Long-term Unemployment in the EU: Trends and Policies

BertelsmannStiftung

Long-term Unemployment in the EU: Trends and Policies

Nicola Duell, Lena Thurau, Tim Vetter
Economix Research & Consulting

Disclaimer:
Results presented in this report are based on data from Eurostat, specifically the Labor Force Survey LFS and EU-SILC. We wish to thank Eurostat for the provision of the data under the project 143/2015-AES-LFS-EU-SILC. The responsibility for all conclusions drawn from the data lies entirely with the authors.

Aknowledgments:
This report benefited from invaluable comments provided by John P. Martin (former Director for Employment, Labor and Social Affairs at the OECD and IZA Research fellow) and the participants of a seminar organized by the Bertelsmann Stiftung on 21 January 2016 in Brussels.

Contents

Figures and tables 6

Key findings, in brief 9

Introduction 12

1. Measuring and assessing LTU in the EU 13

Long-term unemployment 13
Long-term inactivity and labor-market detachment 18
Alternative indicators for assessing long-term joblessness in a broader sense 32

2. Factors driving long-term unemployment 37

Overview 37
The economic crisis and aggregate labor demand 37
Labor-market regulation and flexibility 41
Labor-market mismatches and structural unemployment 44
Benefits, institutions, activation approaches and household strategies 47
Conclusions 53

3. Addressing long-term unemployment through activation policies 55

Activation policies: target groups, objectives and approaches 55
Activation strategies 56
Active labor-market policy measures 59
ALMP spending and participation in comparative perspective 61
ALMP potential and limitations 65
Conclusion and open questions 68

4. Lessons for policy 70

References 73

Annex 78

Imprint 86

Figures and tables

Figures

Figure 1.1	Long-term unemployment rate and incidence in the EU, 15–74 years old, 2007 Q3–2015 Q3	13
Figure 1.2	Long-term unemployment rate and incidence, 15–74 years old, 2008 Q3 and 2015 Q3	15
Figure 1.3	Unemployed by length of unemployment as % of labor force 15–64 years old, 2015 Q3	16
Figure 1.4	Long-term unemployment rate by skill level, 25–64 years old, 2013	17
Figure 1.5	Moving between unemployment, jobs and inactivity	19
Figure 1.6	Transition rates from unemployment into employment/ inactivity, 2015 Q2	20
Figure 1.7	Transition rates from inactivity/employment into unemployment, 2015 Q2	21
Figure 1.8	Long-term unemployed and inactive persons as % of total labor force, 15–64 years old, 2013	22
Figure 1.9	Long- and short-term unemployment, inactivity by willingness to work, in % of working-age population, 15–64 years old, 2004–2015 Q3	23
Figure 1.10	Short-term and long-term unemployment rates and inactivity rates by willingness to work, 2014	24
Figure 1.11	Changes in short-term, long-term unemployment and inactivity rates in percentage points, 15–64 years old, 2008–2014	25
Figure 1.12	Changes in unemployment and inactivity rates of low-skilled, 25–64 years old, in percentage points, 2008–2013	26
Figure 1.13	Older persons' reasons for long-term inactivity, by reasons for not seeking employment, 2013	27
Figure 1.14	Older persons' change in unemployment/inactivity rate, in percentage points, 2008–2013	28
Figure 1.15	Prime age persons' reasons for long-term inactivity, by reason for not seeking employment, 2013	29
Figure 1.16	Chronic unemployment (6–11 months) as % of total unemployment, 2011–2013	30
Figure 1.17	Chronic unemployment (3–11 months per year) broken by work spells as % of working-age population (15–64)	30
Figure 1.18	Underemployed as % of total labor force, 2014	31

Figure 1.19	Long-term non-employed with a labor-market orientation (LNE-LO), 2013	33
Figure 1.20	Long-term non-employed with labor-market orientation, retired or disabled (LNE-LOREDI), 2013	34
Figure 1.21	Long-term unemployed, long-term non-employed with a labor market orientation, retired or disabled and all non-employed, 2013	34
Figure 1.22	Composition of non-employment, 2013	35
Figure 1.23	Changes in long-term unemployment, long-term non-employed with a labor market orientation, retired or disabled and all non-employed, 2008–2013	36
Figure 2.1	Overview of factors influencing long-term unemployment	38
Figure 2.2	Long-term unemployment and GDP growth, 1994–2014	39
Figure 2.3	Change in employment by sector, 2008–201	45
Figure 2.4	Ratio of LTU to new jobs, by occupation, 2013	45
Figure 2.5	Youth unemployment and education participation, 15–25 years old, change in percentage points, 2008–2013	46
Figure 2.6	Net income-replacement rates for the very long-term unemployed, 2013	48
Figure 2.7	Benefits received by the long-term unemployed, 2013	49
Figure 2.8	Changes in benefit types received by LTU persons, 2008–2013	50
Figure 2.9	Benefits among long-term unemployed and inactive populations, 2013	51
Figure 3.1	Long-term unemployment and participation in ALMPs, 2013	62
Figure 3.2	Long-term unemployment and ALMP spending per person wanting to work	63
Figure 3.3	ALMP spending by type of program, 2008 and 2013	64
Figure 3.4	Participant stocks by type of measure, 2008 and 2013	64
Figure A1	Ratio registered unemployment to LFS unemployed in %, 2013	79
Figure A2	Long-term unemployment (LTU) by gender, 2013	79
Figure A3	Long- and short-term unemployment by skill level, 2013	80
Figure A4	Marginally employed workers (working 1–14 hours/week): Desired working time, 2013	80
Figure A5	Comparison of alternative indicators LTU, LNE-LO, LNE-LOREDI, LNE, 28 European countries, 25–64 years, 2013	81
Figure A6	Expenditure on ALMP as % of GDP, 2013	81

Infoboxes

Infobox 1.1	Counting the unemployed	14
Infobox 2.1	Companies' flexibility strategies	42
Infobox 2.2	Effects of employment protection legislation on unemployment	44
Infobox 2.3	Structural unemployment and NAIRU	47
Infobox 2.4	Informal economy and undeclared work	50

Tables

Table 1.1	Country groups and long-term non-employment rates	22
Table 3.1	Wage subsidies	59
Table 3.2	Subsidized work placements in protected-environment or public-works programs	60
Table 3.3	Training measures	61
Table 3.4	Positive and negative unintended effects of ALMPs	65
Table A.1	Examples of successful or promising measures for LTU	82
Table A.2	Effectiveness of ALMPs	84

Country Codes

BE	Belgium	LU	Luxembourg
BG	Bulgaria	HR	Croatia
CZ	Czech Republic	HU	Hungary
DK	Denmark	MT	Malta
DE	Germany	NL	Netherlands
EE	Estonia	AT	Austria
IE	Ireland	PL	Poland
EL	Greece	PT	Portugal
ES	Spain	RO	Romania
FR	France	SI	Slovenia
IT	Italy	SK	Slovakia
CY	Cyprus	FI	Finland
LV	Latvia	SE	Sweden
LT	Lithuania	UK	United Kingdom

Abbrevations

ALMP	Active labor market programs
IAP	Individual Action Plan
LFS	Labor Force Survey
LTU	Long-term unemployment
GDP	Gross Domestic Product
PES	Public employment service
ppt	Percentage point
SILC	Statistics on Income and Living Conditions
VET	Vocational education and training
EU 28	28 member States of the European Union

Key findings, in brief

Long-term unemployment has become the key labor market legacy of the crisis

- Nearly one-half (48.2%) of the 22 million unemployed people in the European Union in the third quarter of 2015 have been unemployed for 12 months or longer. Unemployment has **risen dramatically** in a number of European countries since the beginning of the Great Recession in 2008 and has peaked at 27 million at the beginning of 2013, of whom 45.3% or 12.2 million were long-term unemployed.

- Over the past year (third quarter 2014 to third quarter 2015), the number of long-term unemployed fell by 11% on EU average, but the **picture across Europe is mixed**. While long-term unemployment has been declining in some countries (Estonia, Bulgaria, Ireland, Poland, UK), it has increased in France, the Netherlands, Sweden, Croatia, Austria, Latvia, Romania, Finland and Luxembourg.

- Long-term unemployment remains at very high levels in all countries that experienced a sovereign debt crisis as well as in some other South and Southeast European countries with LTU rates **above 10% in Greece, Spain and Croatia** and above 5% in Slovakia, Portugal, Cyprus, Italy, Bulgaria and Ireland. In most of these countries, long-term unemployment affects the majority of jobseekers.

- The Nordic countries, Austria, Germany and the UK generally register low LTU rates, though in the case of Germany, the share of long-term unemployed among all unemployed is above 40%.

Across Europe, the long-term unemployed represent a heterogeneous group

- Unemployed individuals with **low educational and skills levels** generally face the most serious difficulties in securing a job. As an EU-wide average, the risk of falling into long-term unemployment was 5.9% for the low-skilled, 4.3% for those with an intermediate education and 2.6% for those with a high educational level.

- In several countries hit hardest by the economic crisis, the LTU rate among intermediate and high-skilled workers is still worryingly high. In these countries, long-term unemployment has become a general risk for the working population. This is due to the persistent **lack of aggregate labor demand**. Lithuania and Slovakia stand out, with the medium-skilled representing more than 70% of the total long-term unemployed populations.

- Some groups face a higher risk of long-term unemployment after losing their job as a result of **economic restructuring** – this applies in particular to **older workers and workers in declining occupations and sectors**. Their numbers have grown considerably in countries with high LTU rates. While older workers are generally less likely to become unemployed, they have greater difficulty re-entering the labor market than do other age groups once they become unemployed.

- In most countries, the LTU **risk is higher for men** than for women. This is associated with the fact that male employment rates are higher in those sectors (i.e., construction and manufacturing) hit hardest by the Great Recession.

- As **youth unemployment** is particularly sensitive to business cycles, young people are more likely than other age groups to be in short-term unemployment. However, long-term unemployment has risen among young people too, primarily in countries particularly hit by the crisis (Greece, Italy, Croatia and Slovakia). For young people, the impact of long-term unemployment is likely to be more severe than it is for other age groups.

- The long-term unemployed include people who are difficult to place even in a favorable labor-market context. These persons often face **multiple employment barriers**. The lower the LTU rate, the more likely the long-term unemployed belong to this group.

High LTU rates are part of the broader issue of long-term joblessness and labor-market detachment

- In addition to the long-term unemployed, the broader phenomenon of long-term joblessness includes persons who are not actively looking for work and are thus considered inactive, even if they are **willing to work** or, in the case of **discouraged workers**, would want to work if jobs were available. On EU average, the number of both groups combined is even higher than the number of long-term unemployed (except in Greece, Spain, Portugal, Slovakia and Lithuania).

- Both the share of inactive persons wanting to work and the share of discouraged workers among all inactives was **particularly high in Italy**, to some extent hiding the problem of long-term unemployment. In Spain and Greece, however, these shares are comparatively small and the problem of long-term unemployment thus more visible.

- The extent of detachment from the labor market of the inactive population in general is, however, difficult to measure. **Early retirement, disability benefit receipts and health problems** are still important reasons for not seeking employment, although their relevance as an exit route out of the labor market has declined (except in Italy). Strikingly, countries with a relatively low share of long-term unemployed among all non-employed have markedly higher shares of people being retired or inactive for health reasons (e.g., Denmark, Austria and Poland).

- The Great Recession has **increased the labor market orientation** and eventual labor market participation of a number of people, in particular older workers and women, even in countries severely hit by the crisis. Between 2008 and 20014, the share of persons not willing to work in the total working-age population decreased in 23 out of 28 countries.

- Further groups with weak links to the labor market include **chronic unemployed** (i.e. persons with recurrent spells of unemployment) and **underemployed part-time workers**. The former group consists of workers who interrupt their unemployment spells due to participation in active labor market programs (ALMPs) or thanks to short-term employment. In general, labor-market dynamics are higher and unemployment less persistent in countries with a high share of temporary workers (e.g., Spain). Underemployment is prevalent in countries hit most by the crisis where the share of part-time workers wanting to work more hours is particularly large. However low working hours are also common in countries such as Germany and the Netherlands.

Activation strategies are underdeveloped in countries with high LTU rates

- Labor market reforms linking (generous) welfare benefits with strict conditionality and intensive activation by **enforcing work-availability and mutual obligation requirements** were implemented in several countries including Germany and other Western European countries in the decade preceding the crisis. The Nordic countries were the first to develop this type of "workfare" approach. These countries were generally better prepared to cope with the labor market effects of the crisis and therefore show low LTU rates.

- Welfare-benefit levels **remain particularly low** in a number of countries with high LTU rates despite increasing levels of conditionality. In addition, demanding eligibility conditions lead to **low coverage among the long-term unemployed** populations with more than 80% of long-term unemployed receiving no benefits in Greece, Czech Republic, Lithuania, Bulgaria, Croatia, Poland, Slovakia and Romania.

- Activation efforts (measured as expenditure on ALMP per unemployed) are low and in some cases even have been decreasing in the southern European countries that were particularly affected by the crisis. While **spending on ALMP** remains at a high level in the Nordic countries and in the continental countries (though declining in the latter case), eastern and southeastern Europe and the United Kingdom haven shown continuously low expenditure levels. In general, ALMP spending has not kept up with the rise in long-term unemployment.

- PES efficiency is comparatively weak in some of the eastern and southeastern European countries as well as in the southern European countries with high LTU rates. **The high caseload faced by PES counselors** is an acute problem, as it hinders the delivery of tailored services for the long-term unemployed. In the United

Kingdom, Italy, Bulgaria, Netherlands, Estonia and Latvia, less than 50% of long-term unemployed were registered at their national PES institutions in 2013, meaning that large shares may not benefit from job-brokerage and employment services. Further problems include **insufficient coordination** between PES, social assistance offices and social services, **lack of employer involvement**, and the absence of coherent activation approaches including profiling, early intervention, intensive counseling and follow-up.

Key policy lessons

1. Develop coherent and comprehensive activation approaches by establishing easy registration procedures, profiling, early intervention and follow-up measures.

2. Build up the capacity of public employment services by increasing staff numbers, deepening specialization, developing e-services and cooperating with external providers.

3. Provide adequate funding for ALMP on the basis of a social investment approach.

4. Invest in employability by implementing training measures and improving VET and continuing education and training systems.

5. Make use of a broad range of ALMP measures and personalized services including in-work benefits, wage subsidies and job creation programs.

6. Ensure an adequate balance of "carrots and sticks" by combining generous out-of-work benefits with activation and work-availability requirements.

7. Integrate activation policies into a broader policy-mix against long-term unemployment including macroeconomic, structural, regional, educational and social inclusion policies.

Introduction

The deep economic crisis that affected the European Union since 2008 has led to historically high levels of unemployment, although differences between European countries are quite substantial. In a number of member states, the recovery has been weak, leading to a lengthening of average unemployment spells. The persistence of unemployment has led to extraordinarily high LTU rates, reversing the pre-crisis trend of declining LTU rates in most countries. Long-term unemployment has become a major societal challenge for the majority of countries. While in economically dynamic times, long-term unemployment has tended to be confined to people with comparatively weak links to the labor market, multiple barriers to employment, low skills or from declining occupations, since the Great Recession, long-term unemployment has changed its face as it affects a wide range of workers in a number of countries.

Long-term unemployment is associated with high costs to the individuals affected and to society at large. At the individual level, it is often linked to psychological and other health problems that have a significant negative effect on quality of life, and generate additional long-term costs for the health care system and welfare services. Long-term unemployment is a prime cause of poverty and social exclusion, thus affecting households as well as individuals. It leads to declines in individual human capital, which in turns clouds individuals' future employment prospects and decreases income levels. At the societal level, long-term unemployment leads to increasing inequality and poverty levels. Declines in the national employment rate combined with low or negative economic growth can put severe stress on the mechanisms used to finance social-protection systems. For the economy as a whole, deterioration in human capital means lower returns on social investments and threatens the economy's human capital base. Indeed, human capital is the most significant resource for modern European economies and in some countries, long-term unemployment coexists with shortages for skilled labor. In the context of the recent crisis, there are fears that the persistence of long-term unemployment has implications for the efficiency of labor-market matching and future economic growth (European Commission 2015g).

The primary objective of this study is to gain a better understanding of the shape and causes of long-term unemployment from a comparative perspective. How is long-term unemployment measured? Who are the long-term unemployed? How long are individuals' periods of unemployment? Why do unemployed persons give up searching for a job? What factors contribute to long-term unemployment? Finally, it asks what can be done to reduce and prevent long-term unemployment.

The report begins with an overview of key features of long-term unemployment and long-term inactivity, along with a look at trends across the past decade, and in particular since the beginning of the Great Recession in Europe in 2008. Alternative ways of defining long-term unemployment will also be explored. Assessing both the features and volume of long-term unemployment are key tasks for policymakers seeking to grapple with the problem.

Chapter 1 thus examines whether the conventional delineation between long-term unemployment (e.g., using the ILO/Eurostat definition) and other categories of long-term joblessness within the working-age population in fact allows the extent of the problem to be fully grasped. Chapter 2 looks at factors that have led to the increase in LTU rates in various countries, as well as those that have helped to contain its rise in others. In this context the role of aggregate demand, economic restructuring, institutional environments, labor-market regulations, and the related strategies pursued by companies and households will be analyzed in more detail. Chapter 3 offers an overview of the way active labor-market programs (ALMP) and activation services can help prevent or otherwise address long-term unemployment. This chapter also describes key challenges, barriers and factors in policy success in this policy area. Finally, lessons for policy are summarized in Chapter 4.

1. Measuring and assessing LTU in the EU

Long-term unemployment

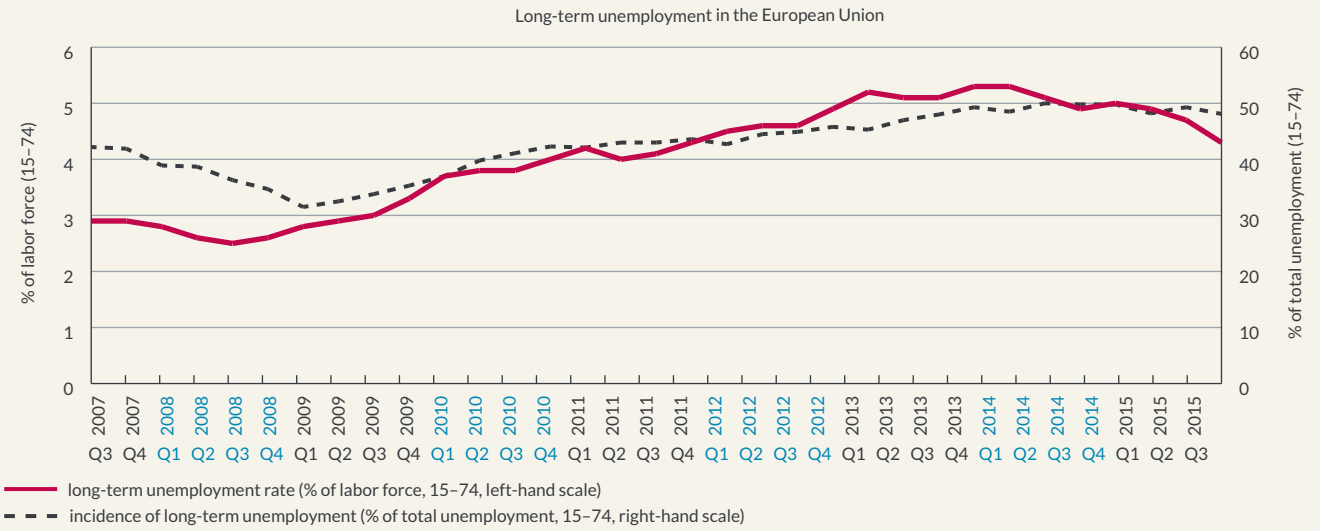
Levels and trends

As a consequence of the 2008 global economic and financial crisis, long-term unemployment has, yet again, become one of the key issues on the European labor market. In the third quarter of 2015, the European Union recorded some 22 million unemployed. Nearly half of these individuals (48.2%) were unemployed for 12 months or longer and thus considered long-term unemployed. The unemployment rate amounted to 9.3% of the labor force and the LTU rate to 4.3%. From 2004–2008, against the backdrop of relatively rapid growth and rising employment rates throughout the EU, both unemployment and long-term unemployment had been declining. This trend was interrupted by the Great Recession that caused sharp increases in unemployment in many countries. The depth and persistence of the crisis finally led to a resurgence of long-term unemployment to historically high levels.

Unemployment in Europe began to increase, on average, in the third quarter of 2008, peaking at 27 million in the first quarter of 2013, of whom 45.3% or 12.2 million were long-term unemployed. The LTU rate increased by 72% between the third quarter of 2008 and the third quarter of 2015 and by 48% if the pre-crisis level in the third quarter 2007 is compared with the third quarter 2015 (Figure 1.1). While the LTU rate started to fall as of the second quarter of 2014, the incidence of long-term unemployment has remained rather stable. It increased from 36.3% (third quarter 2008; or from 42.2% in the third quarter 2007[1]) to 48.1% in this same period (with a peak at 50% in the second quarter 2014), although with great variation across countries.

1 As unemployment rose as a consequence of the global economic and financial crisis, the share of long-term unemployed among all unemployed fell in the first year and increased only later.

FIGURE 1.1 **Long-term unemployment rate and incidence in the EU, 15–74 years old, 2007 Q3–2015 Q3**



Source: Eurostat, LFS database.

BertelsmannStiftung

INFOBOX 1.1 **Counting the unemployed**

Following the example of international organizations such as the European Union, the OECD, the International Labour Organization (ILO) and the World Bank, data on the volume and structure of unemployment in this report are derived from the LFS, based on the ILO definition of unemployment, thus enabling international comparisons. According to the ILO concept, which forms the basis of the European LFS, the unemployed and long-term unemployed are defined as persons aged between 15 (or 16) and 74 years who are not in paid employment or self-employment (during the week of the survey), are actively searching for work through public employment services (PES) or other channels (over most recent four weeks) and are available for work (within the two weeks following the survey). This definition is rather strict, and excludes many people participating in ALMP outside of short-term measures. A person is deemed employed when he or she worked at least for one hour of paid employment during the week of the survey. A person who neither works nor is unemployed is, according to the ILO, defined as being inactive, regardless of whether that person in fact wants to work.

