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Generation Jobless: Youth Unemployment and the Disparate cases of Germany and Spain

Elena Pellegrini

Abstract

This paper investigates the economic, political, and social elements behind differences in youth unemployment in Germany and Spain. Young people are more vulnerable on the labor market, especially during recessions; as a result, youth unemployment has been consistently higher than that of the adult population. However, youth unemployment in Spain is more than six times higher than in Germany. These two countries share a similar history and are part of the same political and economic union. My findings show that the German dual educational system, which combines classroom teaching with on-the-job training, favors the transition from school to work. On the other hand, the Spanish system incentivizes school dropouts, which are twice as high as the European Union average. Furthermore, the enormous Spanish debt to GDP ratio carries along with it a set of austerity measures that decrease youth employment; among these, labor market reforms and a constantly increasing minimum wage have had a particularly negative impact. Spain seems to be affected by structural unemployment, and the measures undertaken after the Great Recession, although helpful, will not solve the problem. As a result, the Spanish government should work on improving its school system, with the goal of decreasing school dropouts. In addition, it should establish a long-term strategy to reduce the public debt, thereby ensuring stability and sustainable development, reducing austerity measures and rigid labor-market institutions.

Interest and increasing concern have recently grown around youth unemployment, an ardent topic that is shaking the economy and the labor market in Europe more than elsewhere. Youth unemployment is the joblessness of young people aged 15–24 years who are actively seeking work. Unemployment is a main indicator of the vulnerability of the market and resources allocation, and their inefficiency mostly affects young people who are exposed to economic turmoil and changes (Fashoyin XIX). Today, they face increasing uncertainty in their hopes of finding a satisfactory job in the highly demanding labor market; they are less able to contribute effectively to national development and have less to spend as consumers (Fazio XV).

In 2016, 71 million young people were unemployed in the world, representing 35% of the unemployed population globally, with a youth-to-adult unemployment ratio estimated at 2.9 (International Labour Organization 7). These data show how much more likely it is for young people to find themselves unemployed compared to the rest of the population. As youth unemployment rates remain persistently high and transitions from education into work become increasingly more difficult, a growing share of youth are neither employed nor in education (International Labour Organization 1-3).

There are several causes that contribute to the unemployment factor. More and more young people fail to meet employee demands. Lacking the necessary skills and experience requested by the market, they find themselves in a disadvantageous position compared to adults. The results of this research underline that differences in the educational system are the major factors that lead to structural unemployment. Specifically, countries with a dual-educational system, which combines apprenticeships in a company and vocational education at school in one course, tend to have generally low youth unemployment; on the other hand, countries with a traditional, theory-oriented

educational system tend to experience early school dropouts above the average and a higher youth unemployment rate. Furthermore, a higher public debt to GDP ratio leads governments to undertake austerity measures, such as employment protection policies and rigid labor-market institutions, which affect youth unemployment. Finally, a high minimum wage and an increase in the younger population seem to have an influence on youth unemployment, although they can only be considered added factors and not the main reason for structural unemployment.

This situation is much more evident during economic crises, which take to the extreme the already precarious situation of the labor market and force governments to undertake policies that usually do not favor the young generation (Fazio 3). The Great Recession in 2007 drew attention to this case, especially for its alarming numbers: in the world, the youth unemployment rate stood at 11.9% in 2007 and reached 13% in 2009, with 81 million young people unemployed (Fashoyin 3). In Europe, the situation was even more worrisome: the youth unemployment rate climbed to over 23.7% in 2013. Furthermore, the economic crisis highlighted the deep differences that emerge among countries in the European Union itself (The European Commission).

Germany, Austria, and the Netherlands had a quick and effective response to the crisis, keeping the youth unemployment rate under 10%; on the other hand, in Spain, Italy, and Greece, youth unemployment climbed dramatically up to 40% and continues to be problematic (European Youth Forum, 9-10). Germany and Spain, therefore, represent two interesting cases for youth unemployment. Besides being part of the same geographical region, they are also part of the same political and economic organization, the EU, which shares common policies among its members.

