

## **Transition from Educational System to Labour Market in the European Union: A Comparison between New and Old Members**

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## **ABSTRACT**

Theoretically a central research question of the paper pertains to the way in which national institutional arrangements, namely educational systems, and related modes of labour markets and welfare provisions, affect the aggregate effectiveness of youth labour market integration in the new EU member states in comparison to the old EU countries. The study utilizes the European Union Labour Force Survey 2004. Results of the cluster analysis provide substantial support for distinct patterns of labour market entry in terms of the stratification of labour market exclusion, downgrading risk and labour market mobility of LM entrants in different CEE countries.

**Key words:** school-to-work transitions; transition economies; school leavers; comparative research

## **1. Introduction**

The transition from school to work has been described as a dynamic process in which a person moves from the educational system to a relatively stable working position. It reflects the way young people's entry into the labour market is regulated rather than merely being the consequence of individual resources and characteristics. Individual resources are, however, influenced by the institutional contexts, and particularly by the institutional arrangements of educational systems, organisation of the employment system and linkages between those institutions (Hannan *et al.*, 1997).

While a considerable body of research exists on the school-to-work transitions for western industrialised countries, far less is known for the Central and Eastern European (CEE) countries. Moreover, most studies represent a single-case study or compare only a small number of countries (see for example

Cedefop, 2001; Gerber, 2003; Toomse, 2003; Kogan and Unt, 2005; Róbert and Bukodi, 2005; Saar, 2005). If one focuses on CEE countries, there are a number of common developments and features apparent in their institutions. There are, however, a considerable number of differences as well. This diversity in transition process in the various CEE countries arises from the differences that already existed in their socialist past, the options they have taken during the transformation process, and the progress they have achieved so far.

This paper first aims at presenting an overview of labour market patterns and outcomes characterising the labour market entry in new European Union countries in comparison to the old EU countries. Secondly, it seeks to classify labour market entry patterns in the new member states. Theoretically a central research question of the paper pertains to the way in which national institutional arrangements, namely educational systems, and related modes of labour markets and welfare provisions, affect the aggregate effectiveness of youth labour market integration.

The paper will start with an overview of relevant theories and a summary of the most relevant empirical results. Thereafter, the institutional context will be analysed and the hypotheses formulated. The data, variables, and methods are then described in detail. Empirical results will be presented in Section 6 including the basic descriptive analysis of the labour market entry process in CEE as well as in the EU-15 countries, and the cluster analysis for classifying the pattern in different European countries. The concluding section will summarise the results.

## **2. The role of institutions in school-to-work transitions**

Two institutions are of central importance in influencing school-to-work transitions: the educational system and the labour market (Müller, 2005). Among the main dimensions of educational systems, its vocational specificity might play a central role as it presumably affects the relative dominance of principles of labour market organisation or, in other words, generally contributes to shaping the structure of labour markets. The idea is that the more successful educational systems are in providing standardised and specific vocational qualifications of immediate and clear labour market value to prospective employers, the more these employers will use educational signals (rather than, e.g., experience) in labour market allocation decision-making. In this regard, scholars contrast systems of internal labour markets (ILM) vs. occupational labour markets (OLM) (Marsden, 1990) or qualificational vs. organisational spaces (Maurice *et al.*, 1986; Müller and Shavit, 1998). In the so-called qualificational spaces (or OLM), labour markets are predominantly structured along occupational segments related to corresponding tracks of vocational training in the education and training system (e.g. Germany's apprenticeship system). In countries that cannot rely on similar encompassing and employment related training systems, training of the workforce is more firm specific and tied to the specific needs of individual firms and their firm internal labour markets.

Further it has been argued that the degree of labour market regulation influences the employers' decision making when hiring workers, and this is particularly relevant for the employment entry chances of first-job seekers. Research suggests that the response of employers in labour markets with higher firing costs is that they set higher productivity reservations for potential employees. Such hiring reservations may pose particular problems with regard to young people as both the job entrants' need for additional training as well as the higher level of uncertainty inherent in recruiting inexperienced school leavers work to their disadvantage (Müller and Gangl, 2003). Furthermore, labour market regulation may have detrimental effects on youth labour market chances as employment protection tends to reduce the dynamics of the labour market and hence affects the job-finding rates among job seekers in general (Bertola and Rogerson, 1997; Gregg and Manning, 1997; Gangl, 2003a).

Stricter labour regulation is said to also have potentially positive effects on school-to-work transitions. Notably such outcomes may be expected if strong union presence, in conjunction with a centralised system of collective bargaining and co-operative relationships between corporate partners, can be employed in ways that generate economically viable institutional structures of youth labour market integration (Soskice, 1994; Estevez-Abe *et al.*, 2001; Ryan, 2001). Collective, corporate efforts might include wage moderation policies to enhance youth labour market integration both at the level of particular firms or industries and also across the whole economy. Other forms include efforts to establish common training standards for certain occupations

or industries or to involve corporate bodies in the formulation and implementation of training curricula (Hannan *et al.*, 1999). Clearly, corporatist involvement in training systems is most strongly developed in the context of apprenticeship-based dual systems (e.g. Germany), where employers and unions are actively engaged in both the conceptualisation and provision of training.