Another means of counting the unemployed is to use the administrative data released by national PES. However, there are large variations between countries with regard to access to PES registries and unemployment status. These depend on rules regarding previous work history, eligibility and length of unemployment-benefit receipt, activation policies for means-tested income-support recipients, and job-search requirements for specific groups (e.g., older workers). Finally, it also depends on a person's official unemployment status during periods of participation in ALMPs. All of these differences render a cross-country comparison of administrative data on registered unemployed impossible. For example, in Germany someone working up to 15 hours per week can be registered as unemployed, while the same person would be "employed" according to LFS rules (which are reflected in the microcensus within Germany). For these reasons, administrative data on the unemployed and benefit recipients are not suitable for international comparisons of unemployment and long-term unemployment.

The difference between the unemployment rate according to the harmonized LFS data and the data provided by the PES registries can be significant. In some countries, the number of registered unemployed is higher than the number of LFS unemployed, while the contrary is true for other countries. The number of registered unemployed is more than 20% higher than the LFS unemployed in the Czech Republic, Ireland, Germany, Finland, Austria and Poland, and is more than 20% lower in Estonia, Denmark, Romania and Portugal (see details in Annex Figure A1).

Source: http://laborsta.ilo.org/applv8/data/SSM3/E/SSM3.html, http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Unemployment

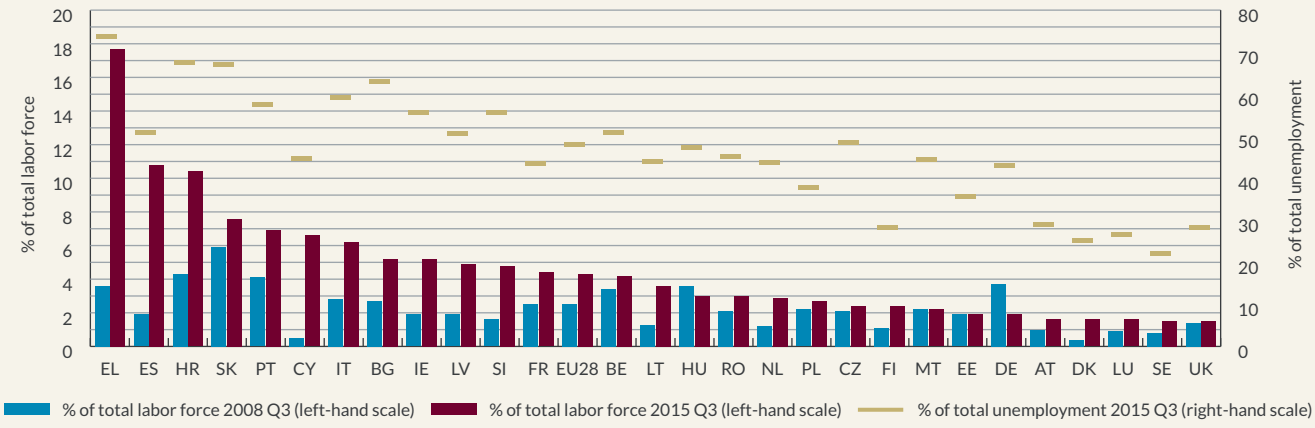
Over the past year (third quarter of 2014 to third quarter of 2015), the number of long-term unemployed fell by 11% on EU average, but the picture is mixed across Europe. The number of long-term unemployed declined by more than 20% in Estonia, Bulgaria, Ireland, Poland and the UK. In contrast, the number of long-term unemployed increased between 2% and 13% in France, the Netherlands, Sweden, Croatia, Austria, Latvia and Romania, and by nearly a 25% in Finland and Luxembourg. Over the same period, the LTU rate for Europe overall fell by 0.6 percentage points (Eurostat LFS and European Commission 2016).

In the third quarter of 2015, LTU rates (as a percentage of the labor force) in the European Union ranged from 1.5% in the UK and in Sweden to 17.7% in Greece (Figure 1.2). The size of the long-term unemployed share within the total unemployed population (or its incidence) indicates whether long-term unemployment is a significant factor within a country's labor market, and gives an indication of its persistence. In the third quarter 2015, this share ranged from 22.2% in Sweden to 73.7% in Greece. Long-term unemployment was the dominant pattern in Greece, Croatia, Slovakia, Bulgaria, Italy, Portugal, Slovenia, Belgium, Spain and Latvia, with more than half of the unemployed being long-term unemployed. This share more than doubled or even tripled in the aftermath of the crisis in Spain, Ireland, Cyprus and Lithuania, while it slightly decreased in Germany (-18%) over the same period.[2]

The increase in LTU rates in the aftermath of the global economic and financial crisis was particularly high in

2 Note that the absolute number of long-term unemployed here decreased markedly through 2012, but has remained stable since then.

FIGURE 1.2 **Long-term unemployment rate and incidence, 15 –74 years old, 2008 Q3 and 2015 Q3**



Source: Eurostat LFS, own calculations.

BertelsmannStiftung

Greece and Spain (between the third quarter 2008 and the third quarter 2015 LTU rates in these countries increased by 14.1 and 8.9 ppts respectively). The LTU rate remains above 5% in Croatia, Slovakia, Portugal, Cyprus, Italy, Bulgaria and Ireland. Long-term unemployment rates increased significantly more than short-term unemployment rates in most of these countries.

The comparison of the development of the LTU rate between 2008 and 2015 allows us to distinguish three groups of countries:

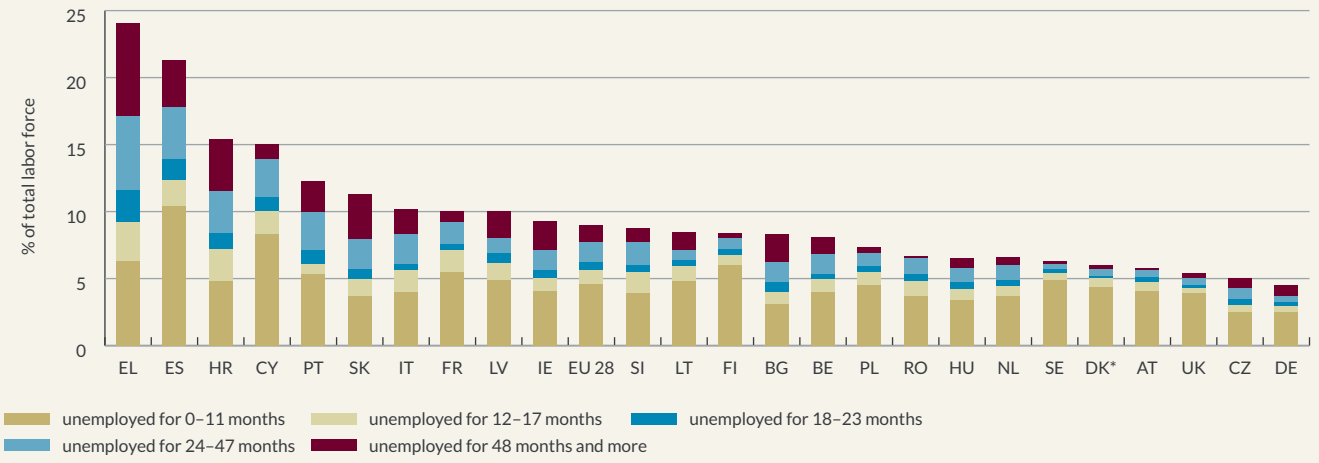
1. **Severe long-term unemployment pattern[3]:**
   Countries with (very) high LTU rates and (very) high shares of long-term unemployment within the total unemployed population include Greece, Spain, Croatia, Slovakia, Portugal, Italy, Cyprus, Bulgaria, Ireland and Slovenia. These countries were either severely hit by the economic crisis, were subject to a debt crisis, and/or already had a high LTU rate before the crisis (Croatia and Slovakia). In most of these countries, employment rates started to increase only in 2012 or 2013.

2. **Significant long-term unemployment pattern:**
   Moderate or low LTU rates (ranging from 2% to 5%) but high long-term-unemployed shares within the total unemployed population (ranging from 40% to 54%) can be observed in Lithuania, Latvia, France, Belgium, Poland, Hungary, Romania, Netherlands, Malta, the Czech Republic, Finland and Germany. Germany is the only country where the LTU rate has markedly decreased. Note that in Germany, the absolute number of long-term unemployed individuals remained rather stable between 2012 and 2014, but as employment rates have grown (in particular part-time employment), the LTU rate has also declined over that period (as the LTU rate is the ratio between the number of long-term unemployed individuals and the sum of the employed and unemployed populations); the number of long-term unemployed has declined only recently.

3. **Low long-term unemployment pattern:**
   Low LTU rates and low long-term-unemployment shares within the total unemployed population can be found in the United Kingdom, Estonia, Denmark, Luxembourg, Austria and Sweden.

3 Long-term unemployment rate of above 5% or long-term unemployment incidence of above 55%.

FIGURE 1.3 **Unemployed by length of unemployment as % of labor force, 15–64 years old, 2015 Q3**



* Data refers to Q2 2015. No data for Estonia, Luxembourg and Malta.

Source: Eurostat, LFS.

BertelsmannStiftung

Large numbers of workers have been without a job for a long time

Figure 1.3. shows unemployment rates by duration of unemployment across countries. The length of (long-term) unemployment was particularly high in the two countries with the highest unemployment rates, Greece and Spain (Figure 1.3). However, there is one important difference between these two countries' short-term and long-term unemployment shares, which indicates that the Spanish labor market is more dynamic: In Spain, more workers are able to find temporary employment or participate in ALMPs, thus interrupting their unemployment spells. In Greece, the share of the very-long-term unemployed (> 2 years) within the working-age population was significantly higher than in other countries severely hit by the crisis, as in the third quarter 2015 about 12.5% of the labor force had been unemployed for more than two years. In Spain, the very-LTU rate amounted to 7.4%. It was below 1% in Austria, Denmark, Sweden and the UK. The very-long-term unemployed represent a particularly difficult group to integrate into the labor market, as personal employment barriers (e.g., psychological problems, skills depreciation) and potential employer prejudices are likely to increase with the length of unemployment.

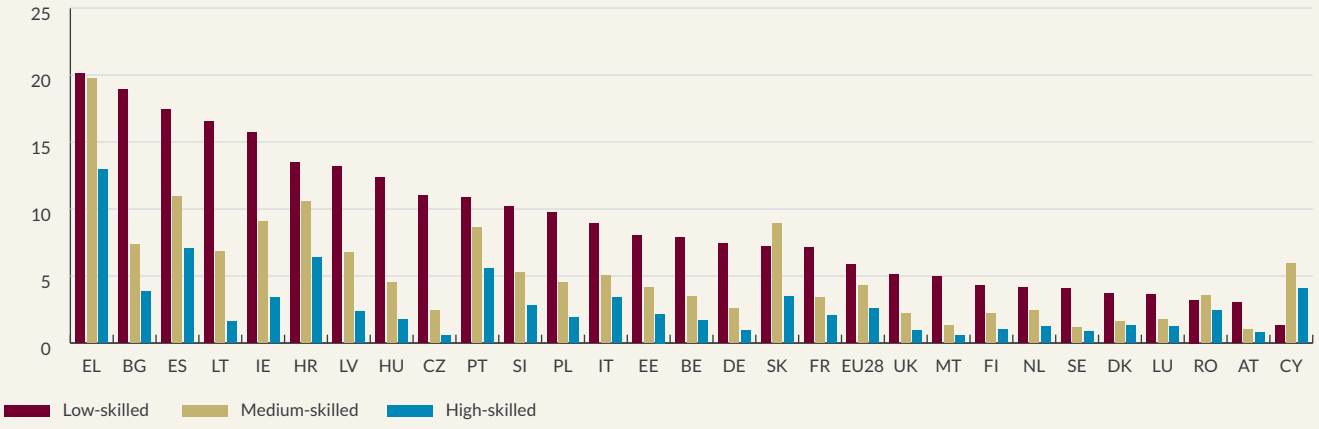
Who are the long-term unemployed?

Most LTU are men, but in some countries women face higher risk of LTU

Between 50% and 70% of the long-term unemployed were men in 2013, except in Greece, Denmark and the Czech Republic, where slightly more women than men were categorized as long-term unemployed (Annex Figure A2). The highest shares of men among the long-term unemployed can be found in Malta, Ireland, Finland and the United Kingdom. While this result for Malta can be explained by the large gender gap in employment rates, this is not the case for Finland, where the gender gap in employment rates is among the EU's lowest. In this case, the higher share of men among the long-term unemployed can be explained by differences in the typical occupations respectively pursued by men and women. In most countries, economic restructuring affects men more negatively than it does women, especially with the onset of the Great Recession, which hit male-dominated sectors and occupations harder than female-dominated ones.

In 2014, the risk of long-term unemployment was higher for women than for men, particularly in southern European countries severely affected by the crisis (Greece: +5 percentage points (ppt), Spain: + 1.4 ppt, Italy: + 1.4 ppt, Croatia: + 1.1 ppt, Slovenia: + 0.8 ppt), as well as in some of the eastern European countries that largely avoided or were only slightly affected by the crisis (Czech Republic: + 0.9 ppt and Poland: + 0.4 ppt). The Netherlands (+ 0.2 ppt) also falls into this category.

FIGURE 1.4 **Long-term unemployment rate by skill level, 25–64 years old, 2013**



Note: Each bar represents % of labor force in corresponding skill group.

Source: Eurostat LFS microdata, own calculations.

BertelsmannStiftung

Highest risk among low-skilled, but many LTU are at least medium-skilled

As an EU-wide average, the risk of falling into long-term unemployment among prime-age (25 to 54 years) and older workers was 5.9% for those with a low educational level, 4.3% for those with an intermediate educational level and 2.6% for those with a high educational level (in 2013) (Figure 1.4). A low skill level increases the risk of becoming long-term unemployed in all countries (except Cyprus). The risk of falling into long-term unemployment among those with an intermediate skill level is still worryingly high in several countries, including Greece, Spain, Croatia, Portugal, Slovakia and Ireland. Greece displayed the highest LTU rate among the highly skilled (13%), followed by Spain (7.1%), Croatia (6.4%) and Portugal (5.6%). It appears that in countries severely hit by the crisis, long-term unemployment is becoming a general risk, extending beyond the low-skilled population, although a higher skill level improves jobseekers' labor-market prospects in these countries too.

Since the beginning of the crisis, the long-term unemployment risk has in most countries risen more sharply (measured in ppt changes) among the low-skilled than among those with an intermediate or high skill level. Germany is an exception here, as the LTU rate among the low-skilled has fallen. In general, the share of low-skilled individuals among the long-term unemployed is significantly higher than among the short-term unemployed. Conversely, the share of people with an intermediate or high skill level is markedly higher among the short-term unemployed in most countries. However, in some of the countries with a severe long-term unemployment pattern, such as Greece, Spain and Croatia, differences in the skills structure of the long-term and short-term unemployed populations are less marked (Annex Figure A3).

Depending on the structure of the labor force and the long-term unemployment risk, either the low-skilled or those with medium skill levels represent the largest group among the unemployed. As a cross-EU average, both groups are equally large, each representing 41% of the long-term unemployed. The remaining 18% are high-skilled. Lithuania and Slovakia stand out, with the medium-skilled representing more than 70% of the total long-term unemployed populations. In contrast, in Italy, Spain, Malta and Portugal, between 50% and 80% of the long-term unemployed have a low educational level.

Youth LTU rates are worrying in crisis-battered countries

As a cross-EU average, young people aged 15 to 24 years represented more than 25% of all short-term unemployed, and nearly a sixth of all long-term unemployed in 2013. Youth short-term unemployment rates are generally higher than those for other age groups due to the sometimes-lengthy transition from education and vocational education and training (VET) programs to the labor market (Quintini et al. 2007). Even in periods of economic growth, youth unemployment rates tend to be higher than those among prime age adults because of young workers' limited work

experience (both generally and within any particular firm) and employers' last-in first-out dismissal policies and seniority protections (Chzhen and Richardson 2014). Indeed, the employment and unemployment rates of young people react more sensitively to the business cycle than do those of prime-age or older workers (Scarpetta, Sonnet, and Manfredi 2010). The extent of this sensitivity to the business cycle depends on a number of factors including the character of the local education and VET systems, and particularly the role played by workplace-related learning.

However, it is alarming that in countries severely hit by the crisis, unemployment became a long-lasting problem for many young people as well. Countries with very high long-term youth-unemployment rates include Greece, Italy, Croatia and Slovakia (Eurofound 2015a). Conversely, countries with low rates of long-term youth unemployment are Finland, Denmark and Sweden (in all of which the youth share accounts for less than 10% of total unemployment), followed by Austria. Between 2008 and 2014, the most significant increases in LTU rates among young people were seen in Spain (+6.6 ppt) and Greece (+6.2 ppt). Increases ranged between 3.0 ppt and 4.4 ppt in Croatia, Cyprus, Italy, Portugal and Ireland. Increases in LTU rates were higher than the increases in short-term unemployment rates in all countries except Portugal and Sweden.

Long-term unemployment can have serious negative effects on youths' prospects and their risk of social exclusion. Research shows that spending protracted time unemployed not only strongly affects all dimensions of a young person's psychological well-being and quality of life, but also decreases her future employment outcomes, as well as trust in institutions (for an overview, see Eurofound 2015a, European Commission 2015f).

Older people are less likely to be unemployed, but face high risk of remaining in this situation for long periods once losing their job

Unemployed persons aged 55 to 64 account for a comparatively low share of the short-term unemployed – 8% as across-EU average in 2013, with the highest share in Latvia and Germany (13%). Moreover, their unemployment rate tends to be lower than that of prime age workers (OECD 2014). However, as compared to young people, they have a higher risk of remaining unemployed once losing their job. Their hiring rates are generally low. Thus, their share among the long-term unemployed was 13% as a cross-EU average, while accounting for a significantly larger domestic share of 29% in Finland and 26% in Germany.

Long-term inactivity and labor-market detachment

Long-term joblessness in a broader sense

Long-term unemployment numbers only partially capture the extent of the labor-market crisis

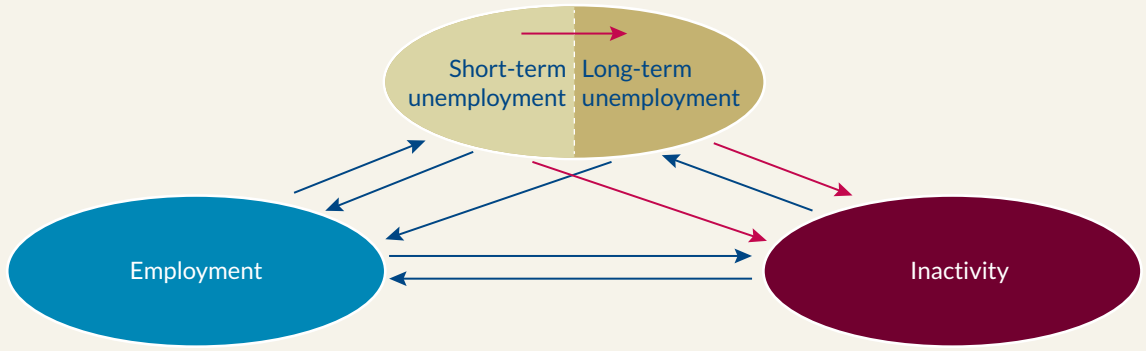
Assessing the extent to which people are permanently excluded or only weakly attached to the labor market is important both from a theoretical and political point of view. When addressing the issue of long-term unemployment, objectives include a desire to avoid poverty and social exclusion, to prevent a depreciation of human capital (and thus a decrease of the value of social investments), to avoid the social costs of long-term unemployment (e.g., psychological problems), to increase labor-market efficiency and potential growth, or to prevent the emergence of skills shortages. Yet, in several respects, approaching these problems by narrowly focusing on long-term unemployment (as defined in harmonized unemployment statistics) risks missing parts of the broader phenomenon of long-term joblessness and labor-market detachment.

First, measuring the number of long-term jobless by using harmonized data has its limitations with regard to job-search requirements and the immediate availability for paid employment. Jobless persons of working age who have not been actively searching for work for at least four weeks or are not available for work within the next two weeks are counted in harmonized statistics as "inactive." Still, they may find themselves in the same situation as the long-term unemployed.

In order to assess what share of the inactive could be regarded as unemployed if the definition of unemployment were less restrictive, the heterogeneous group of inactive people will be analyzed in more detail. One way of assessing individuals' degree of attachment or detachment to the labor market is to consider i) the willingness to work (and thus the element of personal choice in a person's status) and ii) whether and to what degree the detachment from the labor market is due to personal or institutional reasons (as institutional settings may impact on a person's willingness to work and availability for work).

Second, within the harmonized statistics, another criteria for unemployment refers to the volume of paid employment carried out, which needs to be less than one hour in the reference week. It can certainly be debated whether people working only a few hours per week should be regarded as

FIGURE 1.5 **Moving between unemployment, jobs and inactivity**



Source: Own illustration.

BertelsmannStiftung

employed, and thus as presenting no potential challenge to labor-market policies. For example, has the long-term unemployment problem been solved if people have the opportunity to work just one hour a week? This question calls for an examination of forms of underemployment.

Third, the significance of interruptions in unemployment spells for the societal problem of long-term joblessness needs to be examined. The harmonized data relates to the period of unemployment experienced by persons who are continuously unemployed. If this period of unemployment is interrupted by a short phase of employment, the time count is reset regardless of the sustainability of work. Similarly, a person participating in an ALMP may break his or her unemployment spell and thus rise into the category of the short-term unemployed, even if this person may not have had a regular job for more than a year, and should de facto be regarded as being long-term unemployed.

