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**Youth Employment Trajectories and Labour Market Reforms during the Great Recession in Europe**

Gabriella Berloffa (University or Trento), Alina Şandor (Joseph Rowntree Foundation), Mark Smith (Grenoble Ecole de Management and University of Stellenbosch Business School), Paola Villa (University or Trento)

Abstract

[**EN**] The Great Recession had profound consequences for the quantity and quality of work for young people in European countries. Usual labour market indicators capture only some crisis effects, highlighting the need for a more dynamic and nuanced approach. As a result, this paper adopts an innovative approach to both the analysis of the integration of young adults (aged 17-34) on to the labour market and the study of the relationship between the labour market performance and policy making.

[**IT**] La Grande Recessione generò un forte impatto sulla quantità e la qualità del lavoro dei giovani adulti nei paesi dell’Europa. Gli indicatori convenzionali del mercato del lavoro catturano solo alcuni degli effetti prodotti dalla crisi, sollecitando un approccio dinamico più variegato. Su questa strada si muove l’articolo, adottando un approccio innovativo sia all’analisi dell’integrazione dei giovani adulti (17-34 anni) nel mercato del lavoro sia allo studio della relazione tra le condizioni occupazionali e l’attività di riforma delle politiche del lavoro.

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**Parole chiave**

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**INTRODUCTION**

The Great Recession had profound consequences for the quantity and quality of employment for young people in European countries. At the same time, policy responses, while numerous, were not always consistent, and at times incoherent (O’Reilly, Leschke, Ortlieb, Seeleib-Kaiser and Villa 2019), demonstrating an on-going reliance on reducing employment protection and limiting income protection. This paper proposes an analysis of the effects of the severe economic downturn (during 2008-2012) on youth employment and on labour market policy making through a comparison with the period before the Great Recession.

This paper focuses on young individuals aged 17-34, three to five years after leaving education, when the difficulties associated with the school-to-work transition should be overcome. We use comparative European-wide data in order to explore the quality of their (monthly) employment status trajectories, with particular attention to the dimensions of employment opportunities and security of work. The analysis of youth trajectories on the labour market is complemented by the analysis of labour market policy making in the periods before and during the Great Recession. In particular, we consider the intensity of policy making affecting the regulation of the labour market in 25 European countries over the 2004-2012 period.

The rest of the paper is organized as follows. Section 1 reviews the relevant literature and discusses our research propositions. Section 2 presents our datasets and methodology. Section 3 provides a descriptive analysis of the cross-country differences in the distribution of secure and insecure trajectories of young Europeans (aged 17-34). Section 4 describes the intensity of policy making (i.e. labour market reforms) to discuss the relationship between the share of young people with insecure trajectories and changes in the labour market settings. A final Section concludes.

**1. Labour market regulation and SECURE TRAJECTORIES**

Labour market regulation is a key factor affecting the quality and nature of transitions of young adults, besides youth policies explicitly aimed to promote smooth school-to-work (STW) transitions. Differential levels of employment protection legislation (EPL) between temporary and permanent employment have led many countries to entrenched labour market segmentation, with young people being increasingly confined to the labour market’s insecure segment. Since 2010, many countries have tried to tackle segmentation by deregulating permanent contracts (Eichhorst *et al. 2*016; Picot and Tassinari 2017). As Hadjivassiliou *et al.* (2019) have shown, despite being more pronounced in the most segmented countries, such as France, Spain and Italy, this has also occurred in less segmented countries, such as the Netherlands. While reducing segmentation, excessive flexibility can lead to low employment quality and high precariousness, as the experience of the English-speaking and Central-Eastern European (CEE) countries shows. The trend emerging from reforms implemented since the Great Recession thus seems to point toward greater labour market flexibilisation, which is not promising in terms of ensuring youth transitions to stable and secure positions (Smith *et al.* 2019). Balancing flexibility and security in youth labour markets represents a key, and unresolved, challenge in all countries.