Empirical evidence regarding the effect of labour market regulation on school-leavers' labour market outcomes is still inconclusive. According to Van der Velden and Wolbers (2003), the level of employment protection legislation appears to affect youth unemployment chances, but the effect is not stable once the structure of training systems is taken into account. Bertola *et al.* (2001) argue that the rigidities created by various labour market institutions have a negative effect on youth employment, but only in some countries. Using macro-data, Breen (2005), on the other hand, finds a clear effect of labour protection on the extent to which youth unemployment exceeds adult unemployment, but only in the interaction with the structure and organisation of the educational system. Systems of vocational training which teach specific skills and incorporate a strong work-based element provide a preventative to youth unemployment by offsetting the negative effects of extensive employment protection. Low employment protection seems to speed up market entry but this comes at the cost of greater career instability (Scherer, 2005: 438).

Alongside employment protection legislation, provision of unemployment benefits is another way of protecting individuals against labour

market risks. European countries use different combinations of the two institutions. As Boeri *et al.* (2004) have found, those countries, which adopt stronger dismissal restrictions, tend to enjoy smaller unemployment insurance programs, and vice versa. Therefore low employment protection in some European countries (for example in Denmark) is "compensated" with larger unemployment insurance. The shift in the balance between the two institutions in favour of unemployment benefits should increase labour market mobility, make youth labour market more flexible and therefore increase their unemployment outflow rates. Esping-Andersen (2000) claims, however, that unemployment protection has no impact on the youth's unemployment and labour market entry because most of labour market entrants do not qualify for unemployment benefits. We argue, nevertheless, that unemployment benefits should have at least indirect effect on labour market entry process.

### **3. Educational systems, labour market regulation and the welfare state in CEE countries**

Practically all CEE countries inherited a highly centralised and state controlled educational system from the socialist period (Saar, 1997). The organisation of the school structure and curricula was divided between the two tracks, general and vocational<sup>1</sup>, and the link between the level of education and the future job was clearly defined (e.g. Roberts and Szumlicz, 1995; Titma and Saar, 1995; Saar, 1997; Helemäe and Saar, 2000; Gerber, 2003; Róbert and Bukodi, 2005). The transition from school to work was therefore smooth, as the first workplace was often assigned to the young people by state agencies, supported by

employers and secured for all school leavers, virtually irrespective of their level of education.

The transition years brought about the restructuring of the educational and training systems. First, the curricula of general education were revised, while the curricula of vocational education and training courses were broadened. Second, the introduction of new post-secondary vocational programmes and the emergence of private institutions diversified the structure of post-secondary education. Third, vocational education has increasingly moved to the auspices of schools (in particular in the Baltic republics), as enterprises, particularly in the onset of the privatisation and restructuring processes, would not have been able to maintain the infrastructure for training and to afford the financing of apprentices. Fourth, with the initiation of market reforms the earlier well-established link between schools and enterprises was dismantled and started to re-emerge in a modified form only in a few CEE countries. In particular, elements of partial, enterprise-based apprentice training were preserved but continued to shrink in the Czech Republic, Slovakia and Poland. The dual system of apprenticeship training was re-introduced only in two countries, Hungary and Slovenia (Strietska-Illina, 2001). Fifth, tertiary education participation has substantially increased, not least due to the emergence of private institutions of higher education and the expansion of short, practically oriented programmes at the tertiary level (e.g. Roberts, 1998; Mickelwright, 1999; Matějů and Simonová, 2003). The demand for higher education could be attributed, at least partially, to the larger proportion of

young people opting for an extension of their studies in order to escape increasing youth unemployment and postpone their labour market entry (ILO, 1999; Helemäe and Saar, 2000; Róbert, 2002).

Strietska-Ilina (2001) argues that most countries with traditionally high participation in vocational education as compared to general education (the Czech Republic, Hungary, Poland, Slovakia and Slovenia) had substantially higher enrolments in vocational education and training also in the late 1990s. A shift away from vocational to general education is reported for Hungary (Róbert and Bukodi, 2005). The educational systems of the Baltic countries have become even further characterised by a stronger emphasis on general education at the upper secondary level<sup>2</sup> (Helemäe and Saar, 2000; Kogan and Unt, 2005). It seems that in CEE countries, geographically and historically closer to Germany, the vocationally oriented secondary education has maintained its dominance over more general curricula (Roberts, 1998). Kogan and Unt (2005), for example, show a clear strengthening of the dual system in Slovenia during the 1990s (see also Ivančič, 2000) and the opposite trend in Estonia.