In sum, harmonized unemployment statistics may fail to record significant numbers of long-term jobless persons and hence underestimate the true extent of the labor-market crisis. In the following sections, the boundaries between unemployment, employment and inactivity, as well as the dynamic relationship linking short-term unemployment and long-term unemployment, will be analyzed in more detail in order to assess the extent to which "disguised" long-term unemployment is an issue in European countries.

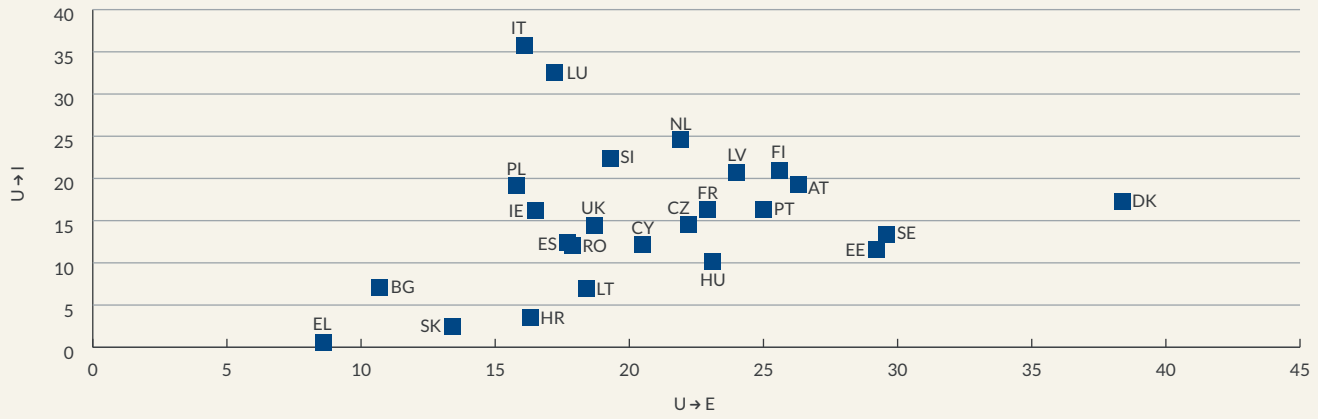
Blurred boundaries between employment, unemployment and inactivity

The difficulty of accurately measuring the stock of long-term unemployment becomes evident when looking at the various flows between employment, unemployment and inactivity depicted in Figure 1.5.

The transitions between employment, unemployment and inactivity are not linear. When an employment relationship is terminated, a person will either become unemployed or inactive, depending on whether he or she is still looking for paid work and available for a job.

Also, not all unemployed individuals terminate their unemployed status by moving into employment. Those who do not either remain persistently in the category of long-term unemployment, or become inactive (Figure 1.6). There are a number of factors that may contribute to this variation, one important one being participation in ALMPs. In other cases, an unemployed individual might look progressively less intensely for work, ultimately resigning him- or herself to not being gainfully employed, and thus ceasing being available for work. He or she may become discouraged or lose interest in employment, perhaps because of early retirement or the receipt of disability benefits. To some extent, inactivity can be an alternative to long-term unemployment without necessarily implying a permanent exit from the labor market. For example, while more than a third of unemployed individuals in Italy moved into inactivity in the second quarter of 2015 (and were thus no longer counted as unemployed), only a very small percentage of the unemployed did so in Greece. As a

FIGURE 1.6 **Transition rates from unemployment into employment/inactivity, 2015 Q2**



Age-group 15–74

Note: X- and Y-axis represent % of all unemployed. U→E: % of unemployed who moved into employment. U→I: % of unemployed who moved into inactivity.

Source: Eurostat, LFS longitudinal data of transition

BertelsmannStiftung

reflection of this trend, the measured LTU rate in Greece is significantly higher than that in Italy.

Chances of finding a job are nearly twice as high for short-term unemployed than for long-term unemployed

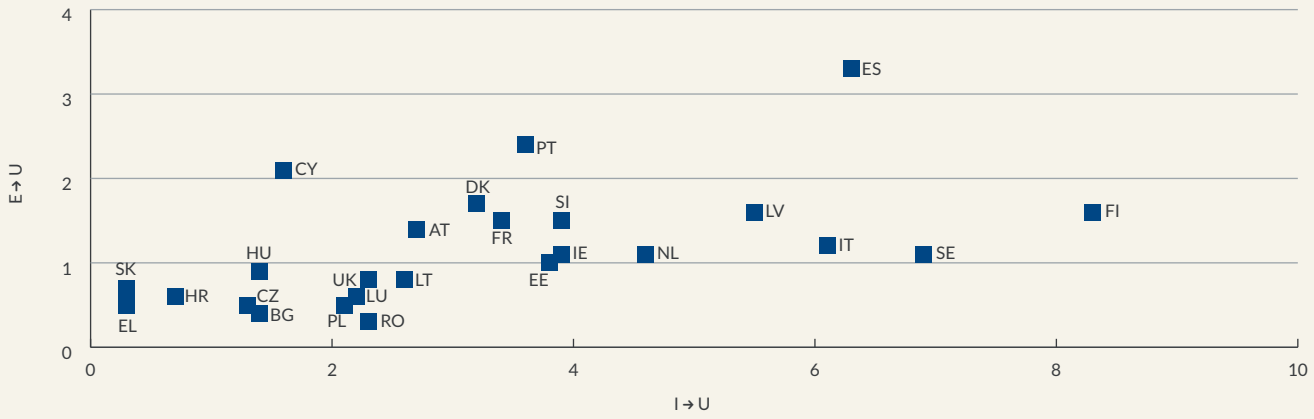
According to a European Commission assessment based on LFS longitudinal data for 24 EU countries, transition rates to employment deteriorated for both the long-term unemployed and the short-term unemployed after the beginning of the global economic crisis. In 2013 – 2014, about 18% of the long-term unemployed and 34% of the short-term unemployed were able to find a job. By contrast, long-term unemployed individuals more often moved into the category of inactivity: 24% of the long-term unemployed and 18% of the short-term unemployed population became inactive in this period. This risk rises with the length of unemployment, reaching a likelihood of 30% for those who have been categorized as long-term unemployed for more than four years. This might be linked to the individual characteristics of the very long-term unemployed. Interestingly, the probability of moving from either long-term or short-term employment into inactivity has decreased since the beginning of the crisis, while the risk of becoming or remaining long-term unemployed increased (European Comission 2015d).

Experimental analysis of LFS longitudinal data conducted by the European Commission shows that more than a fourth (and up to 44%) of long-term unemployed moved into inactivity between 2013 and 2014 in countries such as Denmark, Finland, Austria, Germany, Czech Republic, Latvia, Estonia, Ireland and Italy (European Commission 2016). The main reasons for becoming inactive are likely to differ by country and include exit to retirement and disability pensions as well as discouragement.

In most countries, among the newly unemployed, the share of previously inactive people was larger than that of previously employed individuals (Figure 1.7). In general, the primary reasons for moving into unemployment from inactivity include the completion of education, the termination of an ALMP without immediately finding a job afterwards, and a return to the labor market after a child-rearing break or because of economic necessity. Welfare-state reforms can also contribute to this shift; when stricter activation and job-search requirements for people receiving social assistance or disability benefits are implemented, there is typically a rise in the number of inactive people shifting to unemployed status (this effect was very large following German labor-market reforms (the so-called Hartz reforms) in the mid-2000s. Conversely, if job-search requirements are relaxed, the volume of shifts from inactivity into unemployment tends to fall.

It is striking that in Greece, all the transition rates considered are very low. This indicates a condition of low labor-market dynamism in which the unemployed tend to remain unemployed, and there is little transition not only to and from employment, but also to and from inactivity. In other countries with a severe long-term unemployment pattern, transition rates are markedly higher. The labor-market dynamics reflected in these transition rates will be examined in more detail in Chapter 2.

FIGURE 1.7 **Transition rates from inactivity/employment into unemployment, 2015 Q2**



Age-group 15–74

Note: X-axis represents % of inactive population. Y-axis represents % of employed population, I→U: % of inactive population becoming unemployed. E→U: Share of employed population becoming unemployed.

Source: Eurostat, LFS longitudinal data of transition.

BertelsmannStiftung

Inactivity and long-term non-employment

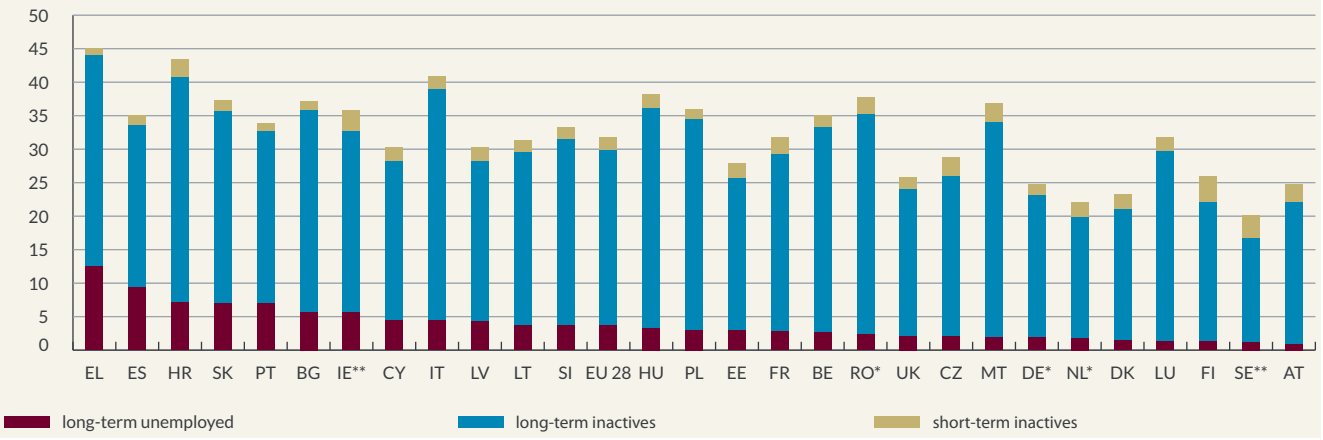
In addition to traditional unemployment statistics, another way of looking at the labor market is to examine the degree of utilization of labor among the working-age population. This is expressed by the employment rate. The employment rate, measured as a share of the working-age (15 to 65 years) population, varied strongly among European countries: in 2014, it was lowest in Greece at 49.4%, and highest in Sweden at 74.9%. The reverse of the employment rate is the non-employment rate; while half Greece's working-age population was not employed in 2014, this was the case for only one-fourth of the population in Sweden. Non-employment has two components: unemployment (defined by the engagement in an active job search and availability for work) and inactivity.

Hence, a low employment rate does not necessarily imply a high unemployment rate, as it can also be associated with a high level of inactivity. In some of the countries with a severe unemployment pattern, the employment rate was already below the EU average and the inactivity rate above-average before the crisis started, as was the case in Greece. Here, as a consequence of the crisis, the employment rate declined dramatically, while the unemployment rate rose. The combination of these two effects has led to a particularly low employment rate within the EU context. However, not all countries with a high LTU rate in 2014 already exhibited low employment rates before the crisis started (e.g., Ireland).

National long-term non-employment rates differ more than short-term rates

It is usefeul to distinguish between short-term (less than one year) and long-term non-employment. Long-term non-employment encompasses long-term unemployment and long-term inactivity. In 2013, the long-term non-employment rate (LNE, measured as a percentage of the working-age population) varied between 16% in Sweden and 44% in Greece, while the short-term non-employment rates in these two countries were respectively 3% and 1% (Figure 1.8). Remarkably, measured in percentage-point differences, the variation between national long-term inactivity rates is much higher than that of short-term inactivity rates. This may in part be due to the still large national differences regarding the labor market participations of women and the dominance of the male-breadwinner model. Differences in pension systems and the opportunities provided to exit the labor-market early may also contribute. A further factor, analogous to the reasons for the high incidence of long-term unemployment, is the high risk of remaining inactive for a long period of time due to low employability, low labor-market demand, or labor-market mismatches. In addition, the long-term inactive population includes persons who never intended to work or who decided to exit the labor market permanently, while others are deemed inactive in the long term just for a certain period of their lives, for instance because they have taken up studies, have care responsibilities or believe that no job is available to them.

FIGURE 1.8 **Long-term unemployed and inactive persons as % of total labor force, 15–64 years old, 2013**



* Share NA regarding duration of inactivity between 1% and 5%
** Share NA regarding duration of inactivity greater than 5%

Source: Eurostat, LFS microdata, own calculations.

BertelsmannStiftung

Short-term inactivity can have various causes, including participation in ALMPs. It can be assumed that a higher share of short-term inactive individuals are close to the labor market than is true within the long-term inactive population. Long-term unemployed individuals participating in an ALMP with a duration of more than two weeks are counted as a part of the short-term inactive population (or, more rarely, the long-term inactive population if the ALMP measures last for a year for more). Differences in institutional settings, societal values and individual choices regarding inactivity (or conversely, a society's general orientation toward work) are reflected more strongly in the long-term inactivity rate than in the short-term inactivity rate.

Figure 1.8 contrasts LTU rates, long-term inactivity rates and short-term inactivity rates within Europe's working-age population. In some countries with below-average LTU rates, long-term inactivity rates are high, as in Malta, Belgium, Romania, Poland and Hungary. The question here arises as to whether some of the long-term inactive population might be regarded as disguised unemployed. By contrast, in some countries with a high LTU rate, the LNE rate is also high (Greece and Croatia being particular examples in this regard). This amplifies the long-term unemployment challenge from a societal and economic point of view.

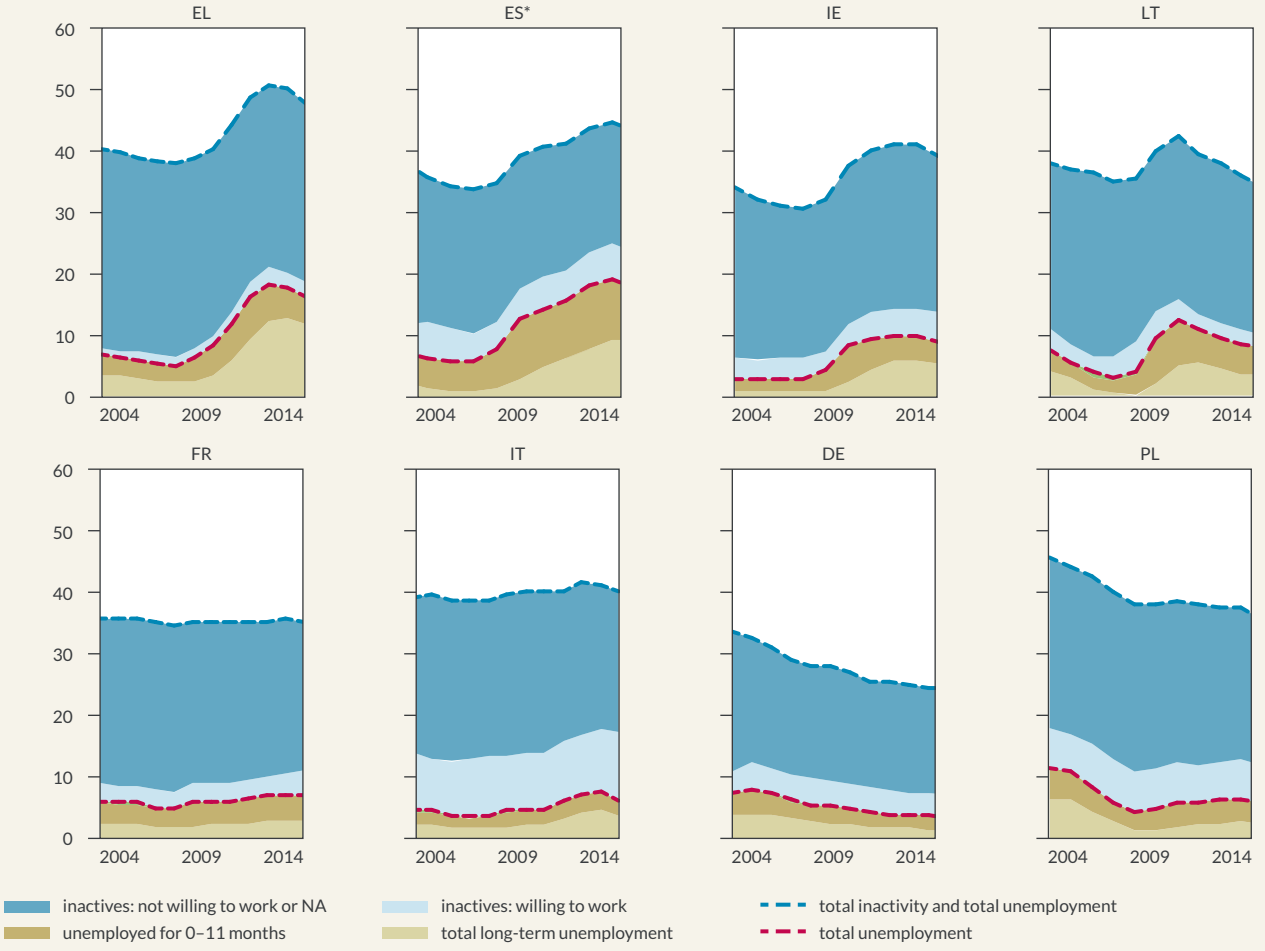
Nearly all countries belonging to the group of countries with very high LTU rates (see Figure 1.8) also show high or very high long-term inactivity rates (respectively above 15% and 20% of working-age population) (Table 1.1).

TABLE 1.1 **Country groups and long-term non-employment rates**

	2013	Strongly increased (5 to 9 ppt change) 2008–2013	Decreased 2008–2013
Very high LNE rate > 25%	**IE***, **EL**, HR, **IT**, MT, **BG**	**EL**, **BG**, **IE**	
High LNE rate >20-25%	**ES**, HU, BE, PL, **PT**, RO, **SK**, **SI**	**ES**, **PT**	**BE**, HU
Medium LNE rate >15 to 20%	FR, LV, **CY**, UK, LE, EE, LU, DE		LU, DE
Low LNE rate =< 15	AT, NL, DK, CZ, FI, SE		CZ, NL, SE

(*) Significant share of non-respondents regarding duration of inactivity. Countries with very high LTU rates are in bold.
Source: Eurostat, LFS microdata, own calculations.

FIGURE 1.9 **Long- and short-term unemployment, inactivity by willingness to work, in % of working age population (15–64), 2004–2015 Q3**



* Inactives: NA on willingness to work > 1% of working age population. The share of inactives willing to work might be higher than indicated.

Source: LFS, own calculations.

BertelsmannStiftung

EU member states show different unemployment - inactivity patterns

When looking at the development of short-term, long-term unemployment and inactivity rates over the past decade and in particular since the beginning of the economic crisis, four groups of countries can be distinguished:

1. Countries with increasing non-employment rates (with a peak in 2012 or 2013), such as Greece, Spain, Croatia and Cyprus.

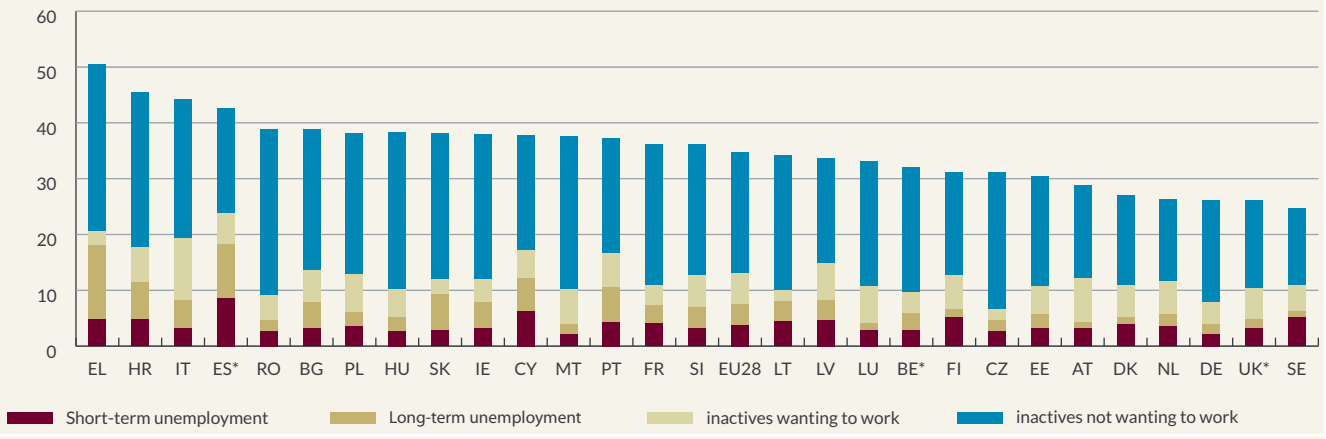
2. Countries with strong variations in the non-employment rate over time (falling until the onset of crisis, followed by sharp increases and then declines after reaching a peak), such as Bulgaria, Ireland and the Baltic states.

3. Countries with relatively stable non-employment rates, such as Belgium, France, Italy, the UK and the Netherlands.

4. Countries with declining non-employment rates, such as Germany, the Czech Republic and Poland.

In each of the above groups of countries, we find differences in the evolution of the structure of non-employment, and the extent to which substitution between inactivity and unemployment has taken place (Figure 1.9).

FIGURE 1.10 **Short-term and long-term unemployment rates and inactivity rates by willingness to work, 2014**



Note: Colored bar segments represent % of working-age population (aged 15–64).

* For inactive population, NA regarding willingness to work was > 1% of working-age population.

Source: Eurostat, LFS.

