

Youth employment trajectories and labour market reforms during the Great Recession in Europe

Gabriella Berloff

University of Trento

Alina Şandor

Joseph Rowntree Foundation

Mark Smith

Grenoble Ecole de Management
and University of Stellenbosch
Business School

Paola Villa

University of Trento

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.

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.

DOI: 10.53223/Sinappsi_2021-01-1

Citazione

Berloff G., Şandor A., Smith M., Villa P. (2021), Youth employment trajectories and labour market reforms during the Great Recession in Europe, *Sinappsi*, XI, n.1, pp.8-21

Keywords

Youth employment
Employment policies
Economic recession

Parole chiave

Occupazione giovanile
Politiche dell'occupazione
Recessione economica

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 *et al.* 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.

The conventional labour market indicators (unemployment rate/ratio; share of young people neither in employment nor in education and training, abbreviated NEET¹) capture only some of the consequence of the Great Recession on youth labour (O'Reilly *et al.*

The research leading to this contribution has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no. 613256. Further details about the research project on Strategic Transition for Youth Labour in Europe are available on the STYLE project website www.style-research.eu.

1 For a definition of NEET, see Eurofound (2012).

2015). Berloff *et al.* (2019a) propose a more dynamic nuanced approach for the analysis of the labour market integration of young Europeans. This paper adopts this innovative approach in order to reach two complementary aims. Firstly, to show that the pathways towards decent work or unsuccessful integration of young Europeans were very heterogeneous across countries both before and during the Great Recession. Secondly, to explore whether the intensity of policy making activity at the country level was associated with the specific changes recorded in the employment status trajectories for young people during the Great Recession. More precisely, we want to examine whether policy-reform activity from member states is driven by a coherent long-term strategy to tackle the specificities of national labour market problems, or whether they are responses to changes in macroeconomic conditions with intensive changes in labour market regulation². The analysis of the link between labour market conditions and policy making is the main contribution of this paper. Outcomes on the labour market are often considered to be dependent upon labour market reforms; but here we aim to show the potential for conditions on the labour market to shape the policy making content and intensities. We recognise that policymakers themselves may be influenced by pressures from various levels and dominant thinking around the operation of labour markets.

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.* 2016; 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. While institutional configurations are important in shaping the structure, nature, and effectiveness of youth transitions, the performance of countries is also significantly shaped by macroeconomic trends (Boeri and Jimeno 2016). As pointed out by Hadjivassiliou *et al.* (2019), divergence between countries in economic performance during the crisis and in the emergent phase of post-crisis recovery accounts for many of the differences observed with regard to the performance of youth labour markets. For example, the compara-

2 The literature on labour market institutions is very large. A stream of literature investigates the effects of certain reforms at the country level (for example, Cappellari *et al.* 2012); other studies focus on the effects of a given institution (i.e. job protection) on employment across countries (for example, Cahuc *et al.* 2016).

tively positive performance of the Polish youth labour market is largely explained by the fact that Poland did not undergo a recession during the economic crisis. Likewise, Austria, Germany, the Netherlands and Sweden started recovering from the impact of the crisis relatively early compared to countries affected by austerity: this helps account for their comparatively better performance with regard to youth employment.

A large body of literature focuses on the years immediately following the end of formal education focussing on the STW transition period (Pohl and Walher 2007; Wallace and Bendit 2009; Hadjivassilios *et al.* 2019³). In contrast, little research has been done to analyse the employment outcomes of young people in the subsequent phases of their labour market experience, when the turbulent phase of STW transition is over.

It can take time, after leaving education, before a young person holds a solid position in the labour market in terms of skills, experience, networking and employment opportunities. The difficulties faced by young entrants, qualified but lacking experience, may be overcome after a time span of around three years, with some variability depending on individual characteristics, labour market conditions and institutional settings (Berloffo *et al.* 2019a). However, this is not the case for a significant share of young people. Although having appropriate educational qualification, they might face persistent difficulties in accessing stable employment, experiencing a series of short-term employment spells intermixed by periods of unemployment or inactivity. The Great Recession has had profound consequences for the quantity and quality of work for young adults, calling into question existing measures and approaches to the analysis of youth transitions. With falls in the total level of employment (due to hiring freezes and job destruction), increasing precariousness and rising unemployment, it was an inopportune time for young people to join the labour market (O'Reilly *et al.* 2015). At the same time, policy responses were inconsistent, and at times incoherent, demonstrating an on-going reliance on the flexicurity paradigm⁴, reducing employment protection and lim-

iting income protection, besides enhancing activation policies (Smith *et al.* 2019; Smith and Villa 2020).