**2. The methodological approach**

The increased flexibility of labour markets resulting from over two decades of labour market reforms, combined with the effects of the worsening macroeconomic conditions around the onset of the Great Recession, call for a different perspective in the analysis of the difficulties faced by young people in the labour market. Berloffa *et al.* (2019b) developed a new approach for the evaluation of employment quality, considering the evolution of individual’s employment conditions over time, instead of the quality of the job held at a point in time.[[1]](#footnote-1) Adopting this approach implies moving from a static to a dynamic approach for the evaluation of youth labour market outcomes. This change of perspective is crucial for setting policy priorities and proposing adequate labour market policies. Further, it calls for an assessment of policy making at the national level that takes into account the specific difficulties faced by young adults in entering secure employment trajectories.

The increasing precariousness of young adults in Europe implies that monthly information about individuals’ employment status over two/three year period reveals many movements going on in the labour market. Monthly information on individuals’ employment statuses is here used to identify various types of 'employment status trajectories’ (ESTs), according to the length and number of employment and non-employment spells.

**3. Analysis of youth trajctories**

We follow Berloffa *et al.* (2019b) and use EU-SILC longitudinal data to identify six categories of employment status trajectories (ESTs) for young adults (aged 17-34) based upon the length and number of employment and non-employment spells over a relatively long period of time (24 months starting three to five years after leaving education).[[2]](#footnote-2) These ESTs are defined as follows:

1. *employment-secure:* trajectories which includes employment spells lasting (each) at least six months and non-employment spells lasting (each) at most three months;
2. *prevalently in employment*: trajectories including a long employment spell (at least 12 consecutive months), few spells of non-employment (unemployment, inactivity, or education), a low number of status changes (two at most);
3. *prevalently in unemployment*: trajectories with a long unemployment spell (at least 12 consecutive months), few spells of employment or inactivity/education, a low number of status changes (two at most);
4. *return to education*: returned in full-time education for at least six consecutive months. Individuals who return to education are considered as a separate group because their decision might change their future prospects.

Before the crisis (2004-2008), one in five individuals had an insecure trajectory, with a similar incidence of ‘prevalently unemployed’ and ‘prevalently inactive’ (slightly less than 40% of the insecure group) and a somewhat lower incidence of ‘in&out’ (slightly more than 20%) (see chart 1). The remaining four fifths of individuals had a secure trajectory, with the majority being ‘employment-secure’ (70%). There was, however, a large variability of these shares across countries. The share of young individuals with an insecure trajectory varied between 5% (DK) to 33% (BG). This incidence was higher in CEE and Mediterranean countries and lower in Nordic countries, but with exceptions. For example, the share of insecure trajectories was large in Finland (24%), but below the average in Spain and Portugal (18% and 16%, respectively), and very low in Romania (5%).

Chart 1 Variation in different trajectory types between 2008/09-2011/12 and 2004/05-2007/8 (pp)

Note: *a* between 2008/09-2011/12; *b* 2004/05-2007/08.

Source: Authors’ calculations based on EU-SILC longitudinal data (2006-2012).

**4. Analysis of policy making**

We can complement the analysis of the quality of employment trajectories of young people within member states by exploring policy-making activity on labour market reforms, distinguishing between before (2004-2007) and during the crisis (2008-2012). These analyses not only contextualise the shifting institutional environments but also permit the exploration of the relationship between labour market conditions and policy responses. By measuring policy intensity – average number of policies enacted per year as recorded by LABREF - we highlight the scale of policy activity and their relationship with labour market conditions for young people.

In order to explore these relationships further, chart 2 presents two groups of countries: firstly, those countries with more stable youth labour market performance (no more than a +3pp rise in insecure trajectories); and, secondly, those with more significant increases in insecure trajectories. These two charts describe the policy-making responses (in terms of intensity) across countries in relation to young adults’ labour market performance.

Chart 2 considers the countries with more stable labour market performance (as measured by the small change in insecure trajectories). They show a diverse range of changes in intensity of policy making. We find both countries with relatively stable labour market policy environments (BG, DK, FR, LU, SI) and countries with numerous labour market reforms (AT, BE, FI, UK).

Chart 2 Countries with relatively stable youth labour market performance: changes in the share of insecure trajectories and in policy intensity before and during the crisis (2004-2007 vs 2008-2012).

Source: Authors’ calculations based on EU-SILC longitudinal data (2006-2012) and LABREF database (2004-2012).