BertelsmannStiftung

A large share of Italy's inactive population wants to work

The duration of unemployment and inactivity can be used as proxies for the degree of detachment from the labor market, but this indicator has its limitations from the employment-policy point of view as long-term inactivity can have various causes. Another relevant indicator is individuals' willingness to work. This assumes that people indicating they want to work are less detached from the labor market than those not wanting to work. If the populations of unemployed and inactive individuals who want to work are combined, their joint share within the working-age population as of 2014 amounts to 23.9% in Spain and 20.1% in Greece, both countries where unemployment rates are very high, and the problem of unemployment is thus quite visible. The share of unemployed plus inactive persons wanting to work is at a similar level in Italy, but here the proportion of inactive individuals wanting to work is much larger. The share of unemployed plus inactive persons wanting to work is about 17% in Cyprus, Croatia and Portugal (Figure 1.10). The lowest such joint shares are evident in Germany and the Czech Republic. It is striking that the shares of inactive persons wanting to work and of unemployed individuals within the working-age population are not correlated. This might be linked to institutional settings influencing the willingness to work (see Chapter 2).

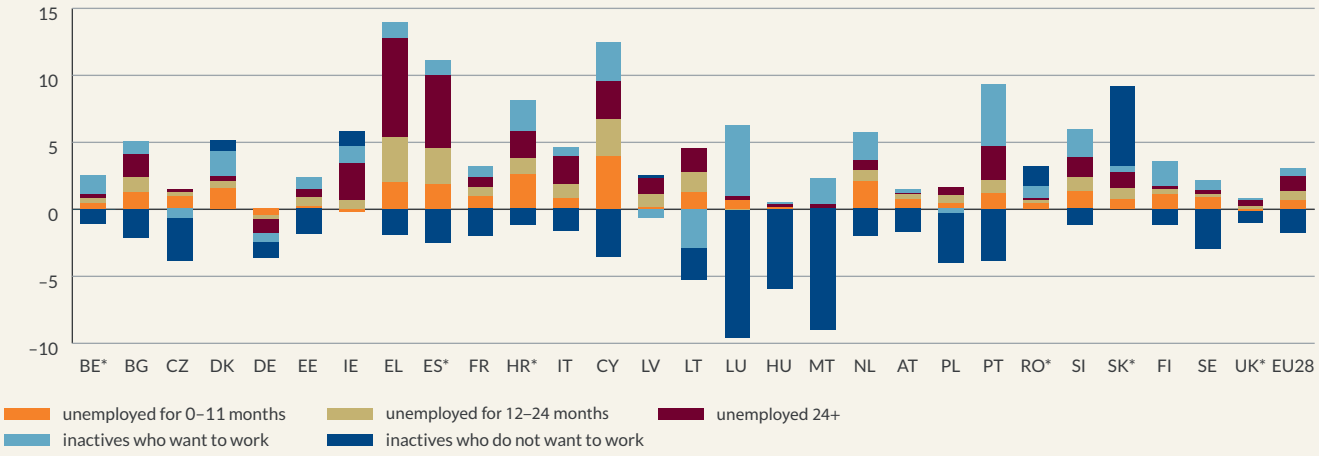
Increasing labor-market orientation of inactive populations during the crisis

Between 2008 and 2014, the share of inactive persons who indicated a willingness to work in total working-age population increased strongly in Portugal, Croatia and Cyprus, all countries severely affected by the crisis (Figure 1.11). Most importantly, the share of persons not willing to work in total working-age population decreased markedly in 23 out of 28 countries. Several factors are likely to account for these developments. Among them is the trend toward increasing employment rates among women, as well as the "added-workers" effect. This latter phenomenon refers to a change in the willingness to work primarily among women whose partners have become unemployed. The decrease in the rate of inactive persons not wanting to work is particularly marked in all countries for older workers. Indeed, employment rates among older workers increased markedly in a number of countries.

Who constitutes the long-term inactive population?

While people who are counted in the harmonized statistics as being inactive but wanting to work can be regarded as having relatively strong links to the labor market, the degree of detachment from the labor market of inactive persons who do not want to work is more difficult to assess. A more detailed analysis is needed to determine what share of inactive persons have the potential to become active or can be regarded as having at least weak links (e.g., they would work if they thought a job were available) to labor-market activity. This analysis also helps to better understand the dynamics and functioning of the various national labor markets (Chapter 2).

FIGURE 1.11 **Changes in short-term, long-term unemployment and inactivity rates in percentage points, 15–64 years old, 2008–2014**



Note: Colored bar segments represent change of unemployment and inactivity rates (measured in relation to the working-age population) in percentage points, for each category.

* For inactive population, NA regarding willingness to work was > 1% of working-age population.

Source: Eurostat, LFS, own calculations.

BertelsmannStiftung

Most long-term inactive persons are women and they increasingly want to work

Two-thirds of the long-term inactive population aged between 25 and 64 years were women in 2013. Women's share was particularly high in countries where the traditional male-breadwinner model is still widespread. The share of women among all long-term inactive persons wanting to work ranged between 79% in Malta and Greece and 49% in Bulgaria (with an EU average of 66%). Other countries with an above-average share of women in this group include countries with a severe long-term unemployment pattern, such as Spain (76%), Cyprus (71%) and Italy (68%).

A more detailed analysis by gender shows that the share of women categorized as inactive and not wanting to work declined more than that of men in most EU member states from 2008 to 2013. The gender difference in the change of behavior and preferences, along with a significant decline in the share of inactive women who do not want to work, is particularly marked in some of the countries hit most severely by the crisis (Spain: -6.6 ppt, Portugal: -5.8 ppt, Croatia: -5.4 ppt, Cyprus: -4.9 ppt, Greece: -4 ppt.; however, the average changes were comparatively low in Italy and Ireland).

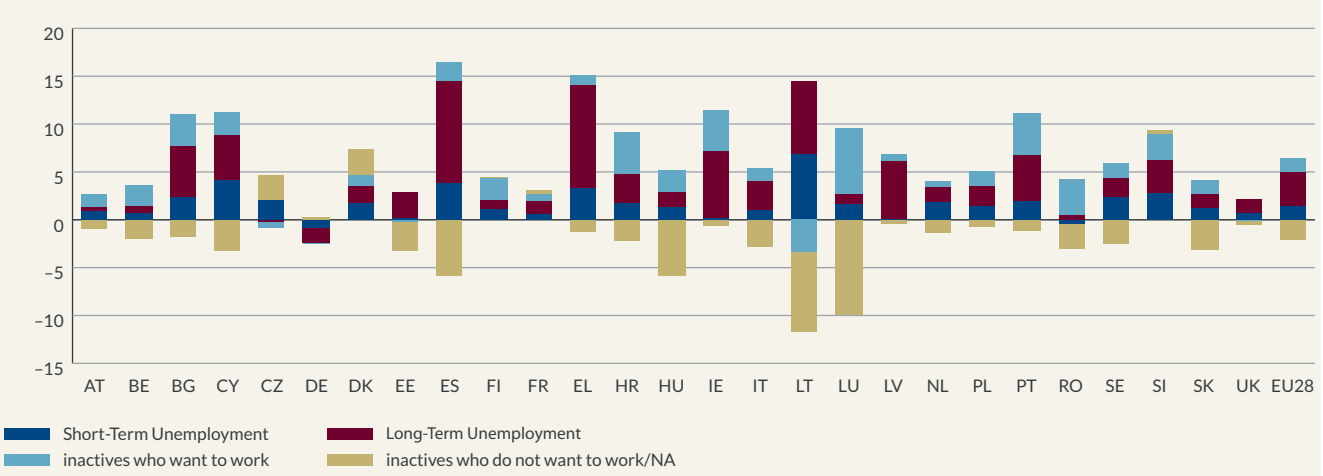
Long-term inactive women tend to be better educated than male counterparts

In most countries, long-term inactive women have a higher average educational level than do the long-term unemployed. This can be explained by the fact that well-educated women more often assume child- or family-care responsibilities than do well-educated men. In 2013, an EU-wide average of 26% of long-term inactive women were deemed highly skilled, while only 20% of the long-term unemployed were similarly categorized.[4] This difference was particularly marked in the Czech Republic (26% and 6% respectively), Finland (50% and 21%), Germany (26% and 12%), Hungary (25% and 12%), Ireland (46% and 29%) and the United Kingdom (36% and 19%). In contrast, the high-skilled share among long-term inactive men was only slightly higher than among long-term unemployed men as a cross-EU average (18% and 15% respectively).

Again as an EU-wide average, the share of the low-skilled among long-term unemployed men (44%) was considerably higher than among long-term inactive men (33%). The same pattern can be found among women (38% and 28% respectively). Overall, both long-term unemployed and long-term inactive women have a higher average educational level than do men.

4 On the basis of LFS micro data, 25 – 64 years old.

FIGURE 1.12 **Changes in unemployment and inactivity rates of low-skilled, in ppt, 25–64 years old, 2008–2013**



Source: Eurostat, LFS, own calculations.

BertelsmannStiftung

In most countries, the share of the low-skilled population categorized as inactive and not wanting to work fell more strongly than was the case for other skill-level groups (measured in ppt changes). As a cross-EU average, this share fell by two percentage points between 2008 and 2013, compared to declines of 0.8 ppt among those with medium skill levels and 0.7 ppt among the highly skilled.

Figure 1.12 shows that the unemployment rate among the low-skilled increased in all countries except Germany, while the rate of low-skilled inactive persons not wanting to work has declined since the beginning of the crisis in the vast majority of countries.

Rising shares of young people not in employment, education or training

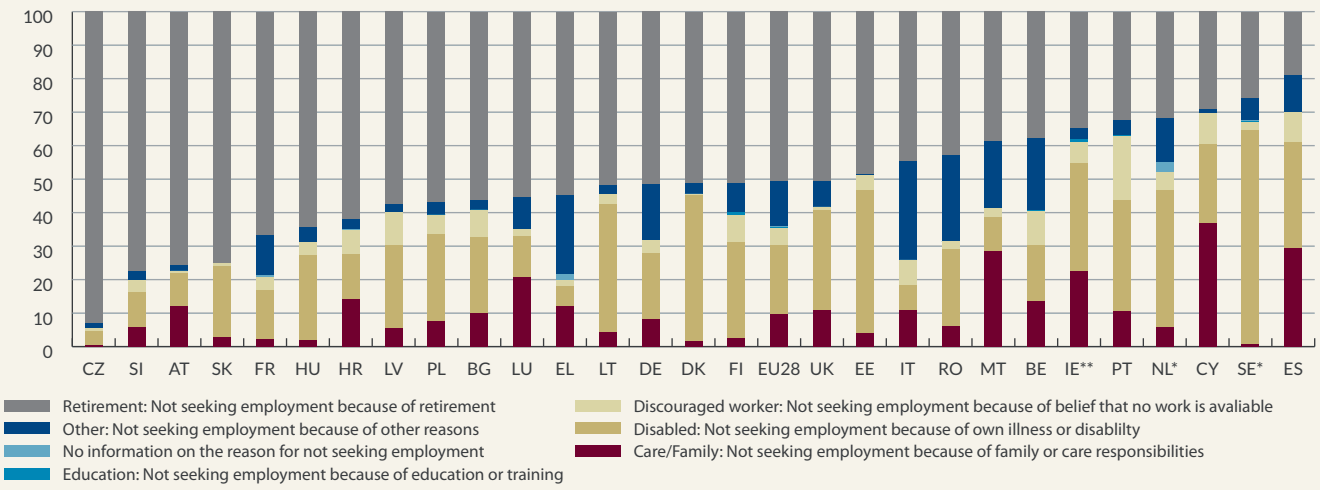
In most countries, enrollment in education or training programs is the main reason for not seeking a job among young people. Most observers regard the number of young people not in employment, education or training (NEETs) as a better indicator of the inactivity challenge faced by young people (e.g., Eurofound 2012). NEET rates are strikingly high in the countries hit most severely by the economic and labor-market crises. In Greece, 28% of all youth aged 16 to 29 years are NEETs, and the shares of youth out of employment or education are also above 20% in Italy, Ireland and Spain (Carcillo et al. 2015). The rise in NEET rates since the beginning of the crisis was primarily driven by an increase in the share of unemployed NEETs. In Greece and Spain, two of the countries with the largest increase in NEET rates, the rise between 2007 and 2012 was due entirely to an increase in the share of unemployed NEETs, while the rate of inactive NEETs actually fell. Denmark was the only country where an increase in NEET rates was primarily due to a rise in the share of inactive NEETs.

In countries where the NEET rate increased most significantly, this rise was largely due to falling participation in employment that was not compensated for by rising participation in education (Chzhen and Richardson 2014).[5] Meanwhile, in countries where the NEET rate fell, the decline was mainly due to growing educational participation. Between 2007 and 2012, participation in education (regardless of whether the students were also working) increased most strongly in Ireland (11 ppt), Spain (11 ppt) and Portugal (9 ppt) (Chzhen and Richardson 2014).

The decline in youth employment rates most severely affected individuals with low educational levels. However, in some of the countries where the decline in employment rates among young people was particularly sharp, highly educated young people were also affected, as can be observed in Spain, Greece, and Ireland. In some of the Central and East European countries, the decline in employment was particularly high among young people with an intermediate educational level (Slovak Republic, Czech Republic and Poland). In the countries where

5 Note that participation in education increased, see Chapter 2.

FIGURE 1.13 **Older persons' reasons for long-term inactivity, by reasons for not seeking employment, 2013**



* For inactive population, NA regarding reasons for long-term inactivity was > 1% & < 5% of working-age population.
** For inactive population, NA regarding reasons for long-term inactivity was > 5% of working-age population.

Note: Colored bar segments represent % share of total older working-age population (aged 55–64).

Source: Eurostat, LFS microdata, own calculations.

BertelsmannStiftung

employment rates among young people increased overall, there was nevertheless a decline in employment rates among those with low levels of education (Germany, Austria, Luxembourg) (Carcillo et al. 2015).

Older people inactive due to health or retirement, but employment rates rising

Older people aged 55–64 accounted for nearly a third of the inactive population across the European Union (the highest share, at 4%, was in Austria, where the average retirement age is still relatively low; the lowest share, at 26%, was in Estonia). The primary reasons for older people for being inactive include (early) retirement, disability and long-term illness. Despite pension-system reforms and first steps taken toward reforming disability-pension systems, many schemes still allow for labor-market exit by a large number of older workers before the age of 65.

In Sweden and Spain, illness and disability are relatively more important than early retirement as drivers of inactivity within this group, serving as a key exit route from employment. Indeed, illness and disability are relatively important reasons within this demographic group for not seeking employment in nearly all countries except Austria, the Czech Republic and Greece. There seems to be no link between retirement and disability as reasons for not seeking employment and the local severity of the labor-market crisis.

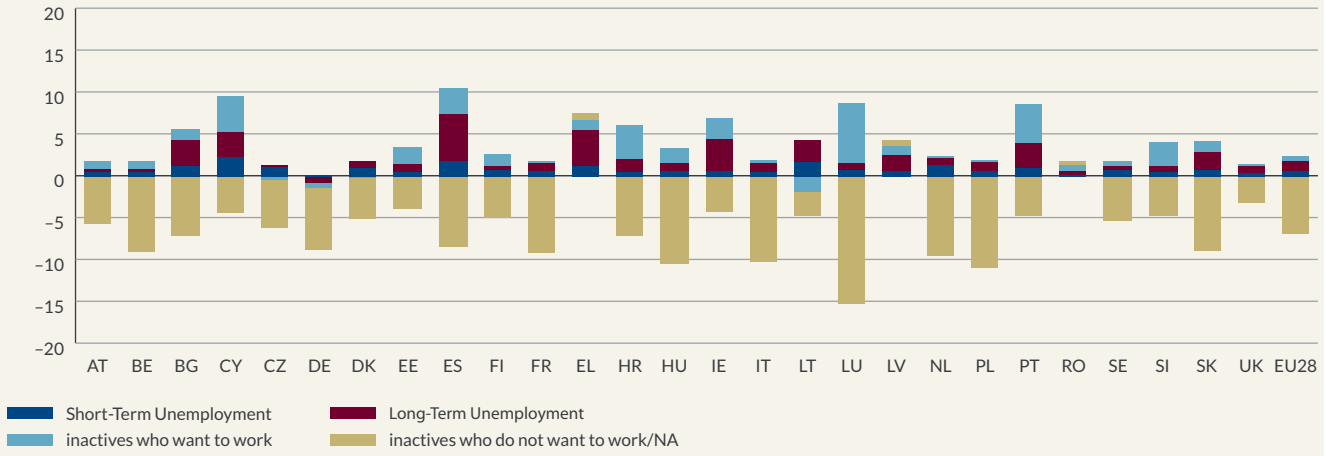
The share of older discouraged workers – that is, workers who have given up searching for work because they think they have no chance of securing a job – among all inactive older people ranges from less than 1% in Slovakia to 19% in Portugal (Figure 1.13). While workers within this age group largely tended to retain their employed status through the crisis, unemployment rates among older workers have increased in the crisis aftermath.[6] This is why there was a sharp decrease in the number of long-term inactive persons not wanting to work (Figure 1.14).

Care responsibilities and health issues drive inactivity among prime age persons

The reasons for inactivity among people aged 25 to 54 vary greatly by gender, as large differences remain in the role of men and women across various European societies. Family or other care responsibilities play a large role in decisions not to seek employment in some southern European countries, as well as in the United Kingdom and Austria (Figure 1.15). Disability accounted for over a third of inactivity reasons in Denmark, Lithuania, Estonia, Portugal, the United Kingdom, Sweden, Spain and Slovakia. However, this factor was rather insignificant in Malta, Greece, Italy and the Czech Republic.

6 http://www.oecd.org/employment/ageingandemploymentpolicies.htm

FIGURE 1.14 **Older persons' change in unemployment/inactivity rate, in percentage points, 2008–2013**



Note: Unemployment and inactivity rates are measured in relation to the older working-age population (aged 55–64).

Source: Eurostat microdata, LFS, own calculations.

BertelsmannStiftung

The share of discouraged workers increased during the crisis

As a percentage of all inactive persons, the share of inactive persons not seeking employment because they believe that no work is available, the so-called discouraged workers, was 28% in Bulgaria and 24% in Italy in 2013. It is interesting to note that discouraged workers play only a minor role in Spain and Greece, the two countries with the highest unemployment and LTU rates. Discouraged workers can be considered to have at least weak links to the labor market. A closer look at the composition of discouraged workers reveals that only a minority are young people. The share of prime-age workers among all discouraged workers ranged between 27% in Belgium, where the share of older people among the discouraged is very high, and 71% in Italy. However, this figure is in between 45% and 65% in most countries. Discouragement is particularly common among inactive women. In some countries, the share of women among discouraged workers is as high as 80% or more (Cyprus, Greece, Luxembourg and Malta). By contrast, in Austria, Bulgaria, Estonia, Lithuania, Ireland and Finland, the majority of discouraged workers are men (with shares ranging from 54% to 62%).

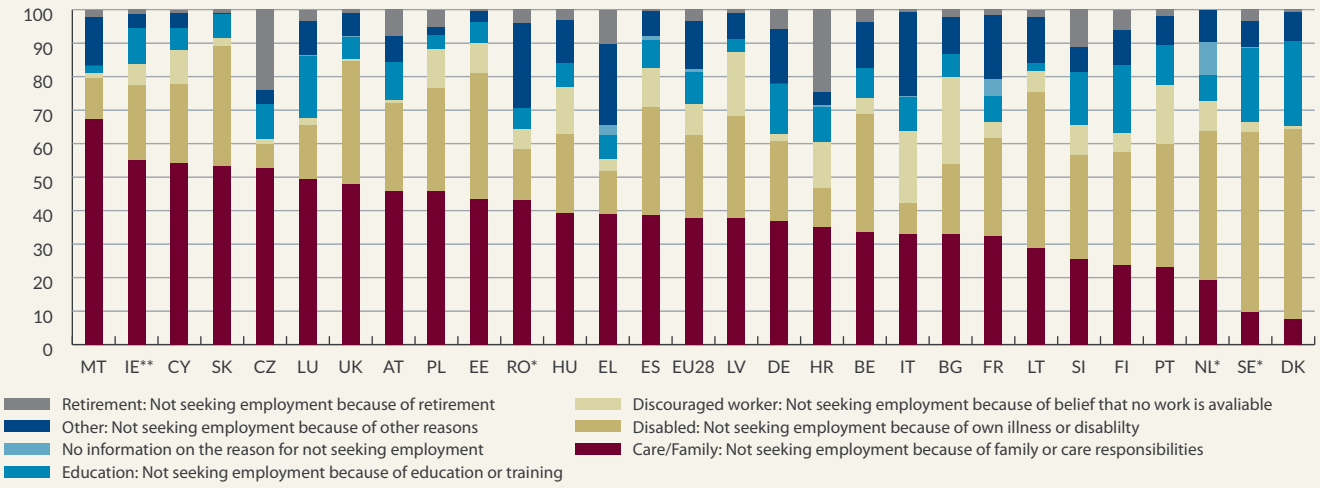
Chronic unemployment and underemployment

Participation in ALMPs can explain some transitions between unemployment and inactivity

It has been widely debated within European countries whether participants in ALMPs should be included in official unemployment figures. This question cannot be answered in a straightforward way, as ALMPs have a mixed record with regard to integrating the unemployed into the labor market, and their success depends on a number of factors (see Chapter 3). However, participation in ALMPs does interrupt spells of unemployment, and could therefore contribute to incorrect interpretations regarding the true persistence of unemployment (i.e., underestimation of long-term unemployment).

In the LFS statistics, participants in ALMPs can either declare to be employed (e.g., if employed and receiving a wage subsidy), inactive (e.g., not available if participating in a long-term training or vocational-rehabilitation program) or unemployed (e.g., if participating in a short-term measure). It is even more difficult to assess how many of the participants number among the long-term unemployed, as different countries' ALMPs focus on the long-term versus short-term unemployed to a varying extent.

FIGURE 1.15 **Prime age persons' reasons for long-term inactivity, by reason for not seeking employment, 2013**



* For inactive population, NA regarding reasons for long-term inactivity was > 1% & < 5% of working-age population.
** For inactive population, NA regarding reasons for long-term inactivity was > 5% of working-age population.

NOTE: Colored bar segments represent distribution of reasons in %. Prime-age population refer to those aged 25–54 years.