The extension of periods of precariousness, increasing both objective and subjective insecurity, into the late 20s and even early 30s has led to delays in other life transitions associated with independence from the parental home in many countries (Buchman and Kriesi 2011; Eurofound 2014; Russell *et al.* 2020). Even prior to the crisis, there were considerable differences between countries in typical ages for leaving formal education, gaining a secure job and establishing an independent household (Anxo *et al.* 2011). Furthermore, the effects of the Great Recession on the labour market have revealed that the big age divide in inflows and outflows from unemployment is between prime age workers (35-54) and younger workers (15-34) (Flek *et al.* 2019).

One of the consequences of this prolonged integration is that the definition of youth extends beyond categories often used in official statistics (15-19 or 15-24 years). Going beyond the statistical convention – used upper limit of 24 years for identifying youth unemployment rate – allows us to address risks of insecure transitions more comprehensively. This is important concerning to the analysis of those suffering early-career insecurity, beyond the STW transition period. Furthermore, with increasing educational attainment among young people there is a need to analyse not only STW transitions but also the quality of employment in the early phase of youth working life.

Certain implications follow. First, a similar youth policy might produce different outcomes in different countries. Second, labour market reforms not specifically focused on young people (i.e. lowering the costs for service work; changing the rules for individual dismissals for permanent workers; pension reform increasing retirement age) may have different effects on young adults and prime age workers. Third, some labour market institutions (i.e. a dualisation of EPL) tend to amplify differences across countries in terms of youth labour market outcomes, not least because of the interaction with macroeconomic conditions (Boeri and Jimeno 2016).

3 This body of work has produced the comparative categorisation of STW transitions and the identification of institutional arrangements that support smooth(er) transitions (Wallace and Bendit 2009). These comparisons help identify the extent of social exclusion and consequences of poor labour market insertion (OECD 2010; Scarpetta *et al.* 2010).

4 Flexicurity has been a policy strategy since 2005/2006 endorsed by the European Commission (EC) and put on top of the political agenda for the European Employment Strategy (EES) (Muffels and Wilthagen 2013). The EC considers flexicurity as an integrated strategy to simultaneously enhance flexibility and security in the labour market. Flexicurity is designed combining three main policy components: flexible contractual arrangements; effective active labour market policies; and conditional income support during unemployment spells. See EC (2007).

Based on this discussion of the existing literature we can make a number of propositions for expected patterns of youth 'employment status trajectories' (based on monthly employment status observations, over a period of time).

Firstly, given the observed declines in labour market performance across the EU since the Great Recession and the propensity of young adults to be impacted by economic downturn, we would expect to find a decline in the within-country shares of secure trajectories for young people in all countries during the crisis years. We would expect these declines to be more marked in those countries where the crisis had the greatest impact. Also, we would expect the composition of secure and insecure trajectories to vary across countries. Indeed, the internal composition of both secure and insecure trajectories may be partially explained by differing labour market institutions (e.g. short-time working, duality of employment protection legislation, flexibility-security nexus) and/or the interaction with macroeconomic conditions.

Secondly, we would expect the difficulties faced by young adults on the labour market to create pressure on policymakers to intervene and thus observe changes in the institutional settings and/or the intensity of policy making. While labour market reforms at the national level might be expected to follow a plan and be implemented according to a coherent long-term strategy toward an efficient functioning of the labour market (i.e. country-specific), the reality may differ. We would expect to find a positive relationship between share of young people in insecure trajectories and the intensity of labour market policy making both across (groups of) countries and over time (before and since the Great Recession). As such, countries with high shares of secure trajectories are expected to show a lower policy making intensity (i.e. more stable institutional environment), and vice-versa countries with high shares of insecure trajectories are expected to record a high policy making intensity (i.e. less stable institutional environment).

Thirdly, although aimed at the country-specific difficulties faced by young adults, labour market reforms may be driven by a dramatic deterioration in macroeconomic conditions (as recorded by Mediterranean countries during the Great Recession). Moreover, the

policies implemented tend to be shaped by the prevailing policy thinking at the supranational level (European Central Bank (ECB), European Commission (EC), Organisation for Economic Co-operation and Development (OECD)), instead of responding to country-specific inefficiencies. Yet more nuanced analyses of youth labour market problems (as presented here) highlight the need for more nuanced policy interventions. Thus, although countries with a similar (high) shares of insecure trajectories' may face different root problems, we would expect them to 'react' (implement new policies) in a relatively homogeneous way.