In table 1 we disaggregate these patterns further using the categorisation of countries according to the consequences of the crisis on insecure trajectories, illustrated above in section 4. Here we observe that those countries with noticeable rises of policy-making activity and most marked consequences in terms of sharp rises in insecure trajectories included the Mediterranean group (as identified by Stovicek and Turrini 2012); these countries (EL, ES, IT, PT, along with Cyprus) were also subject to intense pressure to reform their labour markets by the ECB and the EC. We also find four CEE countries (LT, EE, HU, SK) in this group. By contrast, those countries with low or no increases in policy intensities and low or no rises in insecure trajectories include a mix from continental (FR, LU), Nordic (FI) and CEE countries (BG, SI). Similarly, the lower row of the table includes a representative from each of the country groupings, including countries with an increase (UK, AT) and a decline of policy-making activities (NL, PL). Countries with low or declining policy responses and a moderate or significant increase in insecure trajectories include two CEE countries (LV, RO) and an exception among the Mediterranean grouping (MT).

Table 1: Changes in insecure trajectories and policy making intensity (2004-2007 to 2008-2012)

|  |  |  |
| --- | --- | --- |
|   | Campione selezionato | Intero campione |
|  | Media | St Dev | Media | St Dev |
| (Ln) Salario settimanale lordo (FTE) | 6,17 | 0,56 | 6,16 | 0,57 |
| Indice WFH (5 digit) | 48,91 | 14,99 | 48,99 | 14,95 |
| Età (in anni) | 40,73 | 11,69 | 40,91 | 11,76 |
| Donne | 0,47 | 0,5 | 0,45 | 0,5 |
| Istruzione obbligatoria | 0,27 | 0,44 | 0,28 | 0,45 |
| Istruzione secondaria superiore | 0,43 | 0,5 | 0,44 | 0,5 |
| Istruzione terziaria | 0,3 | 0,46 | 0,28 | 0,45 |
| Contratto tempo determinato | 0,35 | 0,48 | 0,34 | 0,47 |
| Part time | 0,23 | 0,42 | 0,23 | 0,42 |
| Altro inquadramento | 0,04 | 0,21 | 0,04 | 0,21 |
| Operaio | 0,45 | 0,5 | 0,47 | 0,5 |
| Impiegato | 0,46 | 0,5 | 0,45 | 0,5 |
| Dirigente | 0,04 | 0,2 | 0,04 | 0,19 |
| Totale osservazioni | 2.533.565 | 2.949.733 |

Notes: mean increase in average policy making is +3.96pp with a standard deviation of 4.56pp; countries in bold were subject to intense supranational pressure to reform their labour markets.

Source: Authors’ calculations based on EU-SILC longitudinal data (2006-2012) and LABREF database (2004-2012).

As we point out elsewhere (Smith and Villa 2020) much of the increase in policy intensity was driven by efforts to enhance ALMP to respond to the challenges on the youth labour market (i.e. supporting security in the labour market) combined with pressure to weaken EPL arrangements seen as a means to open access to employment (i.e. increasing flexibility). These measures were encouraged by guidance from the EC and pressure to reform the operation of the labour market in response to the crisis (Smith *et al.* 2019). In other words, labour market reforms were driven by external pressures in a situation of a dramatic fall in aggregate demand, rather than a by a coherent strategy towards more efficient national settings. Also, reforms were based on a downward pressure on job security and a strengthening of employment security through ALMPs, despite slack of demand (Smith *et al.* 2019).

**CONCLUSIONS AND DISCUSSION**

The Great Recession was a turbulent time for labour market outcomes and labour market policy making. Our dynamic analysis of the labour market integration of young adults, that goes beyond the conventional analysis of school-to-work transitions, demonstrates an overall increase in insecurity associated with the economic downturn. A non-negligible share of young adults in EU countries already experienced insecure trajectories before the outbreak of the Great Recession, and an overall increase of young adults in these insecure trajectories was observed between 2004-2007 and 2008-2012 (18% to 22%).

Our analysis of policy-making intensity demonstrates a significant increase in policy-making activity over the same period. The exploration of the relationship between labour market conditions for young adults and policy-making responses is novel. Although we find that higher shares of insecure trajectories seem to be positively correlated with higher intensity in policy making, there are clearly other factors shaping policy responses at the national level. Indeed, the majority of European countries intensified their labour market reforms at the outbreak of the Great Recession. The most active countries included both those with relatively stable problems on the youth labour market (measured by the share of young adults with insecure trajectories) as well as those with worsening youth labour market performance (particularly the Mediterranean and CEE countries).