Source: Eurostat, LFS micro data, own calculations.

BertelsmannStiftung

Chronic unemployment is a major concern, but its volume is difficult to assess

Chronic unemployment or repeated spells of unemployment can also be regarded as a long-term problem of unemployment. The group of persons who exhibit this pattern repeatedly fall into the ranks of the short-term unemployed, although they may have the same characteristics as the long-term unemployed in other countries. In addition, research shows that unstable working trajectories lead to a higher unemployment risk (Eurofound 2015a).

In-depth analysis of recurrent unemployment at the European level is limited by the availability of comparable data. An assessment for a selected number of countries can be made on the basis of the European Statistics on Income and Living Conditions (EU-SILC), which contain a longitudinal data set for some countries. This allows analysis of changes in employment status on a monthly basis in the years 2011, 2012 and 2013.[7] In the following figure, the chronic unemployed, with relatively long unemployment spells each year, are defined as persons whose main activity was unemployment for six to 11 months in 2011, 2012 and 2013. In between unemployment spells, they were either employed or inactive.

As can be seen in Figure 1.16, the share of chronic unemployed among all unemployed varied between 1% and 10% over the three-year period in the 18 EU member states examined. The share of chronic unemployed is higher when considering a two-year period.

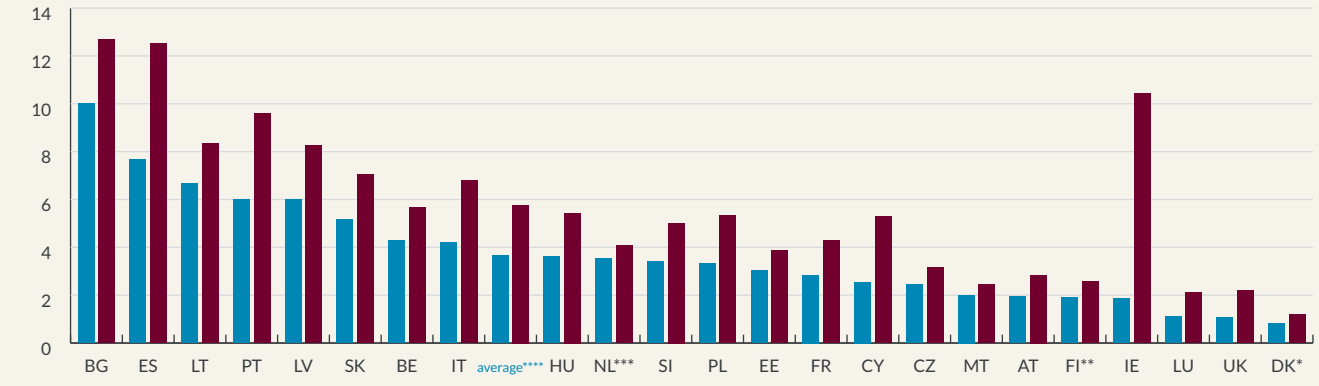
The large majority of chronic unemployed persons who were unemployed for spells lasting between six and 11 months tended to move between unemployment and inactivity (including phases of participation in an ALMP).

Another way of looking at chronic unemployment is to examine the share of unemployed persons in the working-age population who have been unemployed between three and 11 months, but who have been employed for at least one month per year over a period of two or three years. In some of the countries affected most severely by the Great Recession, between 2% and 3% of the working-age population over a period of two years experienced chronic unemployment paired with annual employment spells. This share declines somewhat over a period of three years (Figure 1.16).

According to a European Commission assessment based on longitudinal EU-LFS data, 8% of the long-term unemployed have shifted to short-term unemployment status between one year and the next, breaking their unemployment spell either due to participation in an ALMP or thanks to short-

7 Although the number of respondents decreased from year to year.

FIGURE 1.16 Chronic unemployment (6–11 months) as % of total unemployment, 2011–2013



2 years: Chronic unemployment (unemployed for 6 to 11 months each year in 2012 and 2013)
3 years: Chronic unemployment (unemployed for 6 to 11 months each year in 2011, 2012 and 2013)

Age-group 15–64

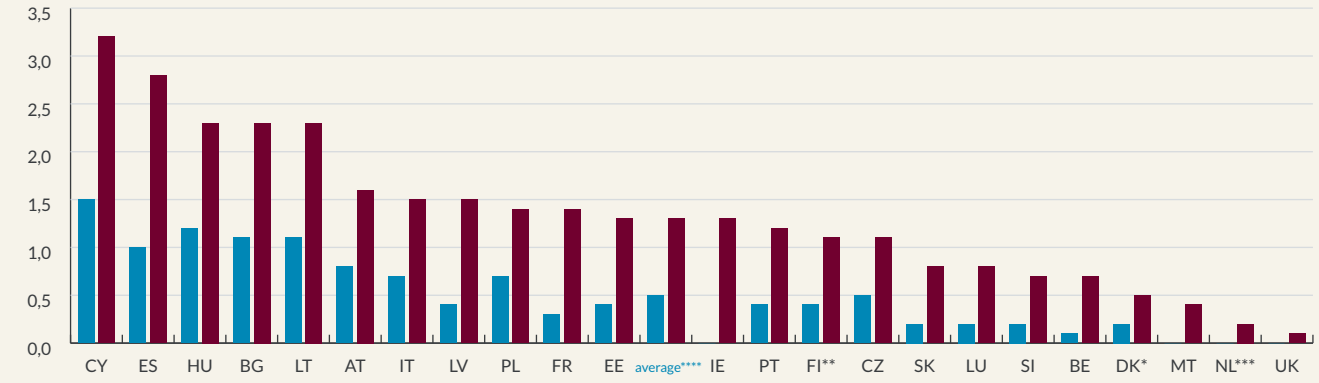
* share of NA regarding current employment status: 34.4% ** share of NA regarding current employment status: 42.3% *** share of NA regarding current employment status: 43.3% **** average across countries in SILC longitudinal database 2013 (countries included in graph plus Iceland and Norway)

Note: Colored bars represent % of all unemployed suffering from chronic employment, defined as repeated unemployment spells of 6–11 months at least once per year, during specified two- or three-year time period.

Source: Eurostat EU-SILC microdata, own calculations.

BertelsmannStiftung

FIGURE 1.17 Chronic unemployment (3–11 months per year) broken by work spells as % of working-age population (15–64)



2 years: Chronic unemployment and at least 1 month employed (unemployed for 3 to 11 months and employed for at least 1 month each year in 2012 and 2013)
3 years: Chronic unemployment and at least 1 month employed (unemployed for 3 to 11 months and employed for at least 1 month each year in 2011, 2012 and 2013)

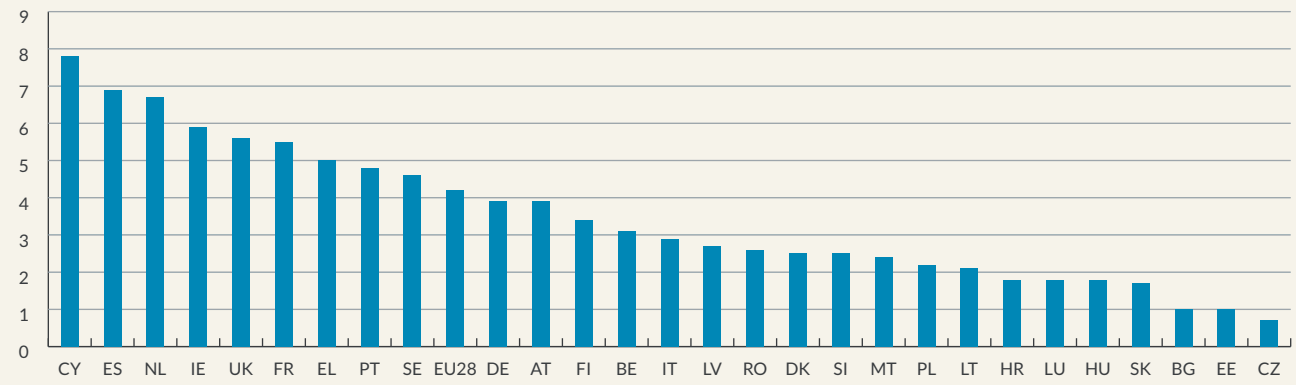
* share of NA regarding current employment status: 34.4% ** share of NA regarding current employment status: 42.3%
*** share of NA regarding current employment status: 43.3% **** average across countries in SILC longitudinal database 2013 (countries included in graph plus IS, NO)

Note: Colored bars represent chronic unemployed population (unemployed between 3 and 11 months per year) with working spells of at least 1 month per year, during specified two- or three-year period.

Source: Eurostat EU-SILC microdata, own calculations.

BertelsmannStiftung

FIGURE 1.18 **Underemployed as % of total labor force, 2014**



Age-group 15–74

Source: Eurostat, LFS.

BertelsmannStiftung

term employment (figures reflect an average across 24 countries, in the 2012 – 2013 period; European Comission 2015d). In addition, countries in which more than 15% of the long-term unemployed showed a break in their unemployment spell between 2013 and 2014 include Spain, Romania, Sweden, Finland, Lithuania, Poland, Austria and Slovenia. The persistence of long-term unemployment was highest in Slovakia, Greece, Bulgaria and Lithuania (European Commission 2016).

Research from France based on administrative data recently compared the group of persons continuously unemployed for between 12 and 24 months with those having cumulative employment spells of at least 12 months over a period of 24 months. In this assessment, 2.3 million people were continuously unemployed for at least 12 months, while 600,000 reported periodic, non-continuous work totaling at least 12 months over a period of 24 months. Those with discontinuous unemployment spells who were working "often" were more likely to be under the age of 30 and were more often women than the continuously long-term unemployed (Matus and Stehlin 2014). However, the two groups are similar in that 62% of the long-term unemployed experiencing discontinuous unemployment and 66% of the continuously long-term unemployed were unemployed for at least 21 months over 24-month examination period.

In addition to the narrowly defined chronic unemployed, some unemployed persons will repeatedly become unemployed during their working lives with employment spells lasting longer than one year. Employment instability may be more common in particular sectors and professions, and may also be linked to characteristics of the individual worker. Evidence from Germany shows that periods of unemployment early in working life are likely to be associated with unemployment periods later in life (Schmillen und Umkehrer 2014).

Low weekly working hours mask underutilization of labor in some countries

In some countries, high employment rates are based on a part-time work culture (as in the Netherlands). This may result from societal values regarding the role of women in the labor market, for example, but may also reflect companies' strategic efforts to enhance labor-force flexibility (see Chapter 2). Strikingly, low weekly working-hour totals (below 15 hours) are a distinctive feature in some countries with a high part-time employment pattern. The share of employed persons working less than 15 hours weekly amounted to 14.7% in the Netherlands,[8] 9.6% in Denmark, 8.2% in Germany, 5.6% in the United Kingdom, and 5.5% in Austria (with a cross-EU average of 4.5%; LFS data). The question arises to what extent this can be regarded as underemployment.[9]

In the countries with high LTU rates, the large majority of the marginally employed (those working less than 15 hour per week) say they would like to work at least 10 more hours. However, in the Netherlands, Denmark, Germany and the United Kingdom, where the share of marginal

8 Note that in Germany, people working less than 15 hours a week can be registered as unemployed.

9 In Eurostat statistics, underemployment describes a condition in which an individual works fewer hours per week than he or she desires. In some countries the notion of underemployment is also applied to ALMP participants in subsidized employment.

employment is particularly high, and unemployment rates relatively low, only between 10% and 20% of marginally employed workers say they would like to work for an additional 10 hours or longer (Annex Figure A4).

Along with the marginally employed, regular part-time workers working 15 to 29 hours per week often wish to work more hours as well. Overall, the share of underemployed part-time workers (defined as part-time workers working up to 29 hours and who wish to work more hours) ranged between 0.7% of the labor force in the Czech Republic and 7.8% in Cyprus.

The volume of underemployed part-time workers can be regarded as resulting from a (re-) distribution of labor demand across a larger number of workers than would be required if all workers worked full time, thus reducing unemployment. Under these conditions, high employment rates mask the issue of underemployment. The phenomenon is linked to the structure of the labor market and legal regulations (e.g., the opportunity to offer minijobs in Germany). The incidence of underemployment increased in a number of countries between 2008 and 2013, particularly in the Netherlands, Cyprus, Ireland, Greece, Spain and Portugal (with changes ranging between three and six ppts).

Alternative indicators for assessing long-term joblessness in a broader sense

As argued above, the definition of long-term unemployment when using harmonized data is relatively restrictive and may understate the magnitude of the problem. In contrast to the LTU rate, the non-employment rate as a share of the working-age population is a very broad indicator. It not only includes the disguised unemployed and people who could potentially be activated but also those who are neither able nor willing to work (e.g., due to bad health, societal values, or individual preferences). The boundaries between "potentially active" inactive persons and those who cannot be activated are not clear, however. Values and attitudes can change, institutions can change (e.g., the availability of child care), demographic influences change (e.g., aging societies may see an increase in the share of people becoming inactive in order to care for their parents), and individual biographies can be transformed by unexpected events. All these changes could lead to an outflow of "absolutely inactive" persons into employment, or at least the potentially active category.

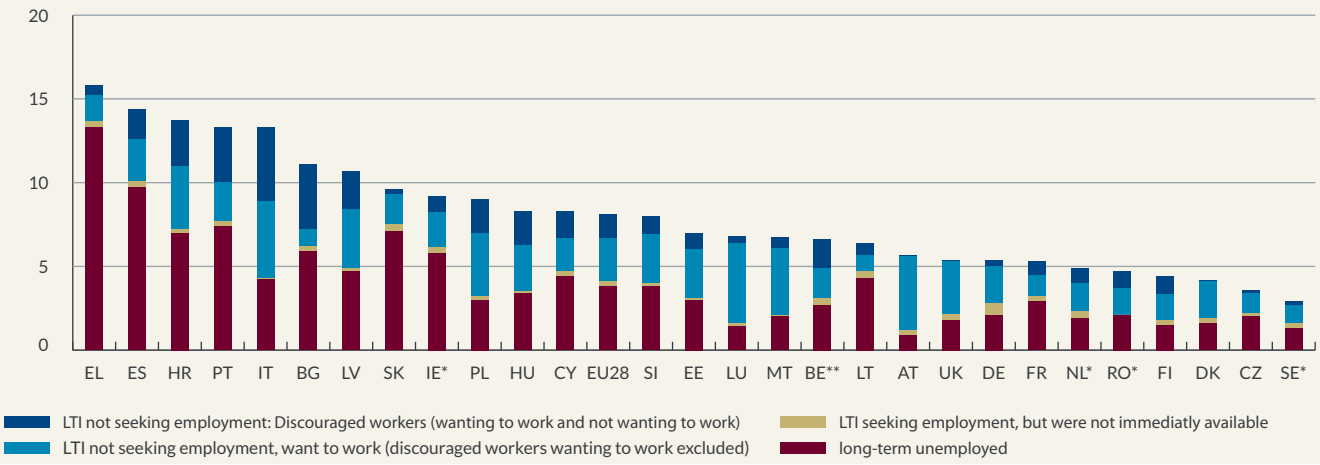
Theoretically, a more precise measure of long-term unemployment than what is typically used today would be created by adding a share of participants in ALMPs, disability/long-term illness benefit recipients who are able to work at least partially, and those who entered early retirement after the loss of a job. However, there are a number of limitations to this approach too, first of all due to data concerns. In particular, no harmonized data exists regarding the labor-market participation of long-term unemployed persons in ALMPs. These data are difficult to gather, as long-term unemployed persons are sometimes referred to welfare-office activation programs or other similar institutions rather than to the PES.

The assessment of disguised unemployment with regard to disability-benefit recipients is problematic for a number of reasons. The role of occupational doctors in assessing work capability and policies for vocational rehabilitation varies greatly between countries (see Chapter 2). LFS data provides some information regarding people with health problems who want to work. However, even among those not wanting to work, some may still be capable. Their willingness to work might thus depend largely on the design of the disability-pension program. Thus, the share of these disabled that may plausibly be considered among the "institutionally disguised unemployed" remains unclear.

We could also consider early retirement as a form of institutionally disguised unemployment. However, the potential effects of pension reforms eliminating the opportunity to retire prior to the age of 65 (or older) remain unclear, as both employment and unemployment rates could theoretically increase. The increase in the employment rate among older workers would probably also depend on older workers' ability to share work through reduced-working-time and phased-retirement schemes. Moreover, it is unclear whether higher employment rates among older workers might lead to a substitution effect contributing to greater unemployment among other age groups, or conversely whether a multiplier effect could result from higher employment rates among older workers, boosting labor-market demand overall. These effects would depend on overall macroeconomic conditions, the level of unemployment, and specific local demographic factors.

Difficulties in assessing institutionally disguised unemployment also emerge when looking at inactive persons performing family or other care responsibilities. For example, what share of this population would want to take paid employment if a better care infrastructure was in place? One way of addressing this question would be to use countries with good child care infrastructures as a benchmark; however, this would underestimate the

FIGURE 1.19 **Long-term non-employed with a labor-market orientation (LNE-LO), 2013**



* considerable share of NA on lenght of inactivity (>1% of working age population) ** considerable share of NA on willingness to work (>1% of working age population)

Note: Colored bar segments represent % of working-age population (aged 25-64)

Source: Eurostat, LFS microdata, own calculations.

BertelsmannStiftung

effect of societal values such as women's traditional roles in families. It is reasonable to assume that differences in values have an impact on activity rates as well as on institutional environments. Institutional environments in turn exert influence on values and work incentives. However, changes in values and institutions occur at different speeds. Again, as argued above, higher employment rates among women could have a multiplier effect on economic and employment growth, which would also need to be taken into account. It is therefore not possible to assess the share of disguised long-term unemployment among those carrying out care responsibilities with any certainty.

Notwithstanding these considerations, various indicators in addition to long-term unemployment could be used to obtain a more complete view. One possibility is to assess the varied degrees of labor-market orientation among the population aged 25 to 64. Young people are not included here, as inactivity due to participation in education would render interpretation of the indicator more difficult. As already discussed, the NEET indicator is commonly used to grasp the problem of youth unemployment and inactivity.

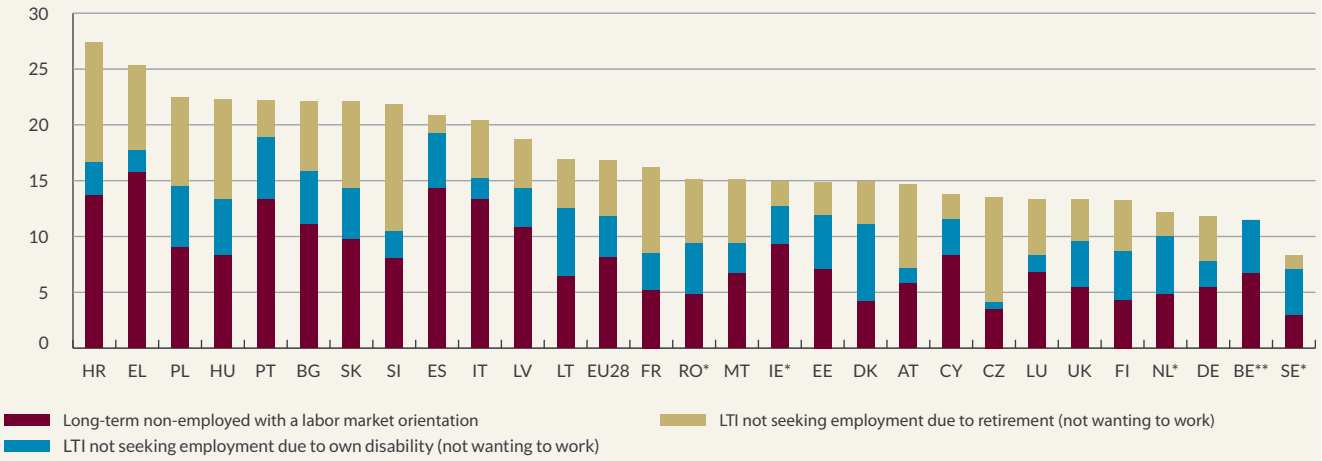
Based on the analysis in this chapter, the following indicators could be considered:

- Long-term non-employed with a labor-market orientation (LNE-LO): This group includes the long-term unemployed, long-term inactive persons who have sought employment (but are not currently available for work), long-term inactive persons who have indicated they are not currently seeking employment but want to work, and discouraged workers (who have given up looking for employment because they think no job is available for them) (Figure 1.19).

- Long-term non-employed with a labor-market orientation, retired or disabled (LNE-LOREDI): In addition, this group includes those who are inactive due to health reasons or because they have retired. This category encompasses those whose willingness to work might be affected by specific institutional environments and access to alternative welfare benefits (Figure 1.20).

Figure 1.21 gives an overview of the relationship between these two indicators as well as long-term unemployment and total LNE for selected countries. The gap between long-term unemployment and LNE-LO is highest in Italy, while the gap between long-term unemployment and LNE-LOREDI is particularly pronounced in Denmark, where a large proportion of people is inactive because of disability or illness. In Spain and Greece, the countries with the highest LTU rate, the gap between long-term unemployed and LNE-LO is comparatively small (Figure A5 in the Annex provide the results for all EU countries).