The next section discusses the methodological approach developed to measuring secure/insecure trajectories and the use of the policy-level data.

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. Berloff *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 time⁵. 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.

We first define the criteria to distinguish between

5 See Berloff *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.

different ESTs and then look at the features distinguishing 'secure' and 'insecure' employment trajectories. Our approach requires longitudinal information about individuals' monthly employment statuses (unemployed, employed, inactive and in education), over at least two years. The European Union Statistics on Income and Living Conditions (EU-SILC) collects this type of information since 2005. EU-SILC is a rotating panel where each individual is interviewed for a maximum of four annual interviews. In each annual interview, individuals provide information about their employment status in each month of the previous year. We consider individuals aged 17-34, and observe their monthly employment sequences three to five years after leaving education⁶, when the difficulties associated with STW transitions should be overcome. Due to sample size reasons, we consider all young individuals with at least two consecutive interviews (i.e. we observe individual sequences over 24 months). We use eight waves, the first wave referring to the years 2004-05 and the last wave to the years 2011-12, for 25 EU countries (no data available for Germany, DE, and Ireland, IE)⁷.

Six EST-types are identified (see section 4, for details) according to the length and number of employment and non-employment spells (for each sequence of 24 monthly observations of individual employment status).

The analysis of youth trajectories on the labour market (section 4) is complemented by the analysis of policy making intensity (section 5) during the periods before and since the Great Recession. For this purpose, we use the Labour Market Reforms (LABREF) database⁸ that records policy measures enacted by the EU member states affecting the labour market institutions, over the period 2000-2012. These data have been used by other authors to analyse the evolution of policy making over time (Turrini *et al.* 2014; Smith *et al.* 2019; Smith and Villa 2020) but not in conjunction with a detailed analysis of the youth trajectories.

3. Analysis of youth trajectories

We follow Berloff *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)⁹. 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. *prevalently in inactivity*: a long inactivity spell (at least 12 consecutive months), few short spells (less than six months) in employment and education, low number of status changes (two at most);
5. *in&out*: trajectories with more than two status changes (i.e. these individuals change their employment status for at least three times over the period considered, and are not employment secure);
6. *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.

We consider *secure trajectories* to be those in the first two ESTs groups ('employment-secure' and 'prev-

6 Since we do not have information on the year when the highest level of education was attained, we used the official age at which each ISCED level is supposed to be completed.

7 We use data for Austria (AT), Belgium (BE), Bulgaria (BG), Check Republic (CZ), Cyprus (CY), Denmark (DK), Estonia (EE), Greece (EL), Spain (ES), Finland (FI), France (FR), Hungary (HU), Italy (IT), Latvia (LV), Lithuania (LT), Luxemburg (LU), Malta (MT), the Netherlands (NL), Poland (PL), Portugal (PT), Romania (RO), Sweden (SE), Slovenia (SI), Slovakia (SK), United Kingdom (UK).

8 The database was developed in DG ECOFIN at the EC along with the Economic Policy Committee of the ECOFIN Council and is publicly available (EC 2017). LABREF is organised around nine broad policy domains: labour taxation, unemployment benefits, other welfare-related benefits, active labour market policies (ALMP), job protection (EPL), disability and early retirement schemes, wage bargaining, working time organisation, immigration and mobility. Within these domains, there are further sub divisions by policy field.

9 Individuals who were inactive for the entire length of the sequence (4.5% of the sample) are excluded.

alently in employment'), because they both document a good degree of labour market integration. We consider *insecure trajectories* as the following three groups ('prevalently unemployed', 'prevalently inactive', and 'in&out'), because they all document some form of exclusion from employment.

Table A1 (in the Appendix) shows the incidence of the various trajectory types among young people in each country before the crisis (over the sub-period 2004-2008) and during the crisis (over the sub-period 2008-2012). Countries are ranked by the incidence of insecure trajectories before the crisis.

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%).

A high degree of heterogeneity across countries emerges also in terms of composition of secure and insecure trajectories (i.e. relative incidence of ESTs). For example, among countries with high shares of insecure trajectories, the incidence of prevalently unemployed individuals was more than 50% in four countries (BG, IT, PL, EL), while it was only about 15%-20% in other four (EE, HU, FI, CZ). Generally, countries with a lower incidence of 'prevalently unemployed' had a higher incidence of 'prevalently inactive', but the size of the 'in&out' group was relatively large (around 5-8%) in eight countries (FI, UK, PT, AT, ES, SI, BE, SE).