The German economy is one of the largest in the world and first in the EU. It is concentrated mainly on the service sector, especially on exports, and emphasizes strong social-democratic policies, besides being manifestly capitalist. Germany had to reinvest around institutions and policies to achieve the "economic miracle" of the 1950s and 1960s, after the tangible and economical devastation of World War II (O'Neil 254).

Similarly, in the post-Franco era, Spain entered a phase of vigorous economic growth and modernization. It was regarded as one of the most dynamic economies within the EU, even able to replace the leading role of much larger economies like the ones of France and Germany (Ballester 12-15). However, this flourishing economy collapsed with the financial crisis of 2008 and has not yet completely recovered; nowadays, the Spanish economy is the sixth-largest in Europe and Spain one of the main exporters (The European Commission).

In Spain, youth unemployment has long been a weakness. According to The World Bank data set, the scarcity of jobs for young people was already an issue before the Great Recession: in 1991, the youth unemployment rate stood at 30%, and a few years later, in 1994, it reached 44.2%. The main reason for this structural problem seems to be the poor Spanish educational system, with high early school dropouts (European Youth Forum 10). In fact, in 2011 early school dropouts amounted to 26.5%, compared to the EU (27) average of 13.5%; at the end of 2012, only 69.1% of young people had completed primary school and merely 22% had graduated with a secondary school education (Escardibul 28-30).

However, the fast economic growth that Spain experienced in the early 2000s was able to depolarize the difference with other countries in the EU: the youth unemployment rate decreased to 17.9% in 2006, reaching the lowest rate of the last twenty-six years. Unfortunately, the economic recession has had a particularly severe impact in Spain, worsening the already unstable situation. Only three years later, in 2009, the youth unemployment rate climbed to 37.9%, and in 2013 it reached its highest amount at 55.6%. More than half of the population aged 15 to 24 was unemployed (The World Bank).

This dramatic increment can be explained by the strong dependence of the Spanish economy on the construction sector, which was heavily impacted by the crisis. Many young people who worked in this sector lost their jobs; furthermore, most of them had indefinite, poorly-regulated contracts and, consequently, were the first to be let go during the economic recession (European Youth Forum, 10).

In response to the economic crisis and to combat the rise of youth unemployment, the institutions of the EU developed and promoted the European Employment Strategy (EES), a policy plan started in 1997 to tackle youth unemployment and promote employability. An important result of the EES was "An EU Strategy for Youth" of 2009, a document that promoted a cross-sectoral approach to make members proactive towards individual measures. In addition, in 2010, the European Council promoted an active inclusion of young people, focusing on two fields of action: education and training, employment and entrepreneurship. In order to meet these targets, particularly relevant is the initiative "Youth on the Move," aimed to help young people acquire skills and competences through a monitoring system (Lahusen 300-303).

However, the most significant actions were taken in 2013, when the European Council launched the Youth Employment Initiative (YEI), a financial resource (with a budget of €6.4 billion) to support young people who were not in education, employment, or training (NEETs), in those regions where youth unemployment was higher than 25%. The YEI is an implementation of the Youth Guarantee, a commitment by all Member States that aims to offer a good continued education, apprenticeship, training or employment opportunity to all unemployed young people aged 15-24, within four months of leaving employment or education. At three years from the launch of the Youth Guarantee, 16 million young people have entered the program and 10 million took up an offer (The European Commission).

The youth labor market was favorably affected by these initiatives, facilitated by structural reforms and innovation in policy design across EU Member States. Youth unemployment dropped from 23.7% in 2013 to 18.7% in 2016, with 18 million fewer young people unemployed in the EU. Furthermore, by the end of 2013, member states with access to the YEI were encouraged to present a National Youth Guarantee Implementation Plan, specific for each country (The European Commission).