FIGURE 1.20 Long-term non-employed with labor-market orientation, retired or disabled (LNE-LOREDI), 2013



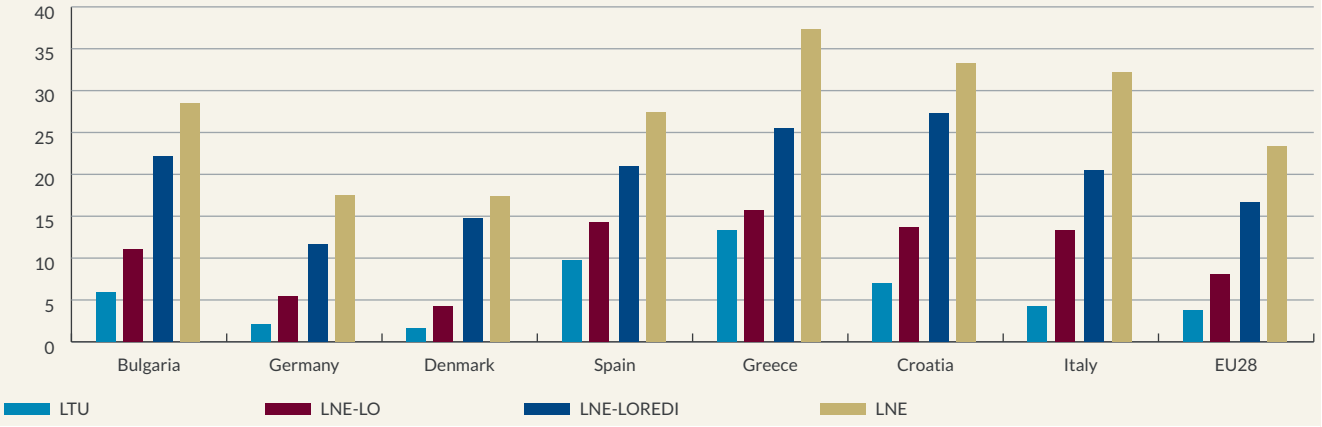
* considerable share of NA on lenght of inactivity (>1% of working age population) ** considerable share of NA on willingness to work (>1% of working age population)

Note: Colored bar segments represent % of working-age population (aged 25-64)

Source: Eurostat, LFS microdata, own calculations.

BertelsmannStiftung

FIGURE 1.21 Long-term unemployed, long-term non-employed with a labor market orientation, retired or disabled and all non-employed, 2013

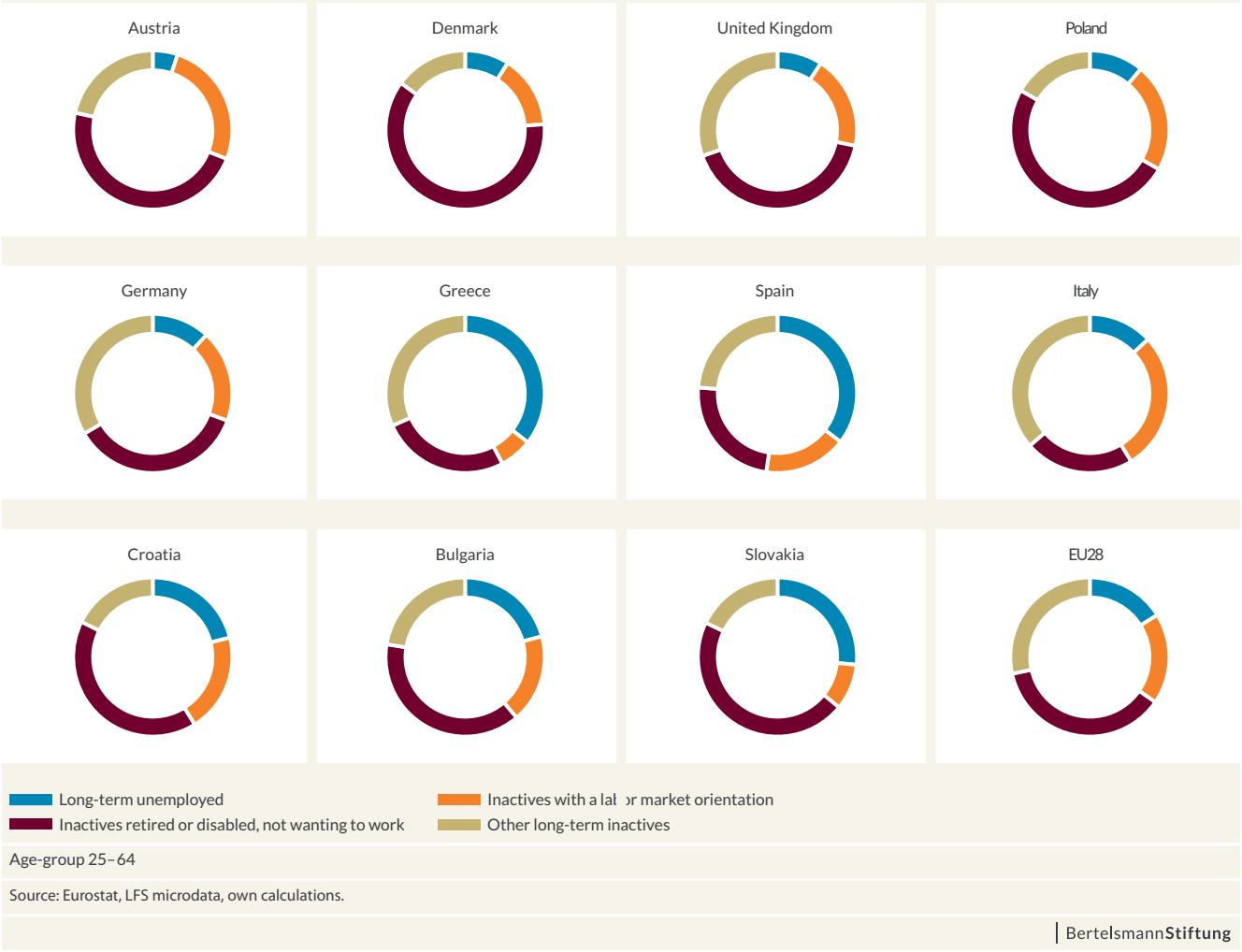


Note: Colored bars represent % of total population between 25 and 64 years old. LTU: Long-term unemployed. LNE-LO: Long-term non-employed with labor-market orientation. LNE-LOREDI: Long-term non-employed with labor-market orientation, retired or disabled. LNE: All long-term non-employed.

Source: Eurostat, LFS microdata, own calculations.

BertelsmannStiftung

FIGURE 1.22 **Composition of non-employment, 2013**



Age-group 25–64

Source: Eurostat, LFS microdata, own calculations.

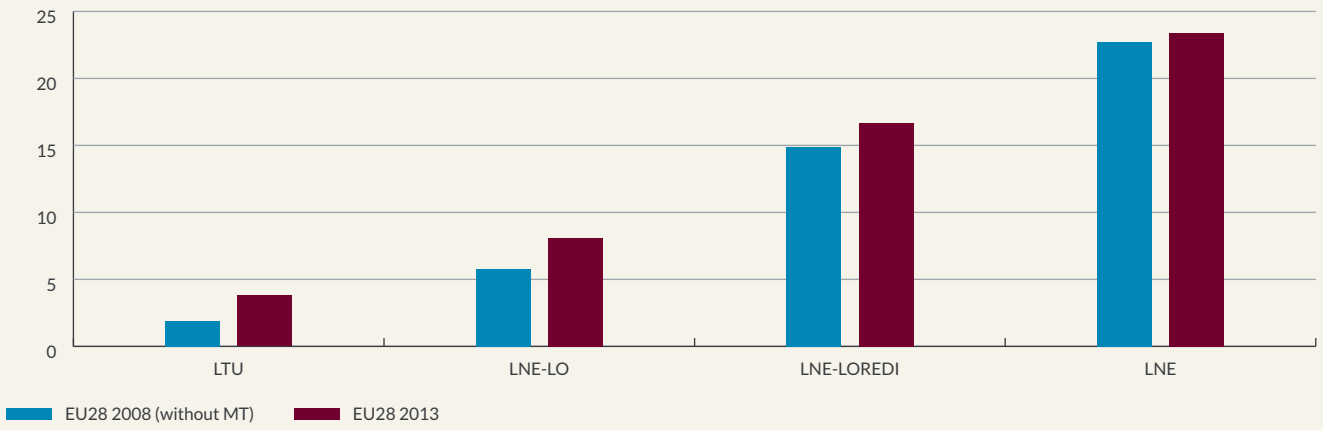
BertelsmannStiftung

A major shortcoming of the two indicators LNE-LO and LNE-LOREDI is that they do not systematically include all ALMP participants. Only people participating in long-term measures are included (as they would most probably indicate that they want to work). Another limitation is that chronic unemployed are not included, due to data limitations.

The long-term non-employed thus encompass long-term unemployed, inactives with a labor market orientation (which together with the LTU form the new indicator LNE-LO), inactives who are retired or disabled (which together with the indicator LNE-LO constitute the new indicator LNE-LOREDI) as well as other non-employed. The composition of non-employment varies greatly between countries, caused not only by different levels of long-term unemployment, the visbility of long-term unemployment (reflected in the low or high share of inactives with a labor market orientation), but also by the underlying social compromise. Strikingly, countries with a relatively low share of long-term unemployed among the non-employed have markedly higher shares of people being retired or inactive for health reasons (e.g., Denmark, Austria and Poland).

While on EU average, the share of long-term unemployment in the working-age population doubled between 2008 and 2013 (+1.9ppt), the number of long-term non-employed with a labor market orientation increased by 40% (+2.3 ppt). As we have already seen, early retirement and disability have not been a favored labor market exit strategy during the crisis (except in Italy). In contrast, the crisis has increased the labor market orientation and eventual labor market participation in particular of women and older workers. Furthermore, employment grew in some countries. This may explain why the number of non-employed increased by only 0.7 percentage points.

FIGURE 1.23 **Changes in long-term unemployment, long-term non-employed with a labor market orientation, retired or disabled and all non-employed, 2008 – 2013**



Note: Colored bars represent % of EU-28 population between 25 and 64 years old. LTU: Long-term unemployed. LNE-LO: Long-term non-employed with labor-market orientation. LNE-LOREDI: Long-term non-employed with labor-market orientation, retired or disabled. LNE: All long-term non-employed.

Source: Eurostat, LFS microdata, own calculations. 2008 data does not include Malta.

BertelsmannStiftung

2. Factors driving long-term unemployment

Overview

Long-term unemployment has a multitude of causes and its driving forces are linked to economic, institutional and behavioral factors. The weight of each of these factors varies by country, as do the reasons for economic crisis and the speed and shape of recovery. Institutions and policies will have different effects depending on whether a country is experiencing a deep economic crisis or is in a period of dynamic economic growth. Policies react in turn to the macroeconomic environment. The data analysis contained in Chapter 1 indicates that countries have chosen different approaches to sharing LTU risks and to distributing this burden among their populations. This renders a common explanation of LTU impossible.

Four major contributors to LTU in a broader sense (including some of the long-term inactives with a labor-market orientation) can be distinguished. On the demand side, this involves i) a lack of labor demand due to business-cycle effects, high labor costs, low competitiveness, technological change or possibly the strictness of employment protection legislation. Factors linked to labor supply relate to ii) personal barriers and iii) incentives to search for and accept employment, including the shape of the welfare benefit system and related weak activation requirements. Finally, iv) labor demand and labor supply could be equivalent in terms of absolute numbers, but a mismatch in the structure of supply and demand with regard to skills, competencies and required experience could lead to LTU (see Figure 2.1).

Different types and causes of LTU are likely to be interlinked; that is, the longer an unemployment spell persists for an individual, the more likely it becomes that long-term cyclical unemployment will increase the individual's employment barriers (e.g., psychological factors) and lead to a deterioration in skills and the value of previous work experience. This in turn can increase employers' negative prejudices in addition to eventually reduced employability.

Finally, several context-dependent contributors have an impact on the level of unemployment and LTU: i) macroeconomic environment and aggregate labor demand; ii) structure of labor demand and the character of ongoing economic restructuring; iii) companies' flexibility strategies and institutional factors; iv) labor supply and individual strategies to secure income; v) labor supply and labor-market and social-policy institutions; vi) the quality of VET programs and local education system. As the multiple driving forces are interlinked, their impact on LTU is rarely straightforward.

The economic crisis and aggregate labor demand

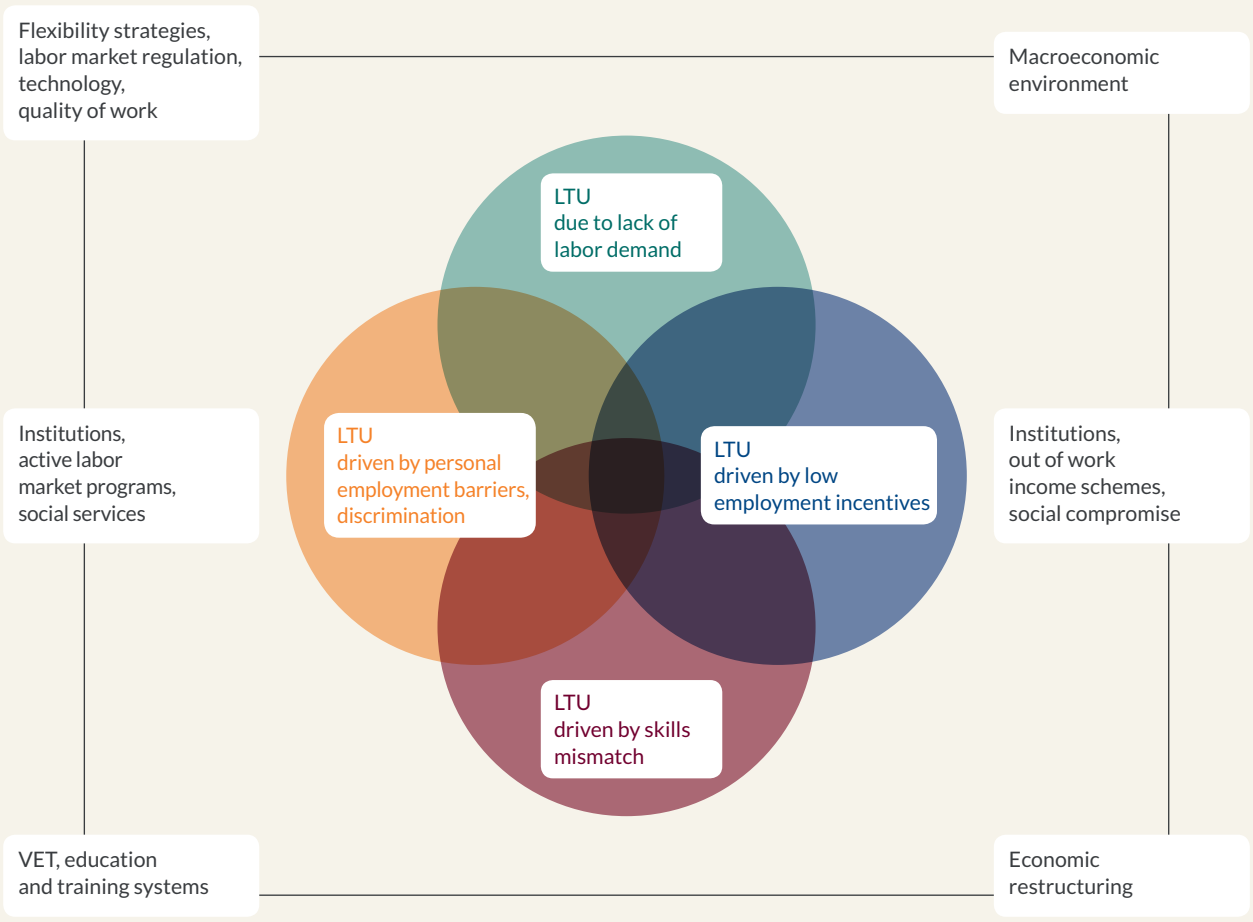
The depth of the global economic and financial crisis and the length of the period before recovery began varied widely among European countries. Greece suffered the strongest decline in gross domestic product (GDP), posting a decline of about 25% in total over six consecutive years (2008 – 2014), while GDP growth in Poland remained positive over the whole period. Figure 2.2 depicts the reaction of unemployment rates to GDP developments, as well as trends in LTU as a percentage of all unemployment.

Relationship between GDP growth and unemployment during the Great Recession less straightforward than in the past

According to the OECD, the average unemployment rate within the OECD increased by one-third of a percentage point during the crisis for each additional percentage-point reduction in real GDP. This is somewhat less than in the past.[10] In examining unemployment rates' initial reaction to GDP declines, as well as their reaction during the initial recovery from mid-2009 through the end of 2011, two key conclusions

10 The reaction of unemployment rates to a change in GDP was established by the economist Arthur Okun in 1962. See Vogler-Ludwig, Stock 2011 for a discussion of this approach.

FIGURE 2.1 **Overview of factors influencing long-term unemployment**



Source: Own illustration.

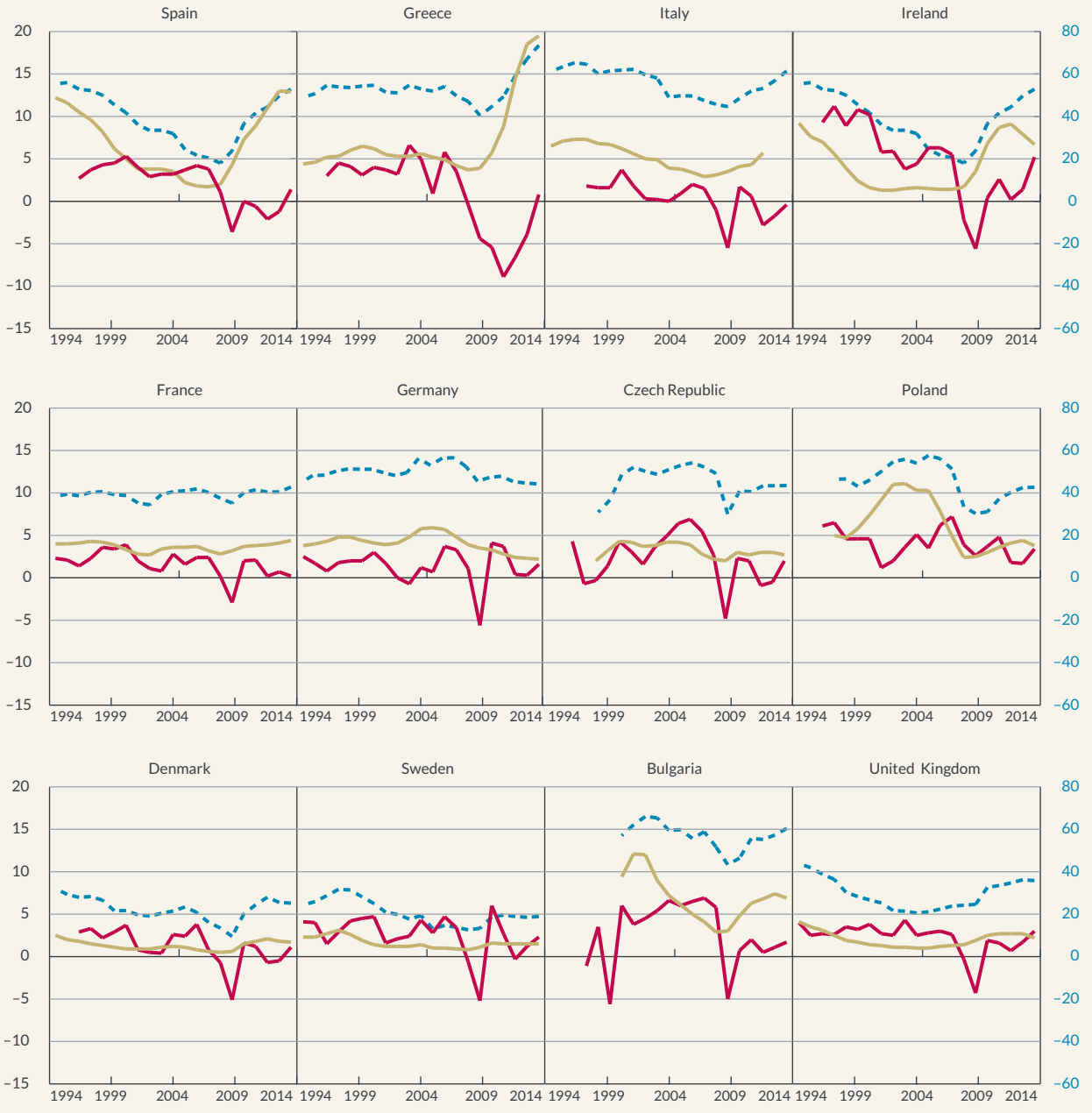
BertelsmannStiftung

became evident. First, a time lag is clear, as unemployment rates did not increase immediately after the fall in GDP. Second, a number of countries experienced a jobless recovery. The variations between European countries were extremely large, however; the initial reaction to GDP decline was a slight decrease in unemployment rates in Germany, while at the other extreme, the unemployment rate rose by nearly two percentage points per percentage point decrease of GDP in Spain.[11] During the initial phase of recovery, unemployment rates continued to climb despite GDP recovery in a number of countries (OECD 2012a).

Past experience shows that unemployment rates rise quickly in reaction to recessions, but often decline slowly only as the economy recovers. In the aftermath of the 1973 and 1979 recessions, for example, unemployment rates in the United Kingdom, Germany, France and Italy continued to rise sharply for two years after the start of the recession. The development of unemployment during past recessions also shows that the period of time until unemployment rates return to their point of departure is often rather long (OECD 2009). One contributor to this phenomenon is the fact that economic restructuring tends to be intensified during the process of recovery. Thus, not all jobs lost are re-established, while new jobs are created in other sectors. Recessions also tend to tend to push companies and the economy as a whole in the direction of higher productivity. As a consequence, the experience and skills of dismissed workers in some cases fail to coincide with the profile of newly created jobs. Moreover, the persistence of unemployment after an initial shock might further be linked to institutional factors and even societal preferences (see below).

11 Unfortunately, no data are available for Greece.

FIGURE 2.2 **Long-term unemployment and GDP growth, 1994–2014**



Long-term unemployment: Age Group 15–74

Source: Eurostat, LFS.

BertelsmannStiftung

Long-term unemployment is not new

In 2014, the average duration of unemployment within the EU 28 of 13 months is on par with that observed in 1994. The duration of unemployment peaked at 18 months in 2006 (LFS). Over the past two decades, the rate of LTU was, for long periods of time, comparatively low (mostly below 30%) in Austria, Denmark, Finland and Sweden. However, it exceeded 40% in several western, eastern and southern European countries including Germany, Belgium, Greece, Italy, Portugal, Slovenia, Slovakia, Poland, the Czech Republic, Hungary, the Baltic states, Romania and Bulgaria. In Ireland and Spain, LTU rates also reached high levels in the last twenty years, but varied to a greater degree. These countries also saw longer phases of lower LTU rates over this period.

