Republic and Wunsch and Lechner (2008) have found for Germany.

The gender dimension is also a peculiarity of youth unemployment in this group of countries. While in Northern European countries, men have long had lower educational levels and lower job opportunities than their female counterparts, in Southern European countries, women are increasing their educational level only recently and, consequently, young women still represent the bulk of unemployment. This is due to different attitudes on gender roles and the preference for the one-breadwinner model. In turn, this traditional view is ever more in contrast with the legitimate career ambitions of women and, coupled with little support by the state in favor of conciliation strategies, is causing increasing divorce rate and female age at first child and, hence, decreasing fertility.

The advantages of this model are: (a) Low direct (but not indirect) cost of access to the university; (b) Mild introduction of flexibility and duality in the educational system; (c) Move to the 3 + 2 university system (Lisbon strategy); (d) Increasing labor market flexibility; (e) Increasing awareness of the youth unemployment problem; (f) Households are good support for young people.

The disadvantages are: (a) Very long school-to-work transitions; (b) Very high YUR; (c) Low education attainment, especially at the tertiary level; (d) Low quality of education, increasing length of tertiary education and a high share of dropouts; (e) Failure of the educational reform; (f) Increasing job precariousness; (g) Lowest social mobility; (h) Highest costs of unemployment spells for households;

6.5 The New Member States: Building a Modern Welfare System

Due to the ongoing reforms, it is still not clear whether the New EU Member States are a different group or whether they are better understood as part of the previous regimes. In fact, this school-to-work transition regime is internally highly heterogeneous, although the countries included share a common socialist heritage. Consequently, also the outcomes in terms of youth unemployment are similar.

The labor market position of young people in the new member states is on average worse than the EU average and close to that in South European countries (Figs. 1 and 2). The ratio of the YUR to AUR fluctuates between 2 and 3 from one country to the other. Beleva et al. (2001) find a ratio of 2.1 for Bulgaria, whereas Pastore (2012b) and Domadenik and Pastore (2006) find a ratio of 2.8 for Slovenia and 3 for Poland. However, almost everywhere the YUR is high and the anecdotal evidence suggests that while few particularly skilled young people have been the real winners of transition, most low skill young people have been the losers.

During the socialist era, in Central and Eastern European Countries (CEECs), workers were used to a pervasive welfare state. Unemployment was virtually non-existent due to the commitment of socialist regimes to full employment as a way to

exploit all the available labor surplus (Kornai 1992), but this implied also the commitment of state firms to provide jobs for all, though at very low wages. Moreover, the state used to provide also several other benefits to the most in need as well as free social services for all, including childcare facilities, health care, hospices, and other services for the elderly. This was possible thanks to very soft budget constraints for state firms, the hidden state budget deficit and strong trade unions.

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

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

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

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

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

Pastore (2012b) focuses on Poland as a typical example of the changes new member states are facing. Poland is the transition economy experiencing the highest degree of structural change and the highest unemployment rate in the area. It adopted a Big Bang approach to the reform process, by introducing simultaneously price and trade liberalization, together with privatization and macroeconomic stabilization already in the early 1990s. A massive flow of foreign direct investment has triggered the process of technological change, on the one hand, and generated the need for skill upgrading of the workforce, especially of the youngest segments, on the other hand.

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

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

In recent years, almost all new member states have implemented the 3 + 2 educational reform. Several former Yugoslavian countries—Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia, Slovenia—have adopted the dual educational system. Moreover, their ratio of spending in proactive versus passive schemes has dramatically increased.

The educational attainment level is further increasing in all former socialist countries, which is raising concern that overeducation and overskilling might become more and more important issues (Farčnik and Domadenik 2012).

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

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

7 Discussion and Summary Remarks

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

Two main arguments cast doubts on the mainstream approach. First, it comes the Heckman and Borjas (1980) and Heckman and Singer (1984) argument that there is no duration dependence from unemployment when controlling for omitted skill heterogeneity. The policy consequence is that training programs may be in principle more efficient in reducing youth unemployment than increasing labor market flexibility. Becker's work provides a second important argument: it suggests, in fact, that fixed-term contracts may generate sufficient incentive to invest only in the formation of generic, but not of job-specific work experience. There would be, therefore, a failure in the market for job tenure, which should be addressed by providing some incentives to invest in human capital accumulation or job-specific training programs.

These arguments explain why labor market flexibility is only one of the policy instruments adopted in any country to help young people to fill their gap of work experience. They also let us understand why increasing entry flexibility in traditionally rigid EU countries has reduced youth unemployment only marginally, while generating much work precariousness. An important stream of the literature has attempted to elaborate on flexicurity as an alternative to flexibility alone. Flexicurity necessitates providing employment stability, if not job stability. In turn, this calls for social security rights for temporary workers and passive income support during frequent unemployment spells, also to discourage the abuse of fixed-term contracts. It also calls for more developed training and recruitment systems.

The educational system itself is another policy tool not less important than labor market flexibility to fight youth unemployment. At certain conditions, the former may, in fact, be the most effective tool to raise the employability of young people.

It is certainly difficult to find recipes that accord to the institutional framework of any country and it is clear that in each group of countries there are bad and good

performers. However, comparison of the outcomes of different European models in addressing the problem of the school-to-work transition suggests that youth unemployment is lower:

1. With a higher level of GDP and of GDP growth;
2. With flexible, dual educational systems, which are also more inclusive;
3. Where labor market flexibility is coupled with high education attainment;
4. Where ALMP is fine tuned to the needs of the weakest groups: targeting and evaluation are necessary;
5. If households do not bear all the cost of youth unemployment.

The Lisbon strategy, as defined by the Special EU Council of March 2000, further relaunched at the EU Council of 2010, suggests the importance for young people of investing in human capital accumulation for the future of Europe as “the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion”. Under the pressure of the economic crisis, the 2013 EU council held in Brussels launched the Youth Guarantee, a scheme that ensures that all young people under the age of 25 years—whether registered with employment services or not—get a good-quality, concrete offer within 4 months of them leaving formal education or becoming unemployed. The good-quality offer should be for a job, apprenticeship, traineeship, or continued education and be adapted to each individual need and situation.

The analysis carried out in this paper suggests that the Lisbon strategy and the Youth Guarantee are good guides for EU governments to fight youth unemployment. Nonetheless, it also suggests that they are difficult to implement due to important institutional and historical differences across EU members. They are also very costly to implement especially for countries where youth unemployment is very high and the institutions regulating the labor market are very weak, like they actually are in the Southern Mediterranean countries and the new EU member states.

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