During the crisis (2008-2012), the share of insecure trajectories rose (+3.5pp) and the share of secure trajectories decreased (-3.6pp)¹⁰. Again, the degree of heterogeneity across countries was large both in the magnitude and in the composition of this variation (chart 1). The increase in the share of insecure

trajectories was particularly large (more than 10pp) in four countries (LV, ES, RO, EL), while in others it contracted (UK, AT, NL, PL). Interestingly, there was no correlation between the initial level of insecurity (i.e. the share of insecure trajectories, before the crisis) and the magnitude of the observed variation.

Chart 2 documents the large degree of heterogeneity in terms of compositional changes of trajectory types over the period considered. In almost all countries there was an increase in the share of 'prevalently unemployed' individuals, in some countries this was accompanied by an increase in the share of 'prevalently inactive' and/or of 'in&out', whereas in other countries there was actually a reduction in these shares (PT, EE, SI, AT). Furthermore, the relative importance of these ESTs in the overall variation differs across countries. For example, in some countries (RO, EE, SI, AT) variations involved almost exclusively the share of prevalently unemployed and prevalently inactive, whereas in others (HU, PT, UK, NL) there was a non-negligible variation of the 'in&out' group. Similar differences can be observed also in terms of the relative composition of the secure group.

To sum up, on average one out of five young adults had an insecure trajectory before the crisis (with large variations across countries). The crisis resulted in a general increase in the level of insecurity, but no clear pattern emerges across European countries regarding the extent and type of insecure trajectories for young people.

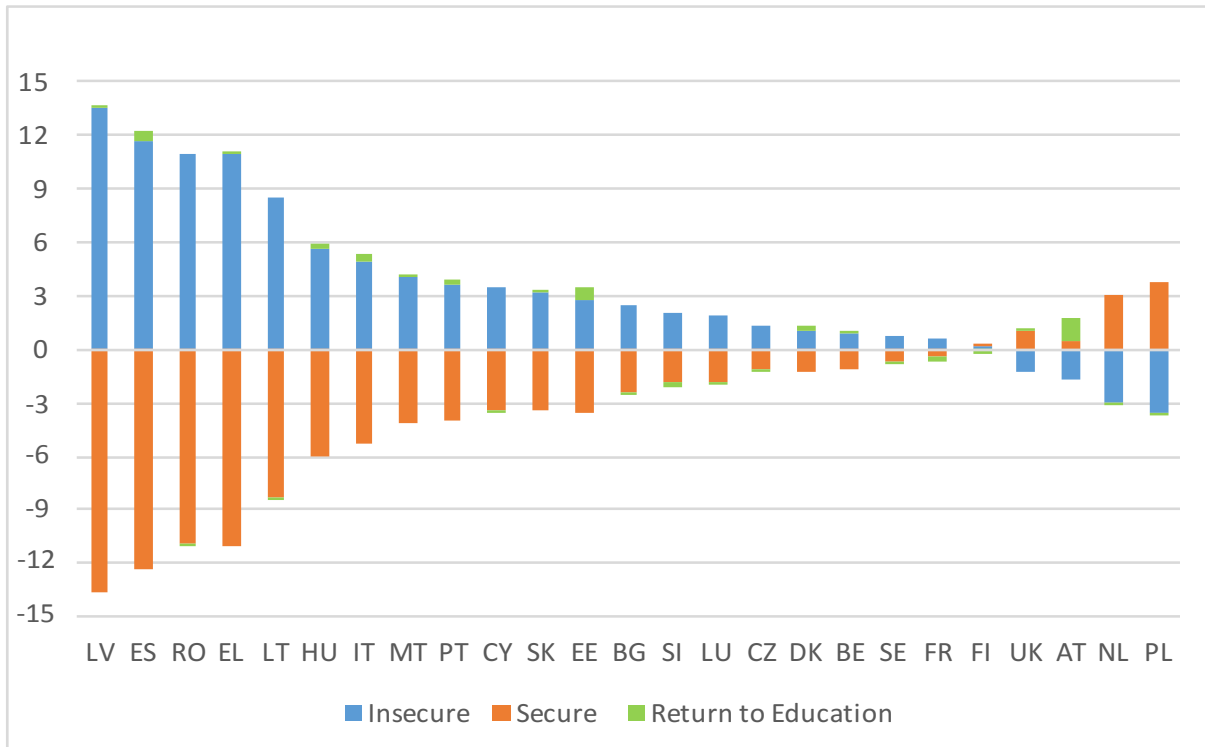
4. Analysis of policy making

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.