Three aspects need to be considered when comparing countries affected by the Great Recession. First, the sovereign-debt crisis and subsequent austerity policies have deepened recessions and slowed down recovery in some of the countries most affected, and in Greece in particular. This is due to the multiplier effect, as reduced government consumption and investment has affected demand in other sectors. Even if it is assumed that austerity policies and labor-market deregulation (see below) may have a positive long-term effect on economic competitiveness, the adaptation processes have been detrimental in the short and medium-term term. Based on an analysis of the 1990 – 2009 period in the OECD area, Fedeli et al. even find the sovereign debt crisis to have had a long-term negative effect on unemployment rates (Fedeli et al 2015).

Second, the causes of the economic crisis and the sectors most affected differed greatly from country to country. Most importantly, the crisis exposed weaknesses in the competitiveness of various European economies. There are several factors accounting for weak competitiveness, including missed modernization investments, more difficult adjustment processes, misallocations in the context of a "one size fits all" monetary policy and the role of wage policies in a monetary union. The growth in GDP during the recovery phase has not generated sufficient labor demand in these countries in part because companies have sought to increase productivity, producing more output with the same amount of workers.

Third, the crisis and the subsequent recovery have speeded structural economic change. While structural change is necessary to ensure economies' long-term competitiveness, it generates adaptation costs. As a consequence, even growing economies may be faced with LTU (see "Labor-market mismatches and structural unemployment").

Job-vacancy rates remain low in high-LTU countries

While the large waves of layoffs came to an end relatively quickly after the start of the crisis, recovery often failed to create sufficient new jobs for the newly jobless population. Job-finding rates remained at historically low levels at least until 2013 (European Commission 2015g). Persistently low job-finding rates lengthen unemployment spells and consequently increase LTU rates.

The relationship between the job-vacancy rate and the unemployment rate is shown by the so-called Beveredige curve. This offers an indication of the labor market's efficiency in matching labor supply and demand. In 2014, the two extremes on this measure were Germany and the United Kingdom on the one hand, each with rather low unemployment rates and high job-vacancy rates, and Greece and Spain on the other, each with high unemployment rates and low vacancy rates (European Commission 2015g). In many European countries, particularly those affected most severely by the Great Recession, the number of vacancies per unemployed person has decreased (OECD 2014a).

Job-transition patterns vary in high-LTU countries

In countries with very high LTU rates, transition rates from unemployment to employment vary greatly, reflecting different national labor-market dynamics. Dynamic labor markets may be characterized by net job creation, but dynamics may also result from a high number of short-duration jobs. In the case of the high-LTU countries, external labor-market flexibility (defined as companies using hiring and firing of workers to adapt to labor needs; see "Labor-market regulation and flexibility") comes into play.

Greece and Slovakia showed particularly low unemployment exit rates between the second quarter of 2010 and the second quarter of 2015. In both countries, the rate of transition into employment hovered for a long time around 5%. Between 2010 and 2015, the probability of exiting unemployment in Greece ranged between 10 and 50 times lower than in Portugal. In Spain too, unemployed persons had a much higher probability of finding a job than in Greece, a fact that helps explain the difference in the LTU rate in these two countries, even though LTU rates have reached extraordinarily high levels in both. One partial explanation for this may be that in Spain the economy is

more dynamic than in Greece, leading to more job flows. The high share of temporary employment in Spain may also play a role. A third factor is the fact that Greece showed higher rates of LTU even before the crisis started. However, the LTU rate was at even higher levels at the beginning of the crisis in a number of countries, including Portugal, Bulgaria and Slovakia, but also in overall stronger economies such as France and Germany (see Chapter 1). In addition to economic-growth patterns and aggregate labor demand, labor-market regulations such as working time, wage-setting institutions and employment-protection laws are crucial in explaining cross-country differences of this kind.

Labor-market regulation and flexibility

Flexible working hours can help moderate unemployment rates

The average number of hours worked tended to decline substantially during the crisis, by almost 2% as a cross-EU average, thereby limiting the rise in unemployment rates. The biggest reductions were observed in Estonia and Ireland. The only country where average hours increased during the crisis was Spain. During the initial period of recovery, working hours recovered to only a limited extent (OECD 2012a).

German companies in particular sought to adjust to the recession by decreasing the number of hours worked. In Germany, two factors allowed for the high level of working-time flexibility: the prevalence of short-term work and the use of working-time accounts (which employees had filled prior to the crisis). This strategy was very effective, as the German economy ultimately recovered quickly. Short-term work also played a role in containing the rise in unemployment rates in several other countries. At its peak, short-term work accounted for 7.5% of dependent employment in Belgium, 4% in Germany, and around 1% to 2% in Austria, the Czech Republic, France, Ireland, Italy, the Netherlands and Slovakia (European Commission 2015f). One precondition for the implementation of this strategy is the availability of instruments supporting the reduction of working hours, such as short-term work models. Another precondition is the development of demand within the product market, and a consequent demand for labor hired under these conditions.

INFOBOX 2.1 **Companies' flexibility strategies**

Companies have various opportunities to adapt labor to the demands of the business cycle. For example, they can adjust the number of people employed (which is commonly referred to as "external flexibility," because workers are moving in and out of the company); adjust the number of hours worked while enacting job or task changes within the company (referred to as "internal flexibility," as the adjustment process takes part within the company); and/or they adjust wages. The choice between these strategies depends on the specific conditions within product markets, the firm's competitive strategy, the specific sector, the skills structure of the workforce and existing labor-market regulations.

External flexibility leads to higher inflows to and outflows from unemployment, and is more likely to increase short-term unemployment rather than LTU rates. On the contrary, it is likely to reduce LTU, as the hiring aspect of the in-and-out flow breaks workers' unemployment spells. Internal flexibility may keep unemployment rates lower, but the effect is not clear as contradicting effects come to play. In countries characterized by lifetime employment models or at least long periods of employment with a single company, unemployment rates tend to be lower. However, it is be more difficult in these environments for unemployed individuals to find stable employment relationships. Rather, they will move more often between unemployment and low-quality jobs of short duration, or enter the ranks of the long-term unemployed. Moreover, they will typically have a comparatively low average skill level. This condition of two coexisting labor-market segments has been dubbed a "segmented labor market" or "dual labor market," with "periphery workers" located within an "external labor market" and the more stable "core workers" within an "internal labor market." The core workforce is well-paid and secure, while the peripheral workforce holds non-standard employment contracts and enjoys less favorable and less secure employment conditions (Eichhorst et al. 2013).

Wage flexibility can, in principle, affect the choice between external flexibility and internal flexibility, for example if a decline in unit-labor costs prevents dismissals or allows for new hires. External flexibility is likely to be increased when promoting the development of the low-wage sector.

Companies can also accept a decrease in labor productivity while keeping people employed, at least in the short run, an alternative called "labor hoarding." This strategy is typically pursued by companies if they are confident the economy will recover quickly, and that there will be no necessity to engage in economic restructuring. Labor hoarding (and the concomitant acceptance of lower productivity) played a key role in limiting the unemployment-rate response to the initial decline in GDP during the Great Recession in a number of countries during the crisis. Firms sought to retain firm-specific human capital, and to avoid incurring initial firing costs and subsequent hiring costs during the recovery. Labor hoarding was particularly important in Denmark, Finland, the Slovak Republic and Sweden, in all of which labor productivity declined by over 8% during the recession.[12] By contrast, labor productivity remained largely unchanged in Estonia, Hungary, Poland and Spain (OECD 2012a).

12 quality-adjusted

More flexible wages have limited impact in reducing LTU

Wages tend to react to unemployment after a time lag, as they are often fixed by collective wage agreements and individual labor contracts, and thus can typically not be changed immediately. In general terms, wage flexibility is greater when collective bargaining is decentralized and takes place at the company level rather than at the sectoral or national level. Wage-setting in relation to productivity development depends also largely on the short- and long-term objectives of social partners. These obectives are in part shaped by the degree of centralisation of collective bargaining, but also by unemployment levels, trade unions' bargaining power and the local social partnership culture.

The development of average hourly wages is influenced by changes in the occupational structure. Therefore, the average wage growth observed since the onset of the crisis has been caused by the shift in the employment structure toward high-paying occupations that followed the destruction of many low-paid jobs (EC 2015 g). The European Commission has compared the actual

development of wages with the hypothetical wage development that might be expected under existing macroeconomic conditions. This analysis showed that wages have been growing more slowly or were falling more than the expected level consistent with the underlying economic conditions, particularly in countries where unemployment was high (especially in Greece). This could be partially explained by collective-bargaining reforms that have enhanced the response of negotiated wages to market conditions. Furthermore, the extremely high unemployment levels have also exerted strong downward pressure on wages.

In a number of countries, including Greece, Ireland, Slovenia and Spain, real wages fell by an average of between 2% and 5% a year between 2010 and 2013, while real wage development was flat in many other countries (OECD 2014a). Declines in real wages may in the short term exert a negative influence on economic growth, as purchasing power declines. At the same time, greater wage moderation since the beginning of the crisis has resulted in a more favorable relationship between wage costs and productivity (measured as unit labor cost). The adjustment has been most pronounced in countries hit hardest by the crisis (e.g., Greece, Ireland, Portugal and Spain) (OECD 2014a). This should have a positive effect on cost competitiveness in these countries, which is key to unlocking export-led growth. Indeed, this has played a crucial role in the Ireland's rapid recovery beginning in 2012. However, wage flexibility in most countries with very high LTU rates has not helped or has only slightly contributed to reducing unemployment and LTU rates. Potential positive effects may at best be visible only in the medium and long term. In Greece, where wages fell most significantly, competitiveness and export volumes have not been correspondingly increased and GDP has continued to fall (Karamessini 2014).

Labor-market segmentation has exacerbated the rise in unemployment rates

While the effects of employment protection legislation on employment and unemployment levels are ambiguous (see "Effects of employment protection legislation on unemployment"), countries with a high degree of employment protection for regular employment tend to exhibit a high share of temporary contracts and a segmented labor market. Labor-market segmentation has been a key characteristic of the Spanish and the Italian labor markets for many years and is likely to have had a negative effect on productivity and human capital development.

Where labor markets were strongly segmented in this way, unemployment rates reacted sharply to the economic crisis, as was the case in Spain. Here, as a result of high levels of net job destruction within the temporary-employment sector, the share of temporarily employed persons within the entire employed population fell from 31.6% in 2007 to 25% in 2010, and has remained rather stable since then. It is still largely above the EU average. The importance of temporary employment on the Spanish labor market is also reflected by the relatively high short-term unemployment share in this country.

As a consequence of the crisis, labor-market reforms in southern Europe included a reduction in labor protection, in part by lowering dismissal costs (Portugal and Greece primarily eased individual dismissals, while Spain and Italy facilitated collective dismissals). In all four countries, reforms have sought to reduce judicial decisions in layoff decisions. Policy action in this respect was more intense in countries that had the most stringent legislation before the onset of the crisis, notably in Portugal, Italy and Greece (OECD 2013a; for an overview of recent reforms see also Vaughan-Whitehead 2014). However, positive impacts can be expected at best in the long term. In the short term, these reforms are likely to have exerted further upward pressure on unemployment rates, unless other policy actions are taken. For example, in Italy, the employment protection legislation reforms were accompanied by reforming and introducing new hiring subsidies to promote the employment of disadvantaged groups, such as women and young people. In addition, measures were introduced that support the conversion of fixed-term contracts into open-ended contracts.[13]

13 Ciccarone (2014) points to available evidence provided by the assessment of the recently introduced Inter-ministerial Decree 243/2012 targeting young people and women. Incentives given to employers if they transformed a fixed-term contract into an open-ended one proved effective. On the contrary, no, or limited, impact is found when incentives are set for the recruitment of new workers, possibly because the incentive structure is not strong enough to counterbalance the risk of employing an unknown worker. The design of hiring incentives in Italy leaves ample space for improvement.

INFOBOX 2.2 **Effects of employment protection legislation on unemployment**

Employment protection can theoretically have two opposite effects on unemployment. The higher protection of workers in the "internal labor market" combined with a comparatively high wage level may push companies to employ less staff, which then leads to higher unemployment. Some of the literature therefore refers to higher unemployment resulting from the insider-outsider model as was argued by Lindbeck and Snower in 1988. However, it has also been argued that the effects of employment protection are not clearcut. Bentolilo and Bertola, for example, demonstrated in 1990 that the volatility of labor demand is lower and the employment level slightly higher in countries where adjustment costs are present than in countries without employment protection. Firms have to adjust their workforce after demand and productivity shocks. Saint-Paul developed a model in 1995 showing that labor protection costs are generating different equilibriums depending on the fluctuation rate (for a review of the literature, see Duell 2004). Gal and Theising (2015) find that employment protection legislation affects various segments of the population differently and depends on the composition of the working-age population by skills and demographic groups. Martin and Scarpetta (2011) have shown that strict employment protection legislation has a negative impact on productivity.

Labor-market mismatches and structural unemployment

Economic restructuring and structural employment shifts were intensified by the recession

In Spain, Ireland, Portugal, the United Kingdom and Lithuania, construction was the sector most deeply affected by crisis-related job losses. Employment in the manufacturing sector declined by more than 3% between 2008 and 2013 in Bulgaria, Greece, Spain, Portugal, Estonia, Lithuania, Slovenia, the Slovak Republic and Denmark. By contrast, the education, health care and arts sectors showed growth in many countries. Public-sector jobs were cut in the course of austerity policies (e.g., in Greece and Spain). Many of the manufacturing and particularly construction jobs lost during the recent recession may never be recovered (OECD 2015a) (Figure 2.3).

The large differences in employment growth by sector reflect an ongoing process of economic restructuring. This can also help explain unemployment driven by a mismatch in labor supply and demand. Unemployment grounded in such mismatches has the potential to persist in modern economies that require complex tasks and skills profiles.

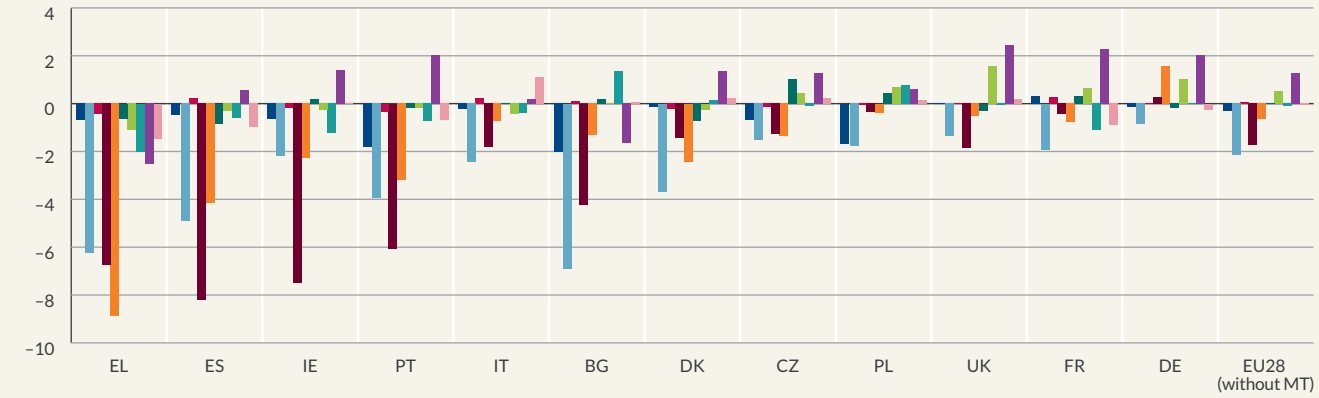
For some occupations, shifting between employment sectors is easier than for others. The ratio between the long-term unemployed population and the number of workers who started a new job in 2013 by occupation gives some indication regarding labor-market dynamics. A high ratio indicates relatively low dynamism in the occupational labor market. Long-term unemployed craft workers had the lowest prospects of starting work in 2013 in many European countries (Figure 2.4). Particularly in countries with a severe LTU pattern, technicians, clerical-support workers, and plant and machine operators faced comparable or even more difficulty in finding work as did workers in elementary occupations.

As noted in Chapter 1, the low-skilled have a higher risk of becoming long-term unemployed. Moreover, in countries with severe LTU problems, workers with mid-level skills and to a lesser extent the highly skilled as well faced a relatively high LTU risk during the crisis.

Employment opportunities during the crisis declined sharply for low-skilled workers in all countries except Poland. Employment rates for this group fell by at least 10% in Ireland, Estonia, Spain, Slovenia and Hungary (in descending order). During the initial recovery phase, employment rates increased for the highly skilled in most of the 20 European countries considered,[14] with the exception of the Netherlands and Denmark. However, the rise in employment rates among the highly skilled was comparatively low in Spain, Italy and Ireland, reflecting the overall low level of labor demand, while the increase was comparatively strong in Portugal and the Slovak Republic – all countries with very high LTU rates (OECD EMO 2012, Annex). In contrast, in all countries except Estonia and Belgium, employment rates among the low skilled continued to decline. Countries with the highest degree of structural employment shift from the low skilled to the highly skilled workers primarily include countries with severe or considerable LTU rates (Czech Republic, Poland, the Slovak Republic, Germany, Sweden and the UK).

14 Excepting Greece

FIGURE 2.3 Change in employment by sector, 2008–2013



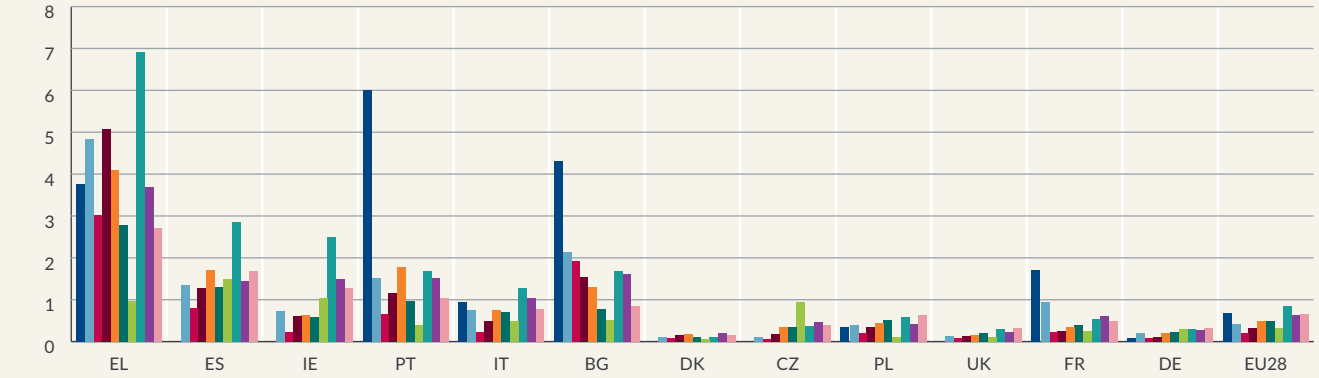
- A-B Agriculture and mining and quarrying
- C Manufacturing
- D-E Electricity and water supply
- F Construction
- G-I Trade and transport, accomodation and food service activities
- J-L Information and communication, finance, real estate
- M Professional, scientific and technical activities
- N-O Administrative and support service activities
- P-R Education, human health, arts
- S-T other service activities, households as employers

Note: Colored bars represent % change in employment during 5-year period.

Source: Eurostat, LFS microdata, own calculations.

BertelsmannStiftung

FIGURE 2.4 Ratio of LTU to new jobs, by occupation, 2013



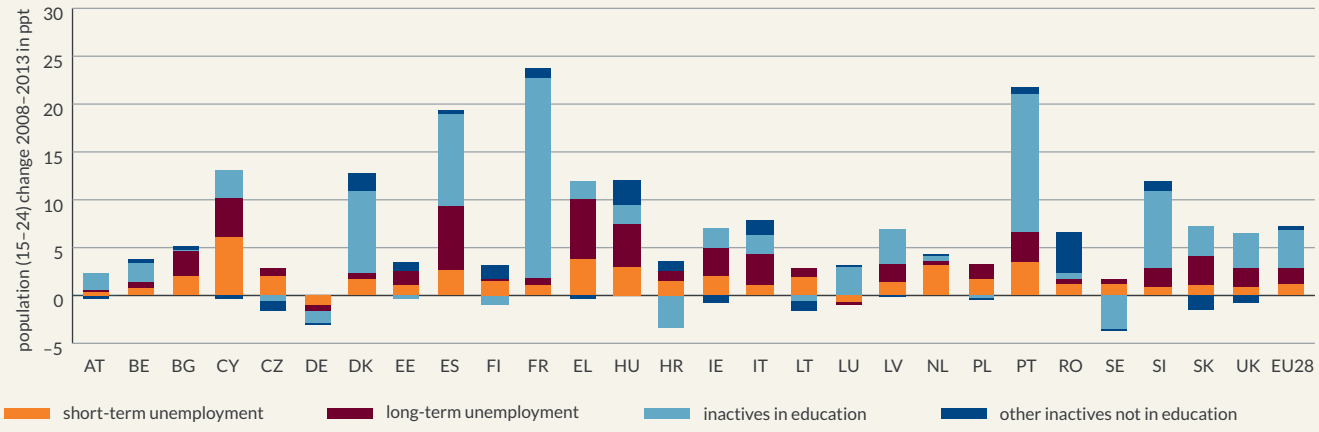
- [0] Armed forces occupations
- [1] Managers
- [2] Professionals
- [3] Technicians and associate professionals
- [4] Clerical support workers
- [5] Service and sales workers
- [6] Skilled agricultural, forestry and fishery workers
- [7] Craft and related trades workers
- [8] Plant and machine operators, and assemblers
- [9] Elementary occupations

Age Group 15–64

Source: Eurostat, LFS microdata, own calculations.