Although the organisation of educational system in CEE countries into different tracks resembles the highly stratified arrangement of German-speaking countries, weak links between the educational system and labour market in some CEE countries (e.g. in the Baltic countries) make such systems more similar to moderately stratified systems, found, for example, in France and the UK (Toomse, 2003; Saar, 2005). This means that the vocational qualifications

obtained in the educational system do not necessarily guarantee smooth and quick school-to-work transitions.

Economic restructuring in CEE countries in the 1990s signified changes in legislation, mainly associated with reforms directed towards creating the labour relations common to market systems. One of such changes occurred in employment regulation laws. In fact, the average index of employment protection legislation in CEE countries is quite similar to the EU-15 average, with the majority of transition countries settling in the middle of the labour market flexibility scale<sup>3</sup> (Riboud *et al.*, 2002; Wallace, 2003). Nevertheless, as in the old EU countries, there is a variation within CEE countries with respect to employment protection. Hungary has the most flexible labour legislation, with an EPL index<sup>4</sup> value of 1.7, closely followed by Czech Republic and Slovak Republic (1.9), and Poland (2.1). The Baltic countries occupy the middle ground, with an index from 2.5 to 2.7. Finally, Slovenia has the most restrictive labour regulation (2.9). The usage of temporary employment is significantly less restricted in CEE countries compared to EU-15 (the average values of indexes are 1.2 and 2.3). The low value of the index is mostly due to the lack of regulations on the use of temporary work agencies in most CEE countries.

Even quite strict labour laws may have little influence on the economy, if economic agents violate them, if law enforcement agencies are weak or if these laws cover only a small proportion of the total workforce. The chief problem of legal regulation of the labour market in CEE countries is that

employers do not always enact regulations; in the private sector and in small firms, violations are particularly common (see Eamets and Masso (2004) for the Baltic countries). The low coverage of trade unions means that violations are often not investigated and workers' representatives cannot protect workers. In addition, in a climate of high unemployment, employees do not initiate individual claims against employers for fear of losing their jobs. Eamets and Masso (2004) conclude that for CEE countries the estimated strictness or flexibility need not to be determined inasmuch by formal legislation but also by enforcement, degree of violations *et cetera*.

Dasgupta (2001) argued that one of the measures for the coverage of employment security laws is also the percentage of people covered by collective agreements and the rate of unionisation. Unions can supervise how labour relations comply with the legal provisions, and help their members' interest in case of disputes. The rate of unionisation and the coverage of collective bargaining are both rather low in most CEE countries compared with the average of the EU-15 states. Only Slovenia and Slovakia appear to have above-average unionisation levels. The average bargaining coverage rate for CEE countries is currently estimated at 25-30% of the labour force. However, there is massive variation in the coverage rate: from near 100% in Slovenia<sup>5</sup> to lower than 30% in the Czech Republic and Estonia, and lower than 20% in Latvia and Lithuania (European Commission, 2004: 31). Low unionisation and collective bargaining coverage rates are also features of high labour market flexibility in most CEE countries.

In the early years of transition, most workers were employed on permanent contracts. As of today, fixed-term work has become a widespread form of employment and is being increasingly used as an important source of flexibility in some CEE countries (especially in Poland and Slovenia) (European Commission, 2004). In the Baltic states, a significant proportion of workers (~5%) continue to work without any written contract. Their employment and working conditions are settled verbally with the employer. In addition to an individual labour contract, employees sometimes sign a supplementary 'extra agreement', which is a notice of dismissal that can be used at any time at the discretion of the employer. This practice affects between 6% (in Estonia) and 10% (in Latvia and Lithuania) of the labour force (European Commission, 2004: 157).

The evidence may suggest that labour markets in CEE countries are more flexible than one might have thought when considering only the applicable formal legislation. It means that while in the EU-15 countries, flexibility is attained by using flexible employment contracts (temporary contracts, temporary work agency employment etc.), in CEE countries (especially in the Baltic countries) employers often attain flexibility simply by not following the regulations.

Compared to the EU-15 countries, CEE countries have been spending a relatively small amount of resources to support the unemployed. Unemployment benefits are very low, highly conditional and of short duration (Riboud *et al.*, 2002: 251). In this regard, unemployment insurance policies in

CEE countries are closer to those of the United Kingdom and Southern Europe than to those of the countries in Central and Northern Europe. However, in this respect significant cross-national variation is evident (in Estonia 0.01 percent of GDP per percentage point of unemployment and in Poland 0.12 percent). In addition, over the last decade, unemployment insurance systems have increasingly become less generous in almost all CEE countries.

Authors of the European Commission report (2003) conclude that the prospect of a single CEE countries' model of social protection is unlikely. The reform of welfare states in CEE countries has often been characterised as an ideological confrontation between a continental European conservative approach and a liberal residual welfare regime as it is found in the Anglo-Saxon countries (Brusis, 1998). All in all, CEE welfare systems could be classified by mixed traditional characteristics of the different European models.