The Spanish Youth Guarantee Implementation Plan recognizes the heterogeneous unemployed youth population and aims to provide measures and successful integration in the labor market for the different targets. To do so, the plan seeks to prevent early school dropouts, minimize the period of unemployment (as it could limit the possibilities to reenter the labor market) and prevent unemployment as far as possible (Government of Spain 6-7). These measures are part of the Youth Employment Entrepreneurship Strategy (2013-2016), an initiative of the government and social partners that proposes 100 actions which, by late 2013, had already offered more than 115,000 opportunities to young people (La Moncloa).

Among the measures adopted in the Spanish Youth Guarantee Implementation Plan, the government intended to improve support for young people with several actions: providing young people with labor information and assistance in job seeking; modernizing the Public Employment Services with dedicated staff; creating the Self-Employment Portal, which provides young people with information and tools useful in job searches; and launching educational-employment mediation programs that will inform and advise people aged 15 to 24 (Government of Spain 21-24).

Other programs were established to improve employability. The second-chance programs aimed to fight early school dropouts by training young people who were not in education and to

facilitate their access to the labor market; moreover, training programs in languages and technologies were promoted to improve skills and competences of young people. Some of the trainings led to a Professional Certificate, while others were provided with an employment commitment in the form of a contract with a duration of at least six months. Finally, the government promoted a dual vocational training program by offering a combination of paid work in a company and training in an educational system (Government of Spain 24-28).

Companies were supported with social security contributions, such as reductions and bonuses, for part-time employment with training, for hiring self-employed workers or enterprises, and for placement contracts for people under 30. In addition, companies received financial aid for hiring people under 25 not in education, employment, or training, and for young people at risk of exclusion or with disabilities (Government of Spain 29-32).

Finally, Spain designed a series of measures to promote entrepreneurship. Young entrepreneurs could register with the Special Regime for Self-Employed Workers (RETA), thanks to which they received unemployment benefit to start an entrepreneurial activity. Furthermore, self-employed workers were provided with a second chance if their project failed by receiving the unemployment benefit once again after leaving the RETA. Lastly, entrepreneurial culture was promoted in schools and training centers, and Reference Offices were created to advise and support new entrepreneurs (Government of Spain 32-34).

After the adoption of this program, the unemployment youth ratio decreased from 55.6% in 2013 to 32.7% as of December 2018 (The World Bank). Certainly, these measures have helped the labor market to recover after the economic crisis; however, youth unemployment remains a structural problem for Spain and will need time to stabilize itself to pre-crisis rates. Structural youth unemployment refers to a mismatch between the skills that workers in the economy can offer, and the skills demanded of workers by employers. Unlike cyclical unemployment, it is caused by forces other than the business cycle, such as an ineffective education system, and it is harder to correct than other types of unemployment. This explains why, in Spain, youth unemployment remains high long after a recession ends (Amadeo).

On the other hand, youth unemployment has always been fairly low in Germany. Like Spain in the post-Franco era, after the economical devastation of World War II, the BRD (Federal Republic of Germany) had to reinvest around institutions and policies to achieve the "economic miracle" of the 1950s and 1960s; imperialism was replaced by occupation and demilitarization, followed by rapid industrial growth. This economical development helped the unemployment rate remain below average, as a great amount of labor force was requested in the reconstruction of Germany (O'Neil 254-256).

Despite its increase in the following years, the youth unemployment rate stayed significantly low, climbing from 3.9% in 1980 to 10.1% in 1984 (Clement 205). After dropping again to 5.5% in 1991, the youth unemployment rate slowly increased in the following decade, reaching its peak in 2005 at 15.5%, only a few percentage points lower than Spain, which stood at 19.7% (World Bank).

This peak in unemployment was partly due to the general economic slowdown of the time; however, some legal changes such as the Hartz IV implementation reform of 2005 had a significant impact as well. This reform is a set of proposals that recommended changes to the German labor market system. With this reform, parental maintenance obligations no longer applied to young people who were living in their own accommodations, preventing them from claiming social benefits. To register for benefits, they were usually required to be registered as unemployed; consequently, this made the youth unemployment rate climb (Brenke 5).