**INSERIRE QUI LA TABELLA IN APPENDICE (VEDASI FILE EXCEL E QUI DI SEGUITO)**

**APPENDIX**

Table A1 The incidence of the various trajectory types among young people by country before the crisis (2004-2008) and during the crisis (2008-2012) (%)

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Before the Crisis (2004-2008)** | **During the Crisis (2008-2012)** |
| **Country** |  | Employm secure | Prev. Empl. | **SECURE** | Prev. Unempl. | Prev. Inactive | In&Out | **INSECURE** | Return to Edu. | Employm. secure | Prev. Empl. | **SECURE** | Prev. Unempl | Prev. Inactive | In&Out | **INSECURE** | Return to Edu. |
| Bulgaria | BG | 50.00 | 16.47 | **66.47** | 20.28 | 9.04 | 4.02 | **33.34** | 0.20 | 56.05 | 8.06 | **64.11** | 23.68 | 8.82 | 3.27 | **35.77** | 0.13 |
| Italy | IT | 59.79 | 11.24 | **71.03** | 16.94 | 5.32 | 5.62 | **27.88** | 1.09 | 53.41 | 12.31 | **65.72** | 22.08 | 4.84 | 5.86 | **32.78** | 1.50 |
| Poland | PL | 61.66 | 11.66 | **73.32** | 13.48 | 8.76 | 4.11 | **26.35** | 0.32 | 66.38 | 10.66 | **77.04** | 9.23 | 9.54 | 4.06 | **22.83** | 0.13 |
| Estonia | EE | 62.39 | 11.69 | **74.08** | 4.20 | 17.78 | 3.87 | **25.85** | 0.08 | 56.41 | 14.16 | **70.57** | 11.23 | 12.58 | 4.88 | **28.69** | 0.73 |
| Hungary | HU | 61.67 | 13.26 | **74.93** | 5.33 | 16.21 | 3.39 | **24.93** | 0.14 | 57.20 | 11.78 | **68.98** | 8.58 | 14.72 | 7.22 | **30.52** | 0.50 |
| Greece | EL | 61.63 | 13.29 | **74.92** | 12.54 | 7.50 | 4.39 | **24.43** | 0.64 | 51.37 | 12.55 | **63.92** | 21.21 | 8.37 | 5.77 | **35.35** | 0.72 |
| Finland | FI | 65.43 | 9.67 | **75.10** | 3.16 | 12.45 | 8.18 | **23.79** | 1.12 | 62.46 | 12.75 | **75.21** | 3.69 | 12.16 | 8.10 | **23.95** | 0.83 |
| Czech Republic | CZ | 70.96 | 8.25 | **79.21** | 3.96 | 15.69 | 1.01 | **20.66** | 0.13 | 68.86 | 9.18 | **78.04** | 4.88 | 14.23 | 2.86 | **21.97** | 0.00 |
| France | FR | 71.47 | 8.37 | **79.84** | 9.61 | 5.46 | 4.29 | **19.36** | 0.80 | 70.03 | 9.38 | **79.41** | 9.78 | 4.61 | 5.64 | **20.03** | 0.56 |
| United Kingdom | UK | 75.34 | 5.46 | **80.80** | 1.87 | 10.54 | 6.58 | **18.99** | 0.22 | 74.00 | 7.80 | **81.80** | 4.37 | 8.63 | 4.73 | **17.73** | 0.47 |
| Portugal | PT | 68.25 | 12.26 | **80.51** | 6.68 | 5.03 | 6.77 | **18.48** | 1.01 | 64.04 | 12.56 | **76.60** | 15.99 | 2.18 | 3.98 | **22.15** | 1.25 |
| Latvia | LV | 70.89 | 11.54 | **82.43** | 4.52 | 9.28 | 3.51 | **17.31** | 0.25 | 52.64 | 16.15 | **68.79** | 15.60 | 10.77 | 4.51 | **30.88** | 0.33 |
| Cyprus | CY | 75.66 | 7.12 | **82.78** | 3.64 | 8.44 | 4.47 | **16.55** | 0.66 | 68.30 | 11.08 | **79.38** | 8.27 | 5.61 | 6.17 | **20.05** | 0.56 |