Table 1 summarises the institutional packages of the CEE countries as well as in the EU-15 countries.

- Table 1 about here -

#### **4. Labour market entry patterns and hypotheses**

The bulk of previous research on the entry of youth into the labour market has contrasted two polar types of systems in the European labour market: occupational labour market system (OLM) operating in countries with strongly vocationally oriented training, and internal labour market systems (ILM)

operating in countries where labour market allocation predominantly relies on experience (Marsden, 1990). Nevertheless, Gangl (2001) has found that important cross-national differences in labour market entry patterns exist within both groups of countries. He proposes treating Italy, Portugal, and Greece as a separate cluster (Southern European system) and including Spain among the ILM countries. However, this classification has not been found completely satisfactory either (Ianelli and Soro-Bonmatí, 2003).

Authors of the final report of the CATEWE project (Smyth *et al.*, 2001) suggested that national transition systems could be represented as a single continuum. At the one end of this continuum are countries such as Germany, having strong occupational labour markets, standardised and track-differentiated educational systems, and strong links between education and the labour market. At the other end of the continuum are countries dominated by internal labour markets, with less standardised and less differentiated educational systems, weaker links between education and the labour market, and little formal work-based training (Smyth *et al.*, 2001: 93). Examples of the latter type are the USA, and Scotland and Ireland as its European counterparts.

Garonna and Ryan (1991) took into account one additional dimension, namely labour market legislation, while proposing three different ideal systems regulating the entry of youth into the labour market: regulated inclusion, selective exclusion and competitive regulation, using the trio of internal market/occupational market/unorganised market models. Regulated inclusion is operating in the context of dominating occupational labour markets. Initial

training is acquired through alternate training, usually in apprenticeship (Marsden and Ryan, 1991). Selective exclusion operates in a context of dominating internal labour markets. The selective exclusion model empirically tends to be comprised of countries with high employment protection and little provision of specialised training in education and training systems. In competitive regulation settings, employers look for short-term profitability. This may occur in the cases of high unemployment rate, weak employment protection and weak union power. Employers take the maximum advantage of the competition between experienced workers and new entrants. According to Garonna and Ryan (1991) this model is only a tendency but they also suggest trends in the direction of this model in the UK and the US. The third more realistic model seems to be selective exclusion mixed with competitive regulation, which takes place in the context of dominating internal labour markets, when deregulation and flexibility policies are introduced under economic pressure (Couppié and Mansuy, 2001).

Some attempts have been made in order to identify the position of single CEE countries in typologies of labour market entry patterns. According to Cedefop (2001), the majority of CEE countries have been moving away from the model of regulated inclusion, characteristic of occupational labour markets (e.g. Germany), to the model of competitive regulation, characteristic of the flexible labour markets of the USA. Bukodi and Róbert (2005) assert that in Hungary mobility space, typically qualificational in nature, started to change slowly in the direction of an organisational mobility space, where the

curriculum of the educational institutions is more general and where the match between the type of qualification and the type of job is not strong anymore. Saar (2005) argues that in Estonia the transition from school to work resembles the competitive pattern.

Previous analysis has shown that the Central and Eastern European countries are moving in different directions adopting various employment protection models and welfare systems, and changing their educational systems (see for example Helemäe and Saar, 2002; Hampalová, 2003). All in all, an uniform classification for post-socialist transition system is hardly feasible.

Below we will outline our expectations regarding the process of labour market entry in different CEE countries in the context of their institutional settings. Table 2 summarises all hypotheses.

- Table 2 about here -

In **Slovenia** strong employment protection makes dismissals very costly. Lack of deregulation will split society into two groups: labour market insiders whose jobs are relatively well protected, and outsiders (first of all labour market entrants and re-entrants) who are deprived of experience. For outsiders it is difficult to get access to the labour market. On the other hand, in Slovenia a significant share of school leavers acquire vocational qualifications. Strengthening of the dual system tends to smoothen the transition process and lower the unemployment rates of LM entrants; thus they will be able to enter

their first stable employment quite quickly. School leavers without any vocational qualifications will come the outsiders. Precarious employment forms will be highly concentrated on low-qualified labour market entrants. These risks will be partly compensated by the provision of adequate protection for workers with fixed-term contracts. Apprenticeship opens up to labour market entrants skilled occupations that remain closed off in countries that lack mass work-based vocational preparations. Closed employment relations as well as rather high vocational specificity lead to a close coupling between vocational skills and occupational opportunities, which confines job mobility. Relatively low mobility rates correspond to lower rates of exit from unemployment. We suppose that strong employment protection and relatively high vocational specificity makes labour market entry process in Slovenia similar to that in Germany.

