

Relevance and Effectiveness of Public Employment Services for Youth Labor Market Integration - A cross-European Perspective

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In the wake of the Great Recession and the subsequent Eurozone crisis, youth's labour market integration became a central issue both at national and European level. In this context, public employment services (PES) are referred to as central actors in tackling youth unemployment and promoting youth labor market integration (European Commission, 2017). However, it is still an open empirical question whether and in which context the PES are able to fulfil such a key role since international comparative analyses are scarce (cf. Bachmann and Baumgarten, 2013). Therefore, we analyse the following two questions: (i) *What is the actual relevance and effectiveness of PES for young people?* (ii) *How do structural and institutional factors shape the relevance of PES in a cross-European perspective?*

To answer these questions, we employ a *signalling theory approach* which states that an information asymmetry between employer and potential employees exist as the former can't assess the actual productivity of the aspirants until hiring them (Spence, 1973). This is especially true for young people who have few options to prove their productivity as they usually have no or only few work experiences. It is therefore a great risk for employers to hire young people since a mismatch would entail significant costs. In order to reduce this uncertainty and thus potential costs, employers do often rely on *signals* that provide relevant information on the applicant's productivity, e.g. educational certificates as well as the chosen job-search channel. Job-search literature shows that informal search channels, like personal networks, are used more frequently and are more effective than PES (e.g. Holzer, 1988; Montgomery, 1991; Addison and Portugal, 2002; Bachmann and Baumgarten, 2013). On the one hand, job search via personal networks is so effective because employers see the recommendations of current employees as more reliable signals of productivity than in case of direct applications or formal search channels (Montgomery, 1991; Saloner, 1985). Furthermore, this might be due to the fact that job-search via PES is influenced adversely by negative signalling: many employers seem to expect applicants coming from the PES to be less motivated (Bonoli and Hinrichs, 2010: 22; Holzner and Watanabe, 2015: 28). On the other hand, this can be partly explained by a selection bias since people searching for a job via PES belong to an already disadvantaged labour market group more frequently, e.g. low-skilled worker. Therefore, PES are crucial in combating labour market inequality by supporting the integration of these groups.

Against this background, we assume that the relevance of PES differs substantially between educational groups and that the support of PES can function as both a *signal amplifier* and a *substitute* for missing signals: Advices on how to apply for a job or a job interview coaching, for example, can help to amplify or "polish" existing signals while long-term cooperation between the employment office and regional employers can create trust and make up for missing signals. Furthermore, the relevance and effectiveness of PES support for different educational groups may strongly vary between structural and institutional contexts, depending on how they are able to shape the signalling effect and reducing the costs of uncertainty. Particularly, the educational and vocational training system, labour market flexibilization and deregulation, active labour market policies (ALMP) and the general labour market situation are considered as decisive for youth labour market integration (Breen, 2005: 126; Müller, 2005: 464; Wolbers, 2007: 190–3). In detail, we assume that:

- H1:** The relevance and effectiveness of PES support is higher for low-skilled people compared to highly-skilled people.
- H2:** The lower the proportion of work-based learning as part of the curriculum in a country, the more relevant and effective is PES support for finding a job and avoiding a mismatch.
- H3:** The higher the expenditures for ALMP per unemployed, the more relevant and effective is PES support for finding a job and avoiding a mismatch.
- H4:** The more widespread the use of fixed-term contracts and the higher the level of wage inequality, the more relevant and effective is PES support for finding a job and avoiding a mismatch.
- H5:** The higher the (youth) unemployment rate in a country, the more relevant and effective is PES support for finding a job and avoiding a mismatch.

For our empirical analysis, we use the 2016 EU-LFS ad hoc module “Young people on the labour market” (Eurostat, 2017). The sample is restricted to young people who are either in work or NEET (not in employment, education or training) and were aged between 15 and 24 (29 in case of tertiary education) from all 28 EU member states. Our key independent variable is *PES support* which is measured by the question whether the individual received support for finding a job from public agencies during the previous 12 months. In order to measure the relevance and effectiveness of PES, we use the employment status and the educational mismatch as dependent variables. To estimate the impact of structural and institutional factors, we employ multilevel regression models.

Our preliminary results show that the share of young people who received support by PES varies tremendous across Europe - between 3% in Romania and 70% in Finland. The multilevel regression models support the assumption that low-skilled people benefit more from PES support than highly-skilled. Furthermore, they show that a) work-based learning as part of the curriculum has a positive impact on the effect of PES support, but only for the low-skilled; b) expenditures for ALMP has a negative impact on the effect of PES support which is not significant for the low-skilled; c) higher shares of temporary employment have a positive impact of the effect of PES support overall but not for the low-skilled while higher wage inequalities have a positive impact on the effect of PES support especially for the low-skilled; and d) higher youth unemployment rates have a positive impact on the effect of PES support for all educational groups alike.

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