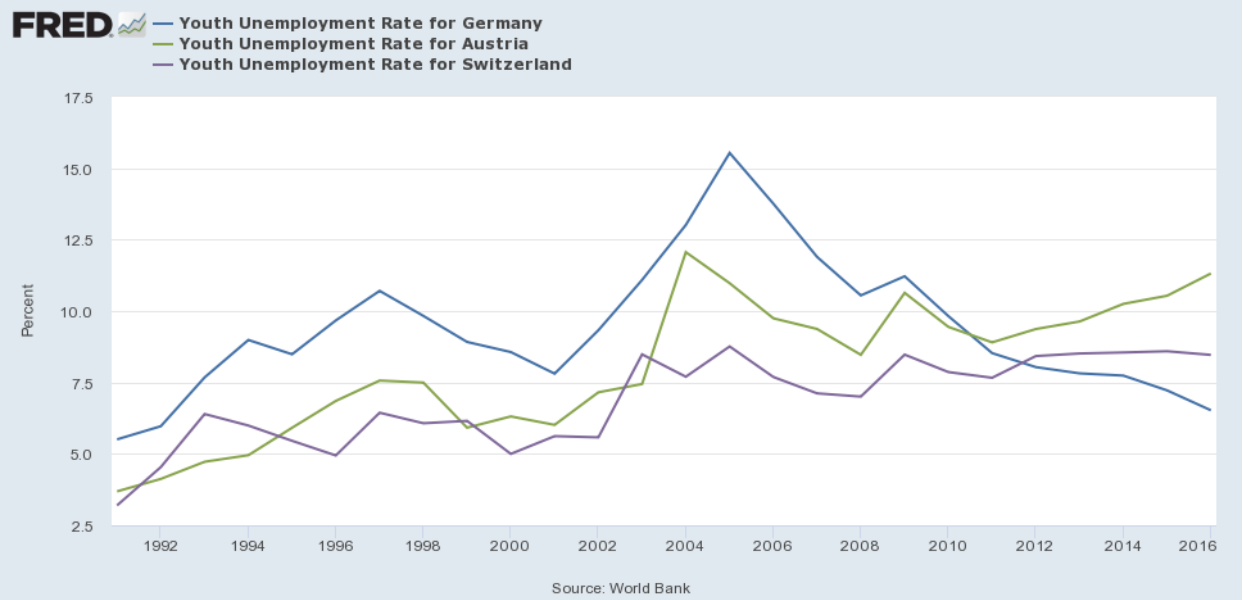
To combat youth unemployment, in June 2004, the German government joined with employers and business associations in signing the national Vocational and Educational Training Pact, which increased by 30,000 the number of apprenticeship placements. This pact particularly targeted school dropouts, who seemed to be the ones who struggle the most to integrate into the labor market. The plan was successful, and, in 2008, the rate declined to 10.5%, with a clear increase in the number of jobs filled by young people (ILO).

However, with the Great Recession of 2008, the number of unemployed young people rose again. Fortunately, the crisis did not impact German youth as it did those of other European countries (Brenke 5). After a brief increase in the rate that reached 11.2% in 2009, youth unemployment continued decreasing up to 5.6% in 2019, one of the lowest percentages since reunification (World Bank).

In response to the shock of the crisis, the major adjustment that Germany undertook was a reduction in working hours. Average working hours decreased in the most of OECD countries; however, the decline is particularly evident in Germany. From 2008 to 2009, the average annual hours worked decreased from approximately 1,360 to merely 1,300 hours per employee. Nevertheless, this reduction, which sought to maintain unemployment rates low, entailed a much larger loss in GDP, which dramatically declined by 4.7% from 2008 to 2009; this output drop exceed both the average in the EU and that in the United States. Still, recovery took place earlier and was stronger in Germany than for the EU average (Rinne et al. 1-5).