In **Poland** and **Slovakia**, where training is merely limited to theoretical learning in vocational schools, labour market entrants are lacking practical experience. They will be at a disadvantage compared with experienced workers. Labour market entry will be relatively difficult for young people. A dramatically increasing unemployment rate coupled with the withdrawal of the state from its role as the mediator between the educational and employment systems will divide the labour market into insiders and outsiders. The development of the insider-outsider labour market will worsen the situation for entrants. We expect that their unemployment rate will be higher compared to experienced workers and they will be engaged in long-term job search. Job

access difficulties will reduce job mobility among workers (experienced workers as well new entrants). New entrants will be likely to be recruited at the lowest levels and frequently into fixed-term jobs. We assume that flexibilisation is applied mainly to new entrants, creating a type-of-contract segmentation which is characteristic of the labour market in Spain and France (see Pochic *et al.*, 2003). Lower employment protection and a higher rate of labour market entrants acquiring vocational skills will make the insider-outsider labour market in Poland and Slovakia less rigid than in Southern European countries (especially in Italy and Greece). On the other hand, an increasing unemployment rate and the growing volatility of markets will worsen the situation for LM entrants.

We suppose that labour market entry patterns in the **Czech Republic** and **Hungary** will be quite similar. In these countries, deregulation and flexibility policies are introduced under economic pressure. The labour market entry process will be relatively uncomplicated for two reasons. Employment protection is quite low and enables employers to fire employees in difficult economic times. Secondly, a major part of school leavers acquire occupational qualifications, which diminishes the costs of on-the-job training. We expect that the gap in unemployment rates between new entrants and experienced workers will be narrower than in Slovenia, Poland and Slovakia. Because of the open employment relations, the chances of leaving unemployment as well as the job mobility rate should be relatively high. The likelihood to start in fixed-term contracts is comparatively low because such precarious form of employment is

not widespread in these countries. In these countries the moderate support for those who fall out of the labour market is combined with relatively open employment relations, with employees being barely shielded against market risks, and an individual's education being crucial. This puts lower educated labour market entrants without vocational qualifications at high risk.

In the **Baltic countries** the percentage of upper secondary school students enrolled in vocational education is substantially lower than in other CEE countries. Very little coordination exists between schools and employers and both remain relatively uninvolved in students' entry into the labour force. Most labour market entrants are lacking vocational qualifications, thus they are at a disadvantage compared to experienced workers. In all three countries we expect the labour market entry to be similar in many aspects: comparatively high unemployment rate of LM entrants; duration of unemployment (high); risk of flexible jobs (low). Training is merely limited to theoretical learning in vocational schools, providing general skills. We expect that after a relatively difficult labour market entry young people should be able to compete with experienced workers on equal conditions. The broader occupational specialisation should also make it relatively easy to transfer young employees between firms, i.e. job mobility rates should be relatively high here. Labour market entry will be characterised by frequent job shifts and brief spells of unemployment. On the other hand, high employment protection will decrease job mobility and contribute to the development of insider-outsider labour market. Under these circumstances the youth might be extremely vulnerable at

employment entry. In the Baltic countries educational level might matter less for the risk of unemployment compared with the flexible labour markets in the Czech Republic and Hungary. Due to prevailing general skills, there is a much larger group of individuals with no formal qualifications and therefore they will not constitute a marginal group in the labour market.

## **5. Data and statistical methodology**

The following analysis draws upon data from the European Union Labour Force Survey (EULFS) conducted in 2000 in the UK and in 2004 for all other 21 countries (see EUROSTAT 1998 for details). The basic idea here is to use the available data on individuals in their early career stages to generate a set of macro-level indicators describing the core features of youth labour market integration in the CEE countries in the backdrop of other European countries.

We will compare *labour market entrants* and *experienced workers*. An approach to the concept of labour market entrants calls information on the individuals' pathways to a stable job position. Unfortunately, the EULFS does not permit an exact identification of starting date of the first stable job. Due to data limitations, we are restricted to an approximate identification constructed by Couppié and Mansuy (2003). We will identify various categories of respondents: firstly, labour market entrants, consisting of individuals aged over 15 and under 35 who entered the labour market less than five years ago. Secondly, experienced workers – respondents aged 16 to 50 entering the labour market more than five years ago.

The paper will first present descriptive evidence on the differences in labour market outcomes for labour market entrants and experienced workers in the CEE countries as well as in the EU-15 countries. Labour force outcomes were measured in five ways: the rate of unemployed at the time of the survey, the exit rate from unemployment, job mobility, the occupational attainment as the ISEI score (an index of occupational status constructed by Ganzeboom (see Ganzeboom and Treiman, 1996)), and the rate of fixed-term contracts. Following the description of the phenomenon in different countries we will explore the role of educational achievement. The level of education is measured using the following classification: low (having attained no more than lower secondary qualifications), medium (vocational secondary education or general secondary education), high (tertiary education).

