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Working Group on Youth Employment

Labour Market Reforms and Youth Emigration: why the road to hell may be paved with good intentions

Key Points

- The economic crisis led to significant youth emigration from countries most affected, but to varying degrees.
- Increased employment flexibility combined with low levels of protection put the Spanish youth under pressure, more so than in Italy where flexicurity was the preferred option.
- More fiscal space in the EU would support decent jobs and better social insurance devices for the youth in times of economic hardship.

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The Great Recession, by partially reshaping the economic landscape of Europe, has had significant implications for the structure of population flows within the European Union[1]. Some Southern European countries, which had been typical destination countries in the early 2000s due to their dynamic growth rates, virtually turned from immigration to emigration countries as the Euro Area crisis unfolded. For instance, the net migratory balances of Spain and Portugal would respectively turn negative in 2010 and 2011[2]. Likewise, while its migratory balance remained positive, in 2014 Italy experienced its highest emigration figure since the mid-1970s, with 1.4 departures for every 1000 inhabitants[3]. While it is commonly accepted that such population outflows stemmed from the depth of the recession, the agency of governments in shaping incentives and disincentives to emigration is a comparatively understudied phenomenon. The purpose of this brief is to study the *labour market policy – youth emigration nexus* in the context of the Great Recession, through a comparative case study of Spain and Italy.

INSIGHTS FROM THE NEW ECONOMICS OF MIGRATION

The theoretical insights of the new economics of migration call for further inquiry into the impact of government policies on emigration flows. This literature points out the agency of public policies in shaping the structure of incentives to emigration, since such policies may increase the relative deprivation of some segments of the population[4]. Consequently, it must be expected that countries implementing different types of labour market reforms would experience different emigration rates, all else being equal.

Italy and Spain share historically similar patterns of labour market reforms and are both characterised by a high degree of labour market dualism[5]. While neither one of them was submitted to direct bailout conditionalities, they faced similarly intense pressures for reform from the European Commission, the International Monetary Fund and the European Central Bank[6]. Consequently, it does not come as a surprise that both countries embarked upon similarly austere reform journeys starting in 2010, with in both cases a focus on pension and labour market reforms[7]. Up until the mid-2000s, both countries also exhibited similar rates of moderate youth emigration. While divergence can be observed starting in 2005, the differential is more pronounced in the crisis years, when youth emigration from Spain is significantly higher than in the Italian case.

The magnitude of unemployment is commonly cited as the main driver of emigration. However, unemployment is only part of the picture: throughout the crisis and in its aftermath, youth emigration from Italy remains significantly less responsive to changes in the unemployment rate than in the case of Spain. Likewise, despite converging levels of youth unemployment in recent years, and even though youth emigration from Italy keeps rising steadily, youth emigration from Spain is still markedly higher than in the Italian case. Following the theoretical insights of the new economics of migration, this youth emigration differential may be linked to the magnitude of labour market reforms.

REFORMING EMPLOYMENT PROTECTION & UNEMPLOYMENT INSURANCE

Employment protection legislation (EPL) refers to the legal framework for dismissals and the use on non-standard contracts. In Spain, amendments to EPL which were implemented during the crisis have been in the direction of further deregulating the labour market. The most significant restructuring of EPL occurred during Mariano Rajoy first term in office (2011-2015). A new decree introduced a new type of highly flexible contracts, the 'contracts of support to entrepreneurs'. These contracts contain a one-year probationary period with no employment security, making dismissals both easy and costless for employers[8]. Another innovation was the introduction of 'internal flexibility', motivated by the will to make changes to the organisation and content of one's work more attractive than their lay-off or simple termination[9]. Internal flexibility allows employers to unilaterally introduce changes to an employees' tasks, timetable or job location. The 2013 reform of part-time work also significantly increased the flexibility of this form of employment.