Youth unemployment does not seem to be a structural problem for Germany, and several explanations have been provided for this theory. Since the labor market transition of youth is generally highly correlated with the levels of educational attainment, a reason for low youth unemployment could be the German dual educational system, which combines work experience, on-the-job training, and classroom teaching (Clement 203-204). In this view, the apprenticeship in a company fosters the transition into the labor market. A company might be more willing to make an employment contract with a student who has experience in the company, benefiting by hiring an employee who already knows the company's work environment. In fact, lately, the share of apprentices who remain in the same company after the completion of the program has been about 60%, and about 80% after 3 to 4 years. More than 50% of companies with at least one employee are involved in this type of training, and the salary they pay to the apprentice is similar to that of university graduates in their early years in the work force. (Cahuc et al. et al. 8-9).

Like Germany, Austria and Switzerland both have a dual apprenticeship system, which represents the main transition path from school to work, and like Germany, both Austria and Switzerland show a history of low youth unemployment (Cahuc et al. 9). As the World Bank shows, the youth unemployment rate in Austria ranged from a minimum of 3.2% in 1991 to a maximum of 8.8% in 2005, while in Austria from a minimum of 3.7% in 1991 to a maximum of 11.3% in 2016. On the other hand, in these three countries, the fixed-term employment ratio between young people and adults exceeds the EU average; however, this can be explained by the fact that they have a long tradition of a dual apprenticeship system. Consequently, temporary employment of young people is not synonymous with job insecurity, but rather part of their vocational education (Cahuc et al. 13).



Another key factor that contributes to youth unemployment is labor cost, which can be a barrier in the transition from school to work. In fact, it is well known that a high minimum wage (high labor cost) reduces employment of the low-skilled, of which young people generally make up a greater portion. Before 2015, Germany had no statutory minimal wage, as it was negotiated by industry and occupation among the social partners; yet, 30% of low-skilled young Germans were employed at a cost of between €7 and €10 per hour, which is relatively higher than the majority of statutory minimal wages. However, a growing low-wage sector with precarious jobs

has required the government to introduce a minimum wage, which was set at €8.50 in 2015 and has recently been increased to 8.86€. Several economists have argued that the introduction of a minimum wage could increase youth unemployment even in Germany (Cahuc et al. 10-11).

According to Brenke, on the other hand, the drop in youth unemployment in Germany is primarily a result of the declining number of young people (3-6). In fact, besides having always been fairly below the EU average, the German young population dropped further by 2.2% of the entire population from 2005 to 2014, diminishing by more than 600,000 people (OECD). This drop would also explain why youth unemployment declined when the labor force behavior remained unchanged, and the number of employed youths declined (Brenke 5).

Conversely, according to Kokotović's research, the public debt to GDP ratio can be a significant factor that particularly affects youth unemployment. In fact, by calculating the long-run coefficients of the ARDL youth unemployment models, Kokotović proves that an increase of the public debt to GDP ratio has a more pronounced effect on youth unemployment in comparison to the total unemployment rate, confirming that the youth unemployment rate is more sensitive to business cycle oscillations (88-91).