For the study of job mobility, we make use of the dynamic information available in the EULFS. These indicators are based on job and employment status changes observed among respondents between the date of the survey and one year before<sup>7</sup>. First, for the mobility indicator we calculate the number of individuals who left the job they held one year before and are either currently unemployed or back in employment. To obtain the mobility rate, the number of all exits is divided by the number of individuals who had a job one year before. Second, for the job access for unemployed we calculate the number of individuals who were unemployed one year before and currently have a job<sup>8</sup>. Exit from unemployment to a job indicates the relative ease of exiting

unemployment. We compare these respective transitions for both labour market entrants and experienced workers.

Based on macro level data the analysis will then attempt to empirically identify distinct country clusters. Appendix 1 summarises the indicators used in the cluster analysis. Indicators cover unemployment features, the intensity of job mobility, the relative risks of having fixed-term contracts and the occupational downgrading associated with youth employment.

## **6. Findings**

### ***6.1. The structure of labour market entry in the new EU member states***

Before approaching the cluster analysis in more detail, we will provide a brief descriptive overview of the new member states, as measured by the set of indicators chosen for the analysis. We will begin this overview by elaborating on the example of cross-national differences in unemployment rates of labour market entrants compared to experienced workers. The respective data are given in Figure 1, where the eight Central and Eastern European countries (Hungary, Czech Republic, the three Baltic States, Slovenia, Slovakia and Poland) are compared to the old European Union member countries grouped into a set of OLM countries (the Netherlands, Denmark, Austria and Germany), two groups of ILM countries – one with a conservative or social democratic welfare state regime (Sweden, Finland, Belgium, France) and the other with a liberal welfare state regime (Ireland, the UK), and, finally, a group of southern

European countries with a familistic welfare state regime (Portugal, Spain, Italy, Greece).

Although we supposed similar unemployment patterns for LM entrants in the Czech Republic and Hungary, it did not prove to be true. Hungary follows our assumptions as a country with only moderate unemployment level for LM entrants and youth chances to find a job differing moderately from experienced workers, which is similar to the UK. In the Czech Republic, on the contrary, the unemployment level of LM entrants is relatively high and the advantages connected to longer labour market experience are more pronounced. In the Baltic countries, the unemployment level of LM entrants is relatively high and the differences between entrants and experienced workers are on average level as assumed. In Slovenia, youth unemployment level is on average level, but entrants are considerably more disadvantaged with their access to labour market than experienced workers resembling Sweden. The youth unemployment rate is rocketing in Slovakia and Poland, being even slightly higher than in Italy and Greece, where around a quarter of LM entrants have problems with the labour market access. Still, as expected, the differences between LM entrants and experienced workers are high, but not as pronounced as in Southern Europe.

- Figure 1 about here -

Next we will inspect the effect of education on LM entrants unemployment rate (Figure 2). The results show substantial variation, both between the countries and the types of education. In Poland, Lithuania and Slovenia education did not play a strongly differentiating role, being similar to the OLM countries and Southern Europe. This result is surprising for Slovenia as previous analysis has shown that the low-educated there are especially disadvantaged in terms of labour market access (Kogan and Unt, 2005). Unfortunately due to data limitations we were unable to distinguish between vocational and general secondary education, which might hide some important nuances in the role of education. In Slovakia, the Czech Republic, Latvia, Estonia and Hungary, the influence of education is more pronounced than the average in the EU, being analogous to the UK. Still, the levels of unemployment of different educational groups are on a higher level than in the UK. While highly educated youth in CEE countries face risks on a similar level as the EU average, the low educated are noticeably more marginalised. The least educated are particularly vulnerable in Slovakia and the Czech Republic.

- Figure 2 about here -

Subsequently, we will turn to the indicators, which should reflect the flexibility of labour market, namely the exit rates from unemployment and overall mobility rates during one year (see Figure 3 and Table 3). Although the labour market entrants are at greater risk of unemployment, they are also more

likely to exit from unemployment, except in Austria and Italy. Hungary seems to have a relatively dynamic labour market compared with other CEE countries. The Hungarian labour market can be characterised by the high rate of exit from unemployment, which does not depend remarkably on work experience (the picture is remarkably similar to the UK figures). The Czech labour market is a bit less dynamic than expected. Although exit from unemployment is still relatively high among LM entrants, the more experienced workers have noticeably less chance to escape from unemployment. The Slovenian labour market seems to be more dynamic than institutional settings let us assume as the exit rates for entrants are relatively high being at the same level with Baltic countries, Belgium, and Sweden. Furthermore, Slovenia stands out with the highest overall mobility rate of LM entrants among the CEE countries, being at the same level with the most mobile EU countries such as the UK and Denmark, Spain. The least flexible labour markets are in Slovakia and Poland, which stand out with the lowest escape rate from unemployment of LM entrants coupled with low rates of overall mobility being similar to Greece.