At the onset of the Great Recession member states had quite different starting points in terms of insecure trajectories and their policy environment. While we ac-

10 As expected, variations in the 'return to education' group were very small (generally less than 0.5pp).

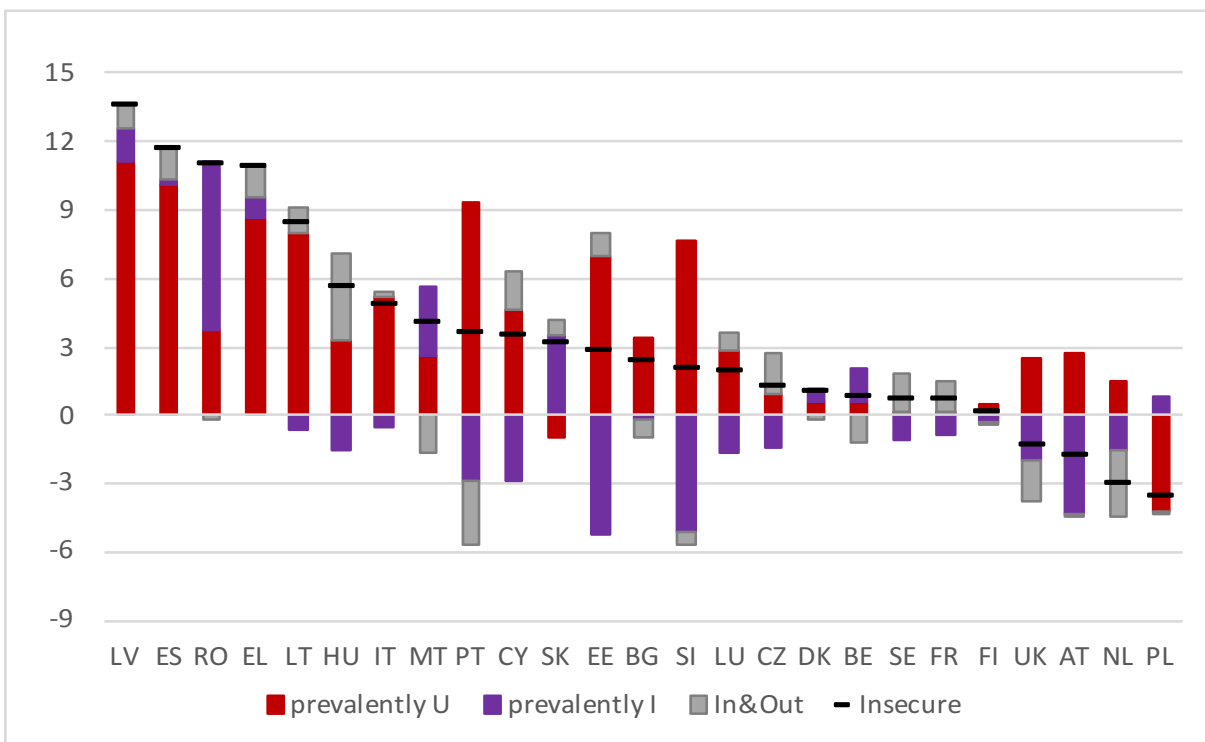
Chart 1. Variation in different trajectory types, before^a and during the crisis^b (pp)



Note: a 2004/05-2007/08; b 2008/09-2011/12. Secure trajectories are those in 'employment-secure' and 'prevalently in employment' trajectories. Insecure trajectories are those in 'prevalently unemployed', 'prevalently inactive' and 'in&out' trajectories.

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

Chart 2. Variation in the share of insecure trajectories by trajectory type, before^a and during the crisis^b (pp)



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

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

cept that there is no single satisfactory categorisation of EU member states, we adopt the taxonomy proposed by Stovicek and Turrini (2012) where countries are classified (and grouped) on the basis of their flexicurity model, identified on the basis of principal component analysis). Unlike other categorisations, it has the advantage of capturing all EU member states. This grouping identifies the key patterns in policy making across five broadly-defined institutional environments: continental (AT, BE, DE, FR, LU), CEE (BG, CZ, EE, HU, LT, LV, PL, SI, SK, RO), Nordic (DK, FI, NL, SE), Mediterranean (EL, ES, IT, PT), English-speaking (IE, UK, MT, CY).