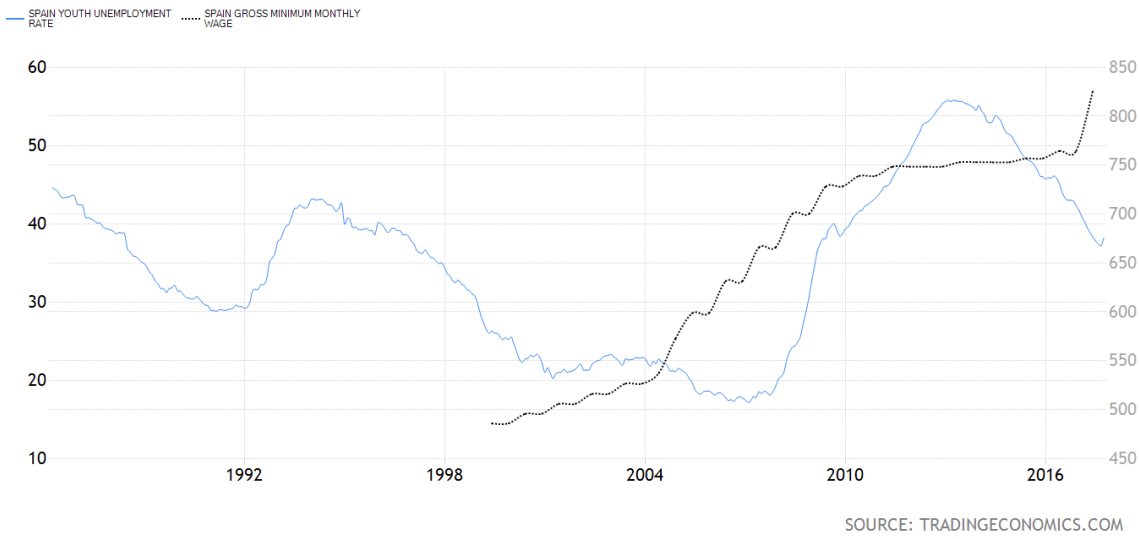
Research indicates that stricter employment protection and rigid labor-market institutions particularly raise youths' unemployment rate relative to that of adults. For example, firing restrictions amplify the cyclical fluctuation of the unemployment rate for youths, but not for adults; similarly, pension reforms, aimed to reduce the deficit in social security, increase retirement age and affect the demand of labor for young people. Countries in which younger generations excessively absorb economic shocks place a greater burden of the business cycle on youths, who presumably have a lower capacity to absorb risks because they hold fewer assets than other age groups, on average. Furthermore, results indicate that stricter employment protections amplify the effect of the cyclical unemployment rate on that of youths. This implies that the cost of the business cycle falls disproportionately on youths in the countries with stricter employment protections (Kawaguchi).

However, youth unemployment in Germany does not seem affected by the debt to GDP ratio, which peaked in 2010, when youth unemployment decreased from the preceding year (Trading Economics). This can be explained by the fact that, during the crisis, Germany reduced the per capita hours worked, producing a greater loss in GDP. Furthermore, youth employment can be concentrated in the service sector in countries that experience a rapid contraction of the manufacturing sector, given that the decrease of the employment share in the manufacturing sector is more significant among youths than adults. The manufacturing sector may well be more susceptible to the business cycle than the service sector because the product demand is more volatile due to the durable and tradable nature of its product (Kawaguchi). Consequently, countries like Germany, where young people are mostly employed in the service sector, are less likely to experience youth unemployment due to business cycle oscillations.

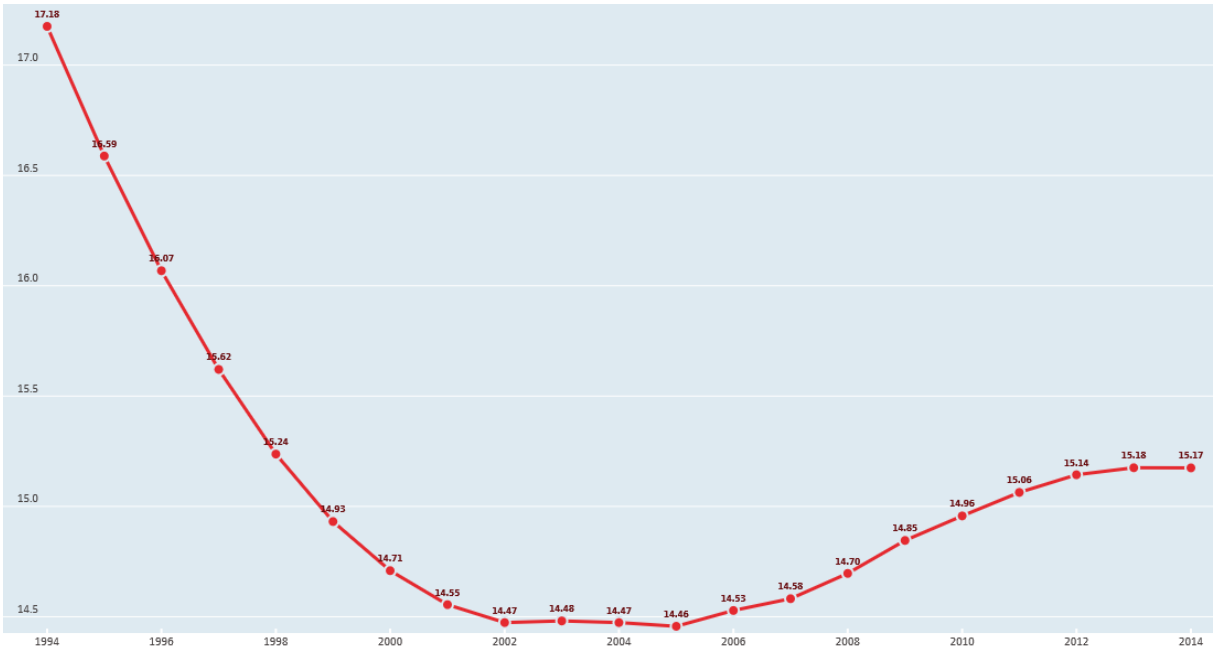
It is evident that some factors make youth unemployment a structural problem for Spain and not for Germany. The most important factor is the Spanish educational system, which, contrarily to the German one, fails in providing a satisfactory transition into the labor market for young people, resulting in more school dropouts. This general and traditional system, which is particularly demanding, is mainly focused on the repetition of the courses rather than on individual support (like in Germany), and discourages most of the students, who often react by dropping out. Consequently, a great number of young people find themselves with neither a sufficient education nor an apprenticeship, which is typically undertaken after a bachelor degree.