- Figure 3 about here -

Apart from the specific features of employment access companies may allocate new entrants to specific positions, and entrants may concentrate on specific contracts. Below, we will take a brief look at the occupational attainment indicators such as the labour market status and the proportion of LM

entrants working on fixed-term contracts (see Table 3). Slovenia is in this respect very similar to Spain and Sweden, standing out among CEE countries with the highest proportion of LM entrants having a temporary labour contract and the highest downgrading risk in terms of social status. This result does not confirm our hypothesis (we expected the downgrading risk to be low in Slovenia due to the vocational specificity of educational system). Temporary work contracts are widespread also in Poland, but those LM entrants who manage to find a job have lower downgrading risk than in Slovenia. In all other CEE countries fixed-term contract is a rather marginal form of employment which separates them from most other European Union countries. In Poland, Slovakia, Hungary, and the Baltic states, the social status of youth compared to experienced workers is comparable with Ireland, which is lower than in the German speaking OLM countries and higher than in the northern ILM countries. The Czech Republic differs from the previously mentioned CEE countries as the youth status downgrading risk there is higher, being similar to Slovenia and Sweden.

- Table 3 about here -

## ***6.2. One distinct CEE pattern of labour market entry?***

The second step of the analysis will focus on the number of different patterns of labour market entry in Europe and especially on the location of CEE countries in this classification. Using macro level data for cluster analysis, we have

identified patterns of labour market entry. The cluster analysis has been carried out using the Ward algorithm<sup>9</sup> based on a squared Euclidean distance of z-standardised transforms of macro level indicators given in Appendix 2. The cluster dendrogram is given in Figure 4. Six clusters are clearly identifiable and seem to be relevant to previous classifications and our hypotheses<sup>10</sup>. At that stage of fusion process, the country clusters distinguished are (1) a cluster of ILM countries Belgium and Sweden and two flexible Southern European countries Spain and Portugal including also Slovenia, (2) a cluster of two Southern European countries comprising Greece and Italy, (3) a cluster including a typical OLM country Germany, (4) a cluster of Poland and Slovakia, (5) a cluster of CEE countries consisting of Hungary, the Baltic countries and the Czech Republic, and (6) a final cluster including Denmark and the UK.

- Figure 4 about here -

Even if one accepts the six-cluster solution as a convincing result, there is the additional issue of the extent to which the preferred cluster solution might depend on particular indicators, rather than representing a relatively robust outcome across various dimensions considered. However, the results from a sensitivity analysis based on the deletion of single indicators from the calculation of the distance matrix are overall quite supportive of the solution<sup>11</sup>.

Table 4 summarises for each cluster the indicators' mean, maximum and minimum values and standard deviations. The results for Western and Southern Europe are comparable to the previous results (see for instance Gangl 2003b). Still, there are also some differences which are mainly due to the fact that in addition to indicators reflecting OLM/ILM dichotomy we included indicators capturing the dimension of labour market flexibility. At least two interesting dissimilarities could be mentioned. Firstly, youth transition pattern in a OLM country Denmark resembles the more flexible ILM country UK pattern rather than the typical OLM case - German one. The flexibility at labour market in Germany and Denmark is achieved by different means, which also reflects in youth labour market outcomes. Denmark has very well developed unemployment insurance system, which contributes to overall mobility giving youth more chances to exit unemployment and access labour market than in Germany. Similarly to Gangl's (2003b) results, Southern European countries form a distinct cluster. Still, Southern European cluster includes in our results only Italy and Greece, but not Portugal which clusters together with Spain and other Northern ILM countries because of its more dynamic and flexible labour market (see also Polavieja, 2006).

Next we turn to the classification of youth transition patterns in the CEE countries. Empirical results have at least one immediate implication. First, there are clear distinctions within the group of CEE countries in terms of youth transition to labour market. **Slovenia** clearly contrasts with other CEE countries clustering together with Sweden, Belgium, Spain and Portugal. Although we

expected the Slovenian transition pattern to be similar to the German one, it seems that in Slovenia the link between educational system and labour market is still not quite as strong, and furthermore, the youth labour market is more flexible than in Germany.

As expected, **Poland** and **Slovakia** form a cluster where LM entrants are at a strong disadvantage as the labour market insiders' power is relatively strong, which, accompanied with the low vocational specificity of educational system, narrows down the chances of youth to compete on the labour market.

The last cluster comprises the rest of CEE countries. At first, **Hungary**, **the Baltic States** are clustered together – countries where the vocational specificity of educational system is low and thereafter lastly also the **Czech Republic** where educational system is vocationally orientated. The unemployment risk inside this cluster is on a medium level. There is a moderate risk of long-term unemployment as new entrants have relatively good chances to move out of unemployment. The effect of educational level on unemployment rate as well as on exit from unemployment is high being especially pronounced in the Czech Republic. The downgrading risk for new entrants is on a medium level (in the Czech Republic it is exceptionally high, comparable with Southern European countries). Job mobility is also intermediate. A specific feature for countries belonging in this cluster is a low rate of LM entrants having fixed-term contracts.