As has been previously noted, regardless of the institutional configuration, the crisis period was marked by a rapid increase in policy making activities. For the whole set of 25 countries considered¹¹, there were 208 policies per year in pre-crisis and 307 during the recession (2008-2012). This trend was evident across institutional configurations but particularly marked in the Mediterranean group (Smith *et al.* 2019). Although we observe a consistent rise in policy making during the crisis, in absolute terms and in intensity across member states, a more complex pattern emerges when we look at the relationships with the dynamics of labour market performance at the national level (see section 4). The analyses presented here were carried out at the country level (25 countries) in order to investigate the associations between the change in the share of insecure trajectories among young adults and the change in the intensity of policy making recorded by LABREF.

There is a strong positive relationship between the levels of insecure trajectories before and during the crisis period ($r=0.83$) underlining how existing problems on the youth labour market were exacerbated by the crisis. The relationships between insecure trajectories and policy making are however more mixed. We find that policy making intensity during the crisis is weakly and positively related to the level of insecure trajectories prior to the crisis ($r=0.34$) and the stronger relationship is in fact with the level of insecure trajectories during crisis ($r=0.49$). The change in policy making intensity, pre-crisis to crisis, is most positively associated with the crisis level of insecure trajectories ($r=0.83$).

In order to explore these relationships further, charts 3 and 4 present 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 3 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).

By contrast, in chart 4 we report the countries with more significant increases in insecure transitions. In most cases, the lines are rather steep indicating both rising employment insecurity for young people and significant increases in policy making intensity. Only Latvia and Romania stand out with relatively low increase in policy making intensity.

The remaining five countries do not fall into either of these two groups¹². This heterogeneous group of countries is categorised by falling levels of policy intensity and/or falling levels of insecure trajectories. Here we find falling levels policy making and rising levels of insecure trajectories (SE), stable levels policy making and rising levels of insecure trajectories (CZ, PL), both falling levels policy making and falling levels of insecure trajectories (NL), and a rise in levels policymaking yet falling levels of insecure trajectories (MT).

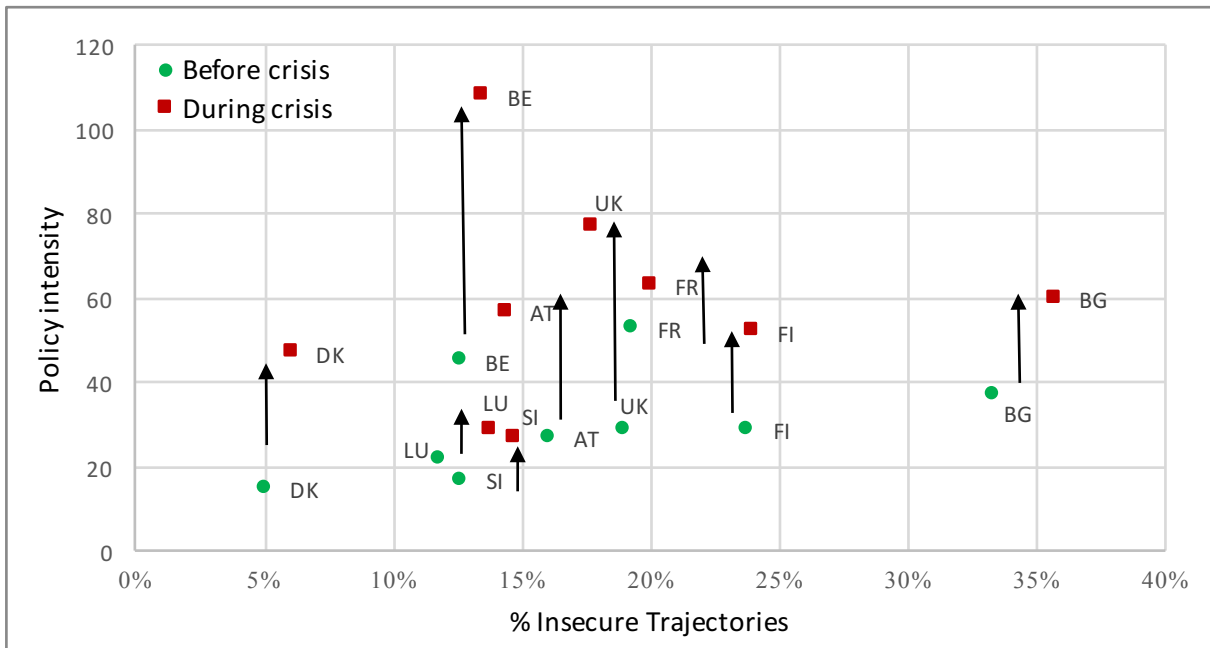
To sum up, we observe that the diversity of experiences across countries in the trends in insecure trajectories is matched by heterogeneous policy responses. There were no clear country groupings along institutional lines (i.e. flexicurity models), rather most countries experienced an increase in policy making activity, matched by varying changes in the shares of insecure trajectories.