Furthermore, the increasing phenomenon of over-education may result in decreased chances of low-skilled workers finding employment due to crowding-out, and, not surprisingly, Spain is one of the European countries with one of the highest levels of over-qualification (Caliendo 5-6). Countries with a similar educational system, such as Italy, equally show school dropouts above the EU average and a youth unemployment rate that ranges from 20.4% to 42.9%, with a drastic increase after the Great Recession (World Bank).

Secondly, unlike Germany, the introduction and increase of the minimum wage in Spain seems to have had some influences on youth unemployment. The minimum wage has continuously increased from a minimum of €485 per month in the early 2000s, to a maximum of €858.55 per month today; analogously, the youth unemployment rate has increased from 20.5% in 2001 to 43% in 2016. Specifically, the minimum wage increased from €550/month in 2005 to €725/month in 2010, dragging the youth unemployment rate from 19.7% to 41.6% (Trading Economics). Certainly, the Great Recession of 2008 had a huge impact on unemployment as well, but the pattern between these two factors seem to be rather evident. Young people in Spain are not sufficiently qualified to be as productive as the minimum wage requires them to be, limiting their chances to find a job.



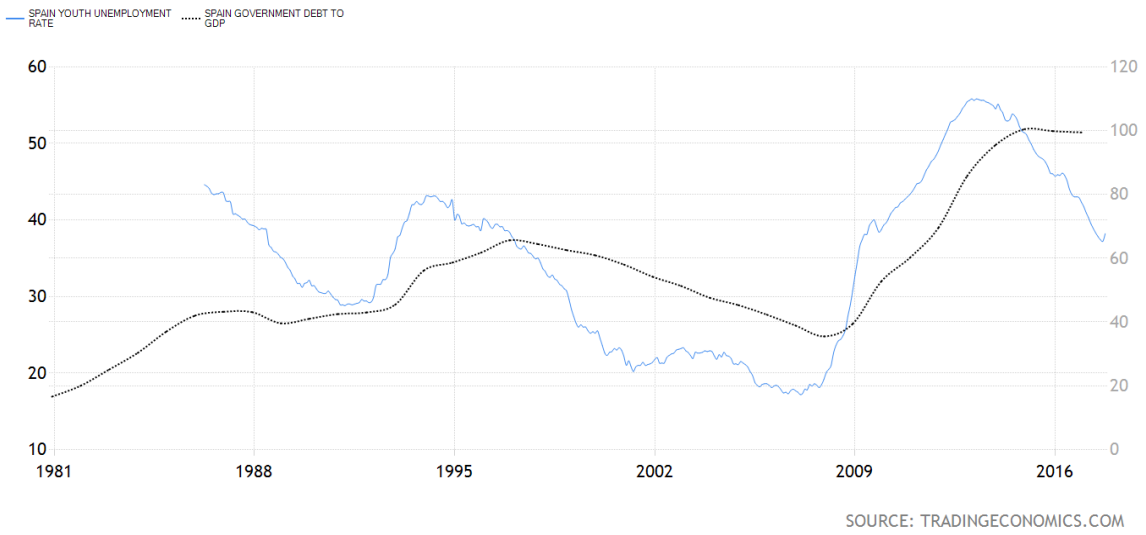
Similar patterns are founded in the relation between the Spanish young population and youth unemployment. In fact, Spanish youths as a percentage of the general population underwent a period of decrease from 1994 to 2005, dropping from 17.2% to 14.46%; analogously, between 1994 and 2005, the youth unemployment rate declined from 44.2% to 19.79%. After 2005, the Spanish young population increased up to 15.7% in 2014; likewise, youth unemployment reached 53.2% in the same year (OECD). Although this cannot be the only explanation, there seem to be a pattern that links the number of young people with youth unemployment.