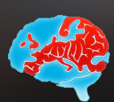
In Italy, successive changes to EPL have been in the direction of both limiting the attractiveness of short and fixed-term contracts, and easing the requirements for making use of such contracts. A first significant piece of legislation, the Fornero reform of 2012, contained several measures designed to tackle precarious forms of non-standard employment. In 2014-2015, the Renzi government passed a series of legislative decrees, the so-called Jobs Act. Decreto Legislativo 34/2014, also known as the Poletti Decree, significantly eased the conditions for using fixed-term contracts. In March 2015 however, DL no. 23 introduced a new type of permanent contract, characterised by progressively increasing protection. In June of the same year, DL no. 28 introduced restrictions on specific types of non-standard employment contracts, several of which were simply abolished.

Changes to unemployment insurance (UI) may now be examined. In Spain, the crisis period has not seen any significant attempt to reshape the structure of UI[10]. The stringent eligibility requirements implemented in the early 1990s, which made eligibility to UI conditional upon a 6-month contribution record, were left untouched[11]. What the 2012 reform did, however, was to reduce the income replacement rate of benefits after the sixth month of payment, from 60% to 50% of prior income.

In Italy, both the Fornero reform and the Jobs Act went very far in the direction of improving coverage of previously unprotected segments of the workforce. The Fornero reform first introduced the Assicurazione Sociale Per l'Impiego (ASPI), a scheme more generous than the one introduced under Berlusconi in 2008, both in terms of income replacement rate and duration[12]. However, the major innovation brought about by the Fornero reform was the introduction of mini-ASPI, a scheme designed specifically for workers with lower contribution records. Prior to the introduction of mini-ASPI, entitlement to UI was conditional upon a two-year qualifying period: this requirement fell down to thirteen weeks of contribution in the past year, a significant improvement in the coverage of new labour market entrants. It has been estimated that the introduction of mini-ASPI had reduced the number of uncovered workers by two thirds, making a difference especially for those on fixed-term contracts and temporary agency workers[13].

By 2018, 55.3% of all employed young Spaniards (15-34 years old) worked under a temporary contract, as opposed to 29.7% of employed young Italians[14]. Yet, the rise in the share of young people working under a temporary contract has been steeper in Italy (+12.7%) than in Spain (+4.9%). Spain and Italy nevertheless differ in that the former, while it further deregulated an already flexible labour market, did not extend UI coverage. At a time when youth unemployment was high and when the majority of young employees worked under fixed-term contracts, this meant that it had become extremely difficult for young job seekers to qualify for UI, putting many at risk of poverty. On the contrary, in Italy the increase in the share of young people working under temporary contracts was accompanied by a substantial expansion of UI coverage. In a nutshell, it can be said that Spain followed an overall strategy of retrenchment, while Italy is more of a case of flexicurity, with moderate labour market deregulation being combined with an expansion of coverage. In the case of Spain, it is not just youth employment security which has been undermined, but it is also the quality of jobs due to the possibility for employer to use internal flexibility.

REVERSING THE TREND



Throughout the crisis, young Italians and young Spaniards have become more vulnerable to poverty and exclusion than the total population of their respective country. In Spain for instance, the percentage of those aged 16-29 years considered at risk of poverty or exclusion has increased by 13 points between 2007 and 2017, as opposed to +3.3 points for the total population. This is not unconnected with the fact that labour market reforms have been comparatively harsher on the youth, leaving them with no other alternative than emigration.

In fairness to EU decision-makers, they have not been blind to the plight of the Southern European youth. For instance, part of the EU's response has been in the direction of facilitating the role of free movement as a social insurance device, through the development of a European job mobility portal (EURES), which aims to centralise information regarding employment conditions across the EU. The Youth Guarantee Initiative, a commitment by all member states to provide young people under 25 with quality employment, continued education, apprenticeships and traineeships, may also yield satisfactory results in the future, if allocated resources matching its ambitions. To this day, Youth Guarantee schemes have been implemented in all member states, but the capacity of these schemes remains significantly below the demand for participation in these programmes: according to the OECD, as of 2015 only a third of those who had registered in the Italian YG scheme had got an offer[15].

These efforts may however fail to offset the impact of austerity-driven labour market reforms when it comes to youth employment. The conclusions from this paper thus contribute towards existing criticisms of the stringent fiscal rules of the Stability and Growth Pact, to the extent that fiscal discipline has served as a justification for retrenchment of unemployment insurance.

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