- Table 4 about here -

## **Conclusions**

. Summarising the empirical results of our study, we found a substantial support for a distinct pattern of labour market entry in terms of features such as the stratification of labour market exclusion, downgrading risk and labour market mobility of LM entrants in different CEE countries. Uniform classification for CEE countries is hardly feasible. The level of vulnerability of LM entrants is quite different.

In Slovakia and Poland the situation for school leavers is the worst among CEE countries. There are clear signs of the formation of an insiders-outsiders labour market. Due to growing unemployment young (especially low educated) school leavers have increasing difficulties in smoothly entering the labour market: they have higher unemployment compared with experienced workers. Relatively low mobility rates are matched with long duration of unemployment. It is apparent that Slovakia and Poland show a particular combination of the structural features of early labour market careers: here strong qualification and relatively strong experience effects occur in conjunction with very high unemployment risks at the early stages of career, but medium downgrading risks once initial employment has been secured. This pattern seems to have similar elements with Southern European countries.

Slovenia differs from other CEE countries remarkably by stronger LM legislation, higher trade union density, and spending on LM policies. The labour market entry process in this country is more similar to the ILM model

with quite high youth labour market flexibility, strong experience effect on unemployment, and a high risk of having precarious forms of employment. This finding does not fit into our previous assumptions based on the high labour market regulation and vocational specificity of educational system in Slovenia, suggesting searching for other explanations. We consider this a task for future research but some preliminary explanations will be proposed. Despite the high proportion of vocational school graduates, the link between schools and employers may be weak. The result is that vocational education in Slovenia does not work as a safety net.

In Hungary, the Baltic countries and the Czech Republic the labour market entry pattern combines elements present in Denmark (such as the role of medium experience effect on unemployment), the UK (as far as large educational differentials in outcomes and low representation of precarious forms of employment are concerned), and their own peculiarities, such as a low level of mobility at market entry. Exclusion from entry into employment operates on a clear-cut qualificational basis. This kind of educational sorting finally leads to labour market segmentation based on the skill levels among labour market entrants. Some of these features are to be expected if the institutional packages characteristic of these countries are taken into account. However, low youth labour market flexibility does not fit into these explanations. We suppose that the institutional rules worked out during the reform period that were aimed at preventing labour market rigidities have not worked as intended. The rather vulnerable situation for LM entrants in the

Czech Republic requires an especial explanation. While the Czech Republic would seem to share relatively low employment protection with Hungary, it contrasts from the Baltic countries in terms of higher vocational specificity of educational system. This institutional combination should make the labour market entry smoother compared with other CEE countries. The question is why it is not so. One explanation to this irregularity may be connected with the circumstance that vocational specificity of educational system is supported neither by employment protection nor by unemployment protection. On the other hand, it could also be explained by a very low enrolment rate at the tertiary educational level. This means that the transition from secondary to tertiary education is the most critical moment in an educational career (Matějů, 2004). It may explain the very strong effect of education on unemployment: LM entrants with higher education have very good prospects compared with other contemporaries.

The analyses in this paper are mainly been based on a single-year cross-sectional data. The use of time-series or even longitudinal information and comparison of different age cohorts will add a dynamic aspect to the analysis. We consider this very much a task for future research.

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## Notes

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<sup>1</sup> In fact the school structure resembled the German dual system model. The possibility to select various educational tracks, however, normally took place later than in Germany.

<sup>2</sup> The Baltic republics have traditionally seen higher participation rates in general education rather than in vocational education, the latter being less prestigious (Saar, 1997).

<sup>3</sup> This means that the labour markets of CEE countries are definitely less flexible than those of the United Kingdom, but certainly not as rigid as those in Southern Europe.

<sup>4</sup> Employment Protection Legislation indexes (version 2) consider legislation on permanent and temporary employment as well as legislation on collective dismissals (see also Riboud *et al.*, 2002).

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<sup>5</sup> The coverage in Slovenia at level of 100% is mainly based on the obligatory membership of chambers of commerce and industry, which has survived the transformation process but is set to change in the years ahead with voluntary employer organization (European Commission, 2004: 32). The legal and institutional arrangement resembles more the Austrian collective bargaining system than that of the other CEE countries.

<sup>6</sup> The term refers to labour market policies aiming at a balance between employers and employees in terms of fixed-term employment becoming more flexible while the security of flexible employees increases.

<sup>7</sup> Unfortunately, the EULFS does not include data (or there are a lot of missing data) about employment status one year before in some countries included in our study (Austria, Finland, France, Ireland, the Netherlands).

<sup>8</sup> One should note that such indicators do not give an aggregate picture of all the mobility that has occurred during a year, as some short spells will not be observed.

<sup>9</sup> The Ward algorithm achieves a sequential fusion of least deviant case.

<sup>10</sup> Six cluster solution is preferred based on screenplot results and dendrogram.

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<sup>11</sup> Further details about the conducted sensitivity analysis available from authors upon request.