| Austria | AT | 74.52 | 8.93 | **83.45** | 1.90 | 8.93 | 5.24 | **16.07** | 0.48 | 75.47 | 8.40 | **83.87** | 4.61 | 4.61 | 5.15 | **14.37** | 1.76 |
| Spain | ES | 69.72 | 12.83 | **82.55** | 6.75 | 2.36 | 6.94 | **16.05** | 1.40 | 55.04 | 15.19 | **70.23** | 16.90 | 2.56 | 8.23 | **27.69** | 2.08 |
| Lithuania | LT | 74.47 | 9.67 | **84.14** | 4.64 | 7.54 | 3.29 | **15.47** | 0.39 | 64.75 | 11.11 | **75.86** | 12.64 | 6.90 | 4.41 | **23.95** | 0.19 |
| Slovakia | SK | 74.93 | 10.35 | **85.28** | 9.18 | 4.37 | 1.09 | **14.64** | 0.07 | 72.71 | 9.15 | **81.86** | 8.20 | 7.86 | 1.81 | **17.87** | 0.26 |
| Malta | MT | 79.56 | 5.66 | **85.22** | 8.21 | 3.10 | 3.10 | **14.41** | 0.36 | 74.03 | 7.07 | **81.10** | 10.86 | 6.10 | 1.49 | **18.45** | 0.45 |
| Slovenia | SI | 76.41 | 10.34 | **86.75** | 1.75 | 6.46 | 4.42 | **12.63** | 0.63 | 75.88 | 9.07 | **84.95** | 9.44 | 1.34 | 3.90 | **14.68** | 0.37 |
| Belgium | BE | 78.95 | 7.91 | **86.86** | 4.85 | 2.68 | 5.10 | **12.63** | 0.51 | 75.77 | 9.99 | **85.76** | 5.43 | 4.11 | 3.96 | **13.50** | 0.73 |
| Luxembourg | LU | 80.31 | 7.59 | **87.90** | 3.47 | 6.18 | 2.19 | **11.84** | 0.26 | 76.31 | 9.75 | **86.06** | 6.30 | 4.50 | 3.00 | **13.80** | 0.15 |
| Sweden | SE | 81.51 | 7.39 | **88.90** | 1.06 | 1.94 | 7.39 | **10.39** | 0.70 | 79.84 | 8.44 | **88.28** | 1.23 | 0.82 | 9.05 | **11.10** | 0.62 |
| Netherlands | NL | 83.15 | 7.15 | **90.30** | 0.79 | 3.02 | 5.56 | **9.37** | 0.32 | 86.93 | 6.44 | **93.37** | 2.27 | 1.52 | 2.65 | **6.44** | 0.19 |
| Romania | RO | 80.37 | 13.86 | **94.23** | 2.80 | 1.87 | 0.78 | **5.45** | 0.31 | 78.18 | 5.24 | **83.42** | 6.52 | 9.30 | 0.64 | **16.46** | 0.11 |
| Denmark | DK | 83.85 | 8.50 | **92.35** | 1.70 | 0.85 | 2.55 | **5.10** | 2.55 | 81.22 | 9.86 | **91.08** | 2.35 | 1.41 | 2.35 | **6.11** | 2.82 |
| EU average | EU  | 69.77 | 10.37 | **80.14** | 7.25 | 7.63 | 4.41 | **19.29** | 0.58 | 65.82 | 10.69 | **76.51** | 10.89 | 7.15 | 4.76 | **22.80** | 0.69 |

Note: countries ranked by pre-crisis share of insecure trajectories.

Source: EU-SILC longitudinal data authors’ own calculations.

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1. See Berloffa *et al.* (2019b) for a detailed presentation of this new approach, and its implementation for the analysis of existing differences in individuals’ employment quality by gender, education and labour market institutions. [↑](#footnote-ref-1)
2. Individuals who were inactive for the entire length of the sequence (4.5% of the sample) are excluded. [↑](#footnote-ref-2)