Young Population, Spain.
Source: OECD

Finally, contrarily to Germany, the public debt to GDP ratio seem to be a significant factor affecting youth unemployment in Spain. After the 2008 crisis, Spain, like many other European countries, employed austerity measures to ensure a return to a more stable macroeconomic environment, developing a public debt to GDP ratio that it cannot sustain and an alarming youth unemployment rate (Kokotović 88-91).

This conclusion is particularly evident when observing the data. From 1996 to 2007, the Spanish youth unemployment rate declined by 23%, carried by the Spain government debt to GDP, which decreased from 70% to 35%; however, with the beginning of the crisis in 2008, the Spanish government debt to GDP ratio climbed to 100.4% in 2014, when the youth unemployment ratio stood at 53.2%. Furthermore, this debt is higher than the EU average even in the pre-crisis era (Trading Economics).



Therefore, the increase in government debt to GDP ratio seems to carry along a set of austerity measures based on internal currency devaluation, labor market reform, fiscal consolidation, and structural and deregulatory reforms, which affect youth unemployment negatively. In addition, the crisis heavily impacted the construction sector, on which the Spanish economy is highly dependent. From 2007 to 2014, the number of people working in construction fell by 1,786,000, accounting for 55% of all job losses over this period. Most of the workers in this sector were young men; thus explaining the enormous impact on youth unemployment (Rosnik 1-4).

We can conclude that there are some clear patterns that make youth unemployment a structural problem for Spain but not for Germany. First of all, its traditional educational system incentivizes school dropouts and does not favor the transition of young people into the labor market. Secondly, the enormous public debt to GDP, generally higher than the EU average, leads to employment protection policies and rigid labor-market institutions which affect youth unemployment. Thirdly, the labor cost, and particularly the minimum wage, seems to be too high for the insufficiently skilled and unqualified Spanish youth; and finally, the Spanish young population has generally been higher than the European average, and almost always higher than that of Germany. Nevertheless, the minimum wage and the young population seem to be only an added factor; they cannot explain by themselves structural unemployment. The relation between the public debt to GDP and youth unemployment seems not to be casual; youth unemployment increases because of the austerity measures and intervention in the labor market aimed to reduce the public debt.

The policies undertaken by the Spanish government in 2013 certainly helped delimit the issue; however, structural problems such as the poor educational system and the high public debt will continue affecting youth unemployment. Consequently, the Spanish government should work on improving its school system by switching to a dual educational system to favor the transition of students into the labor market, thus decreasing school dropouts. Furthermore, it should establish a long-term strategy to reduce the public debt, so as to ensure the stability and sustainable development of the country, reducing austerity measures and rigid labor-market institutions. Other European countries that are experiencing a situation similar to that of Spain,

such as Italy, Greece, and Croatia, should also be encouraged to follow these policies and focus on significantly decreasing the current youth unemployment rate.

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