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 Med-

11 See footnote 7 for abbreviations.

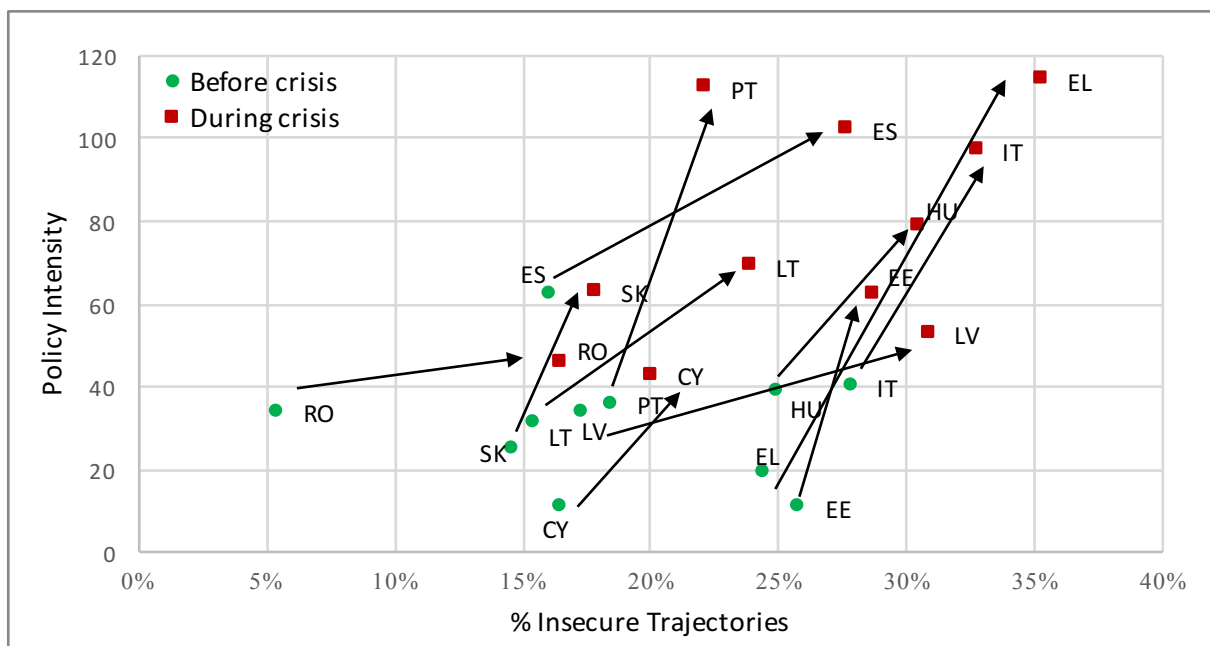
12 There is no chart for these five countries, for space limitations.

Chart 3. 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)

Chart 4. Countries with a deterioration in 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)

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

| | Decline in policy making intensity | Stable policymaking intensity (0 to +3,9pp) | Rise in policymaking intensity (+4pp + <1SD) | Significant rise in policy making intensity (+9pp = mean +1SD) |
|---|------------------------------------|---|--|--|
| A. Large changes in security: -- secure trajectories (+8pp) ++ insecure trajectories (id.) | | LV, RO | ES, LT | EL |
| B. Moderate changes in security: - secure trajectories (3-6pp) + insecure trajectories or return to education (id.) | MT | | CY, SK, HU | IT, PT, EE |
| C. Quite stable situations in security (negligible changes in secure/insecure trajectories) | CZ, SE | LU, SI, FR, BG, FI | DK | BE |
| D. Falling insecurity | NL, PL | | UK, AT | |

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)

iterranean 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).

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).

When we examine the trends in the composition of policy making¹³, we find that ALMPs accounted for the largest component of the increase in policy making intensity (27%-48%) in all but one of the countries with a relatively low increase in insecure trajectories (countries shown in chart 3). Meanwhile, those countries with strong increases in insecure trajectories (countries shown in chart 4) displayed a more heterogeneous composition of their rising policy making intensity, suggesting more across-the-board reforms (particularly in ES, EL, HU, IT, SK). These results are supported by the weak relationship between change in intensity of ALMP and the increase in insecure trajectories ($r=0.07$). On the other hand, overall levels of crisis-period insecurity were most strongly associated with the policy intensity during the crisis in the

13 Data not shown for space limitations.

area of EPL ($r=0.54$), supporting the evidence available elsewhere of deregulation at the margins of the labour market (O'Reilly *et al.* 2019).

Overall, while we find evidence of a relationship between the levels and the increases in insecure trajectories during the crisis and the policy making intensities, there are clearly other drivers for policy responses during the crisis. Other than the relatively consistent grouping of the Mediterranean countries (also impact upon by external pressure for labour market reform), the links with the institutional groupings are rather weak. Indeed, the overwhelming expansion of policy making appears to override any particularly country institutional patterns.

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).

The paper makes a number of contributions, empirical, theoretical and for policymakers. Empirically, the application of novel labour market indicators un-

derlines the heterogeneity of youth experiences during economic downturn such as the Great Recession which are often disguised in the analysis of more conventional measures. These results provide a deeper understanding from a more dynamic perspective of the labour market and particularly youth transitions.

From a theoretical perspective, the second contribution of the paper is the analysis of the link between labour market conditions and policy making. Traditionally, labour market outcomes have been considered as a dependent variable of labour market reforms, whereas we seek to illustrate the potential for labour market conditions to shape intensity and content of policy making. Policymakers do not operate in a vacuum and are themselves subject to influences of the prevailing thinking and pressures (also at the supranational level) created by economic and social context. These mechanisms need more visibility in labour market research and analysis.

The particular context of the 2008-2012 crisis demonstrates the challenges faced by young adults during an extreme economic downturn and the pressures on national policymakers to act. These twin contributions are relevant for the situation a decade later and the unfolding economic consequences of the Pandemic as both young people and policymakers face extreme challenges. The post-COVID environment will inevitably create new difficulties for young people and policymakers but also difficulties that resonate with the past, it is important that we learn from earlier experiences.

From a policy perspective the results highlight how, in spite of noticeable differences across countries in the problems faced by young adults in gaining employment secure trajectories, there was a high-level of consistency in the policy mix (Smith and Villa 2020). Young adults with insecure trajectories face different obstacles (e.g. unemployment vs inactivity) and require customised policies, yet Member States enacted and implemented a very similar policy mix, under pressure to improve the 'efficiency' of their labour market, combining flexibility (relaxing EPL) with security in the labour market (enhancing ALMP). Labour market reforms conducted under pressure of external supranational bodies, or as response to poor short-term performance, and with insufficient attention to the difficulties faced by young adults are unlikely to provide sustainable solutions or build sustainable institutions to cope with future labour market challenges.

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) (%)

| Country | Before the Crisis (2004-2008) | | | | | | | During the Crisis (2008-2012) | | | | | | | | | |
|----------------|-------------------------------|------------|--------|---------------|----------------|--------|----------|-------------------------------|-------------------|-------------|--------|---------------|----------------|--------|----------|----------------|------|
| | Employment secure | Prev. Empl | SECURE | Prev. Unempl. | Prev. Inactive | In&Out | INSECURE | Return to Edu. | Employment 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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Gabriella Berloff

gabriella.berloff@unitn.it

Full professor of economics at the Department of Economics and Management, University of Trento (Italy). Recent publications include: Berloff G., Matteazzi E., Şandor A., Villa P. (2019), The quality of employment in the early labour market experience of young Europeans, *Cambridge Journal of Economics*, 43, n.6.

Mark Smith

mark.smith@sun.ac.za

Professor and Director at University of Stellenbosch Business School (ZA), and Professor Human Resource Management at Grenoble Ecole de Management (FR). Recent publications include: Russell H., Leschke, J., Smith, M. (2020), Balancing flexibility and security in Europe? The impact of unemployment on young peoples' subjective well-being, *European Journal of Industrial Relations*, 26, n.3.

Alina Şandor

alina.sandor@jrf.org.uk

Economist at the Joseph Rowntree Foundation (UK). Recent publications include: Berloff G., Matteazzi E., Şandor A., Villa P. (2016), Youth employment security and labour market institutions: a dynamic perspective, *International Labour Review*, 155, n.4.

Paola Villa

paola.villa@unitn.it

Full professor of economics at the Department of Economics and Management, University of Trento (Italy). Recent publications include: O'Reilly, J., Leschke J., Ortlieb R., Seeleib-Kaiser M., Villa P. (eds.) (2019), *Youth Labor in Transition. Inequalities, Mobilities and Policies in Europe*, New York, Oxford University Press