BertelsmannStiftung

FIGURE 2.5 **Youth unemployment and education participation, 15–25 years old, change in percentage points, 2008–2013**



Age Group 15–24

Source: Eurostat LFS microdata, own calculations.

BertelsmannStiftung

VET systems are key to helping workers adapt skillsets to changing needs

Participation in training programs and infrastructure that enables workers to continually adapt skills are generally regarded as key elements in preventing LTU. In general, participation rates in continuing-education training programs are higher for those with higher literacy proficiency levels, a fact that makes it more difficult for the lower-skilled to adapt to changing market conditions (OECD 2014b). Skills-governance systems have an influence on the adequacy of "produced" skills and demanded skills. However, helping workers to adapt their skill sets, or retraining them to fulfill different tasks, can be quite expensive, and countries do not always have efficient continuing-education training systems in place. An efficient skills-governance system is likely to reduce the incidence of skills mismatches. The role of training measures within active labor-market policy measures will be examined in Chapter 3.

The design of VET systems also has an impact on the pathways to employment for young people who have obtained their vocational or university degrees. The length of these pathways varies greatly between European countries. In general, it seems that in countries with a well-established dual vocational-training system, periods of youth unemployment are generally shorter, as many young people tend be hired by the companies in which they were trained. Moreover, for employers, workplace-related experience is an important asset with regard to hiring decisions. As a reaction to the economic crisis, young people have tended to stay in education for longer periods of time. The number of unemployed young people has increased (Figure 2.5), indicating that intensified training could not substitute perfectly for the lost employment opportunities; however, youth unemployment figures would have increased far more if many young people had not chosen to continue their educations.

The share of young people not working and not searching for work, but participating in education, has markedly increased in France, Portugal and Spain, Slovenia and Denmark. Note that in the case of Spain, this trend was also evident in the pre-crisis period. In Greece, where many highly skilled young people have become unemployed, young people have evidently not reacted to the threat of unemployment and LTU by increasing their rate of participation in education.

INFOBOX 2.3
Structural unemployment and NAIRU

Another way of looking at structural unemployment is to compare the observed unemployment rate and the rate of unemployment that the economy would be expected to settle at in the long run in the absence of shocks in the goods and services markets. One proxy for this is the so-called non-accelerating inflation rate of unemployment (NAIRU) is the unemployment rate needed in order to keep inflation stable. Its level is determined by institutional factors and fiscal measures (unemployment benefits, tax rates) that influence the reservation wage. Structural unemployment cannot be observed empirically. Instead, it is estimated through methods that rely on establishing its statistical and/or theoretical properties (Orlandi 2012). While in the long run, the NAIRU measures the structural component of unemployment, the difference between actual unemployment and the NAIRU represents the cyclical component. This measures the inflationary pressure which comes from demand shocks. Hysteresis is one of the key concepts associated with the NAIRU approach, and refers to a condition in which the economy does not return to its original state – or returns rather slowly – when the demand shock disappears. Criticism of the NAIRU concept has pointed to the difficulties of exact measurement and to the prevalence of the Philips-curve relationship between inflation and wages (Vogler-Ludwig, Stock 2010). A newer concept is the non-accelerating wage rate of unemployment (NAWRU). This approach also identifies the real interest rate, total factor productivity and the employment share in construction as factors that can lead to "structural unemployment" (Orlandi 2012).

Benefits, institutions, activation approaches and household strategies

Welfare benefits do not increase LTU if combined with activation requirements

The level of unemployment and social-assistance benefits is generally supposed to exert an influence on individuals' propensity to search for work actively and accept what employment is offered, even under least-good conditions (e.g., wages lower than previously earned). However, the question of whether increasingly generous unemployment and welfare-benefit systems have a negative impact on incentives to search for employment depends on the conditionality associated with the benefits in relation to the generosity of the benefit (typically proxied by the "benefit replacement rate," the proportion of past wages in employment replaced by the benefit). An analysis of worker flow by the OECD shows unemployment-benefit generosity to have a positive impact on average gross worker flows (OECD 2010).[15] This also reflects the conclusions underlying the widely debated "flexicurity" model in Europe, linking a high benefit level with strict activation requirements and a flexible labor market.

The most generous unemployment-benefit systems and the most generous means-tested minimum-income benefits for the long-term unemployed can today be found in countries with relatively low LTU rates (particularly the Nordic countries and some western continental European nations[16]). This finding relates to the fact that these countries have well-developed welfare states with long histories. High employment rates in the Nordic countries have represented the basis for the social acceptance of the generosity of the welfare system. Also Nordic countries were the first to develop so-called workfare programs (i.e., combining work and welfare).

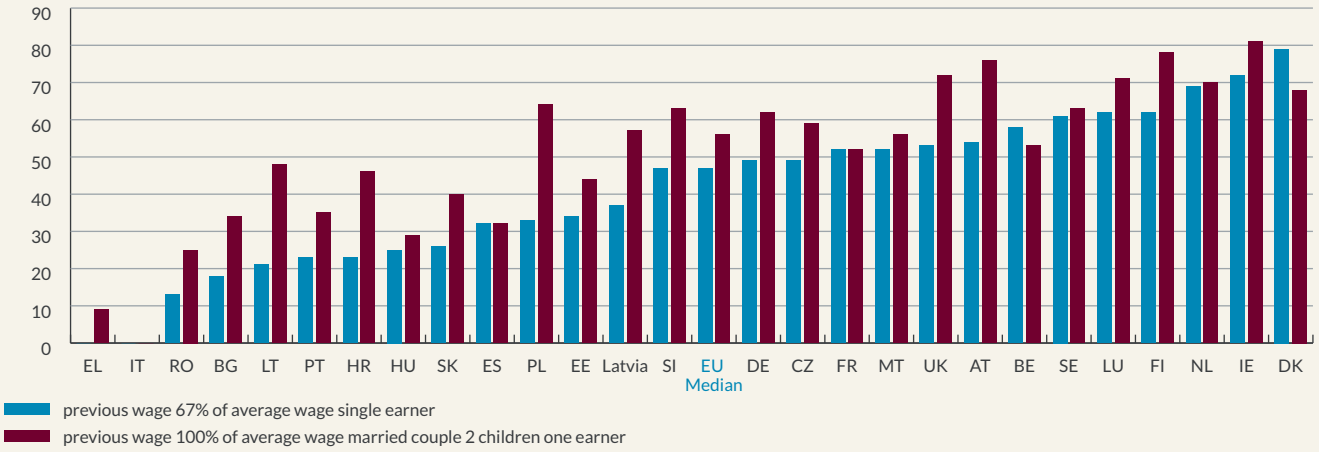
In a number of countries that underwent reforms before the Great Recession, activation strategies were developed primarily for people receiving income-replacement benefits, with the aim of enforcing the principle of mutual obligation. The concept was developed first in the United Kingdom, and subsequently adapted by a number of countries with insurance or assistance benefits for jobseekers that were long-lasting or of indefinite duration (Immervoll and Scarpetta 2012). Most EU countries have placed a deepening focus on enforcing work availability among benefit recipients, meaning that they are expected to engage in monitored job-search activities and improve their employability "in exchange" for receiving benefits (Andersen and Svarer 2012). In addition, EU countries have placed increased priority on effectively coordinating ALMPs with the administration of benefits and make-work-pay policies.[17]

15 According to OECD calculations, a 10-ppt increase in the average net benefit replacement rate – a large reform from a historical perspective – would on average increase gross worker reallocation by about one ppt.

16 "Continental" Europe encompasses Belgium, Netherlands, France, Germany, Austria, and Luxembourg.

17 http://ec.europa.eu/europe2020/pdf/themes/23_active_labour_market_policies_02.pdf

FIGURE 2.6 **Net income-replacement rates for the very long-term unemployed, 2013**



Note: Benefits are after tax, and include unemployment benefits, social assistance, family and housing benefits in the 60th month of benefit receipt.
Also note that while Italy does not offer LTU benefits at the national level, a number of social benefits are offered by the country's municipalities.
The net replacement rate is the proportion of benefit as compared to previous net wage in %.

Source: OECD, tax-benefit model.

BertelsmannStiftung

Out-of-work benefits remain low in a number of countries with high LTU

In contrast, welfare-benefit levels have been particularly low in a number of countries with very high LTU rates. This is particularly true of southern European countries. Eastern European countries have chosen varying social models. The level of out-of-work benefits received by the long-term unemployed are low in southeastern (except in Slovenia) and northeastern countries (Baltic states), but the picture is mixed for the countries of East-Central Europe.

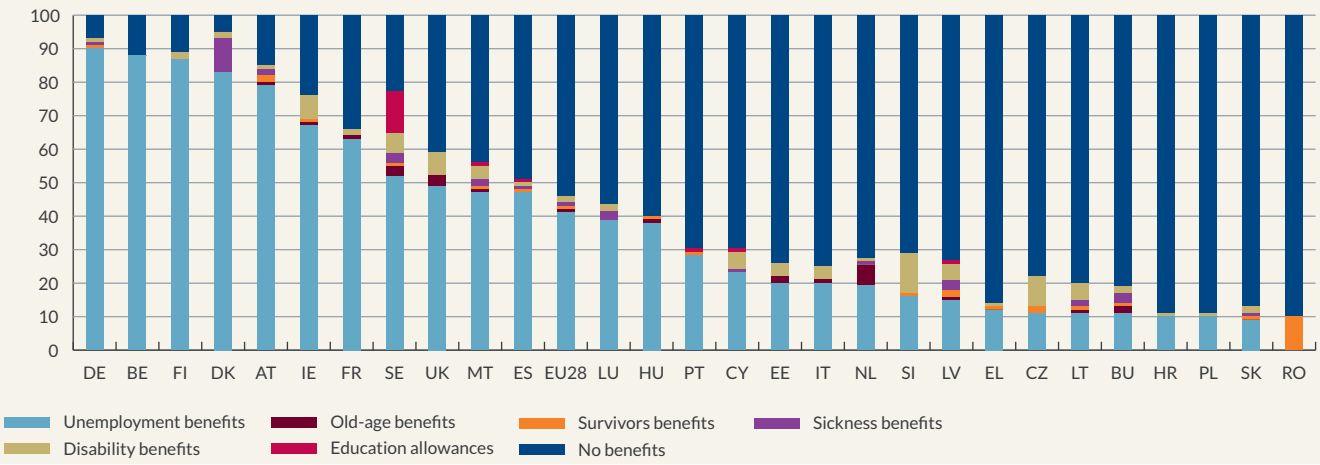
Low levels of income replacement can in principle have a variety of effects on individual strategies. On the one hand, if benefits are minimal or absent, the incentive to look for work actively is high, prompting benefit recipients to accept lower wages and a lower quality jobs, pushing them toward informal work, or inducing other family members to seek employment. On the other hand, this may also mean that unemployed jobseekers are not receiving significant activation support, as they are less likely to be registered with the local PES (Chapter 3). Even in countries with more generous benefit systems, not everyone who is eligible claims them (Eurofound 2015b).

The following figure reveals the huge diversity with regard to the relative level of unemployment benefits and means-tested minimum-income support in European countries. Note that benefit levels are markedly higher for couples with children, in particular in countries with very low overall benefit levels (including Greece). In 2014, the maximum length of unemployment benefits varied between four months in Hungary and no limitation in Belgium (European Commission 2015f).

In general, there is no indication that benefit eligibility is particularly strict in countries with generous out-of-work benefit amounts. While eligibility conditions are indeed more demanding in some countries with a medium level net-replacement rates (e.g., Slovenia and Portugal), a number of countries with even more generous out-of-work benefits have fairly light requirements (e.g., Sweden, Austria and Finland). On the other end of the spectrum, benefit levels in Italy, Romania, Estonia and Slovakia are low, with receipt subject to demanding eligibility conditions. Activation efforts (using ALMP spending relative to GDP as a proxy) tend to be greater in countries where out-of-work benefits are generous (Immervoll and Scarpetta 2012).

Between 2011 and 2013, Belgium, Spain, Italy, Croatia, Slovenia, Ireland and the United Kingdom reformed their unemployment-benefit programs along workfare lines primarily by tightening eligibility requirements, reducing benefit levels, introducing means-testing, making receipt conditional on undertaking active job searches, and linking benefit levels to the duration of unemployment (OECD 2014a). However, these countries departed from very different starting points with regard to generosity and conditionality of unemployment benefits. In contrast,

FIGURE 2.7 **Benefits received by the long-term unemployed, 2013**



Note: Colored bar segments represent % of long-term unemployed population.

Source: Eurostat EU-SILC microdata, own calculations.

BertelsmannStiftung

some countries have made it easier to claim unemployment benefits and no general trend with regard to the direction of unemployment-benefit system reform can be observed (OECD 2014a). Today, strict eligibility rules can be found in some countries with relatively generous unemployment and welfare systems, as well as in some with low benefit levels. European countries with the most strict unemployment-benefit criteria[18] in 2014 include Malta, Croatia, Estonia, Portugal, Luxembourg and Sweden, while Hungary, Czech Republic, Spain and Finland were at the lower end of the spectrum with regard to strictness (Langenbucher 2015).

Figure 2.7 gives an overview of the share of long-term unemployed receiving (means-tested) unemployment benefits, training allowances, sickness benefits, disability benefits or pensions, or no benefits at all in 2013. It shows that many of the countries with comparatively low LTU rates offer the broadest welfare-benefit coverage (e.g., Austria, Germany, Finland). Southern European countries can be divided into two groups, with low coverage in Greece and Italy, and a medium level of coverage in Spain. Coverage is low in eastern European countries.

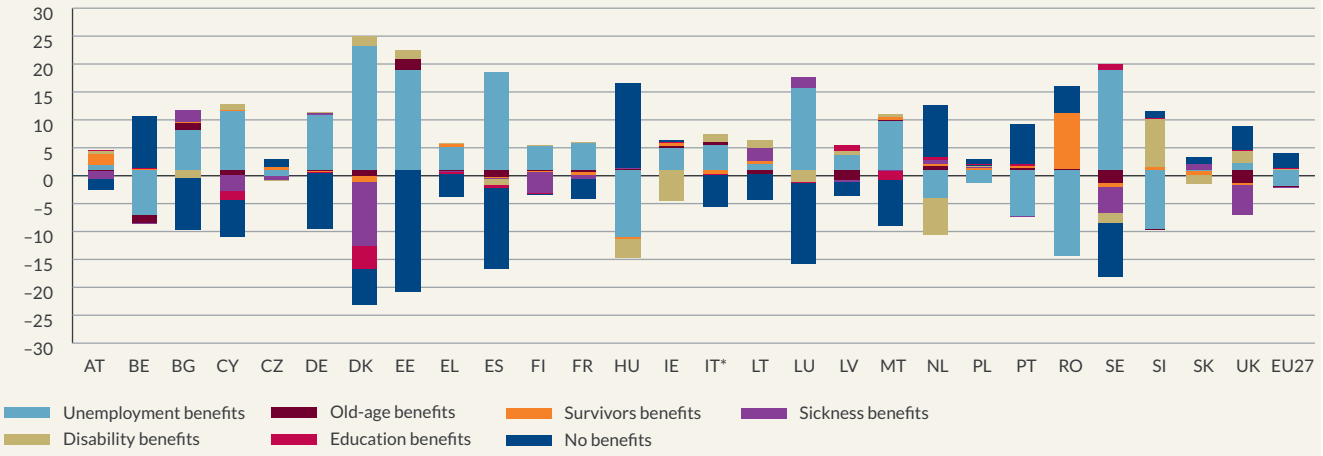
Total (means-tested) unemployment-benefit receipt increased as a consequence of the crisis (EU-SILC data). Figure 2.8 also shows the effects of disability-system reforms, as a number of people probably shifted from disability benefits to unemployment benefits as a result.

18 Including indicators for availability requirements and suitable work criteria, job-search requirements, monitoring and sanctions.

Old-age pension receipt also declined due to pension reforms restricting access to early retirement, increasing the average retirement age, or reducing the pension level. Eligibility for benefits among the long-term unemployed has improved in a number of countries, including Bulgaria, Cyprus, Estonia, Spain and Sweden. In Greece, given the large increase in LTU rates, the reduction in the share of those receiving no benefits seems to be minimal.

The number of long-term unemployed persons receiving unemployment benefits increased in most countries during the crisis. However, it clearly decreased in Romania and Hungary, Portugal, Slovenia, Belgium and the Netherlands. Across the EU, about 20% of the working-age population was poor, living in a jobless household, and receiving no or only very minimal benefits in 2010; this share was above 30% in Croatia, Portugal, Latvia, Romania, Italy, Bulgaria, Greece and Cyprus (reaching nearly 50% in these two latter countries) according to European Commission calculations on the basis of EU-SILC data.

FIGURE 2.8 **Changes in benefit types received by LTU persons, 2008–2013**



Age Group 15–74

Note: Colored bar segments represent change in percentage points of LTU population share receiving each type of benefit between 2008 and 2013.
If more than one benefit is received by one person, only the benefit with the highest revenue is considered.

*Italy: NA on sickness benefits in 2013 and 2008.

Source: Eurostat EU-SILC microdata, own calculations.

BertelsmannStiftung

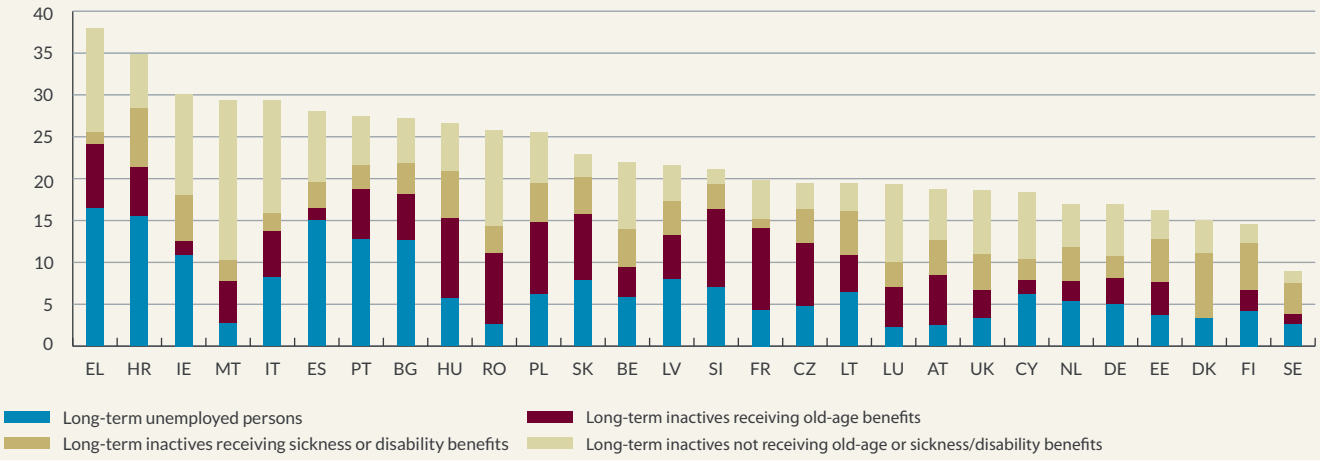
INFOBOX 2.4 **Informal economy and undeclared work**

Little is known about the role of the informal economy in individual strategies for coping with the crisis. Assessing the size of the informal economy is very difficult, and estimated volumes vary greatly. Informal employment is probably mostly carried out as self-employment. According to estimates, informal self-employment was already a significant feature particularly within the Greek labor market by 2008 – 2009, encompassing 30% of the labor force there, roughly 20% in Italy (in 2006), and between 15% and 20% in Poland, Spain and Portugal. Informal dependent employment was widespread in Cyprus and Ireland. Informal employment is often irregular and seasonal (Hazans 2011).[19]

Eurobarometer carried out a survey examining undeclared work in 2014. One important finding in this survey was that many workers engaged in undeclared work do so in order to top up incomes deriving from regular work, social benefits or a pension (Eurobarometer 2014). A fifth of respondents carrying out undeclared work stated that they could not find a regular job, and nearly one-sixth stated they had no other source of income. Inability to find regular employment was a reason for undeclared work for 8% of informal workers in Nordic European countries, 12% of continental European countries, 28% in eastern and Central European countries, and 41% in southern European countries. Nearly one-fifth of informal workers in eastern and Central European countries and more than one-fourth in southern European countries said they had no other source of income; however, this ratio was highest in Greece, where 41% of informal workers fall into this category. Each of these two groups of countries show very high or relatively high LTU rates, and welfare states in the regions are mostly not generous. Although some individuals have taken up informal employment because they could not find a job, it is not clear whether informal employment is a substitute for a condition of long-term unemployment and thus whether people who take up informal employment have given up searching for a regular job.

19 Total informal employment includes employees without contracts, the non-professional self-employed operating alone, employers with five or less employees, and unpaid family workers. The quantity of such workers is expressed as a proportion of the "extended labor force." Estimates are based on the European Social Survey.

FIGURE 2.9 **Benefits among long-term unemployed and inactive populations, 2013**



Note: Colored bar segments represent identified populations as % of working-age population (aged 15–64).

Source: Eurostat EU-SILC microdata, own calculations.

BertelsmannStiftung

Reforms of sickness and disability pensions have increasingly promoted activation

In some countries – particularly in countries with well-developed welfare states – the quantity of disability-pension recipients has been high (and remains very high in countries such as Denmark and Croatia). Reforms to these systems sought both to control the costs of disability programs and to address potential social and labor-market exclusion among people with disabilities.[20] As disability claims rose, responses included reforms that restricted access to and reduced benefits (OECD 2010b). Compensation decreased somewhat between 1990 and 2013 in a number of countries.[21] Common elements of reforms have also consisted in placing a stronger focus on labor-market and other social services, vocational rehabilitation, individualized approaches to recipients, and the provision of intense counseling. Other elements have included early activation and occupational-health guidance in order to prevent labor-market detachment, as well as the financing of rehabilitation measures (Scharle 2013, OECD 2010b). As with active labor-market policy, there seems to be a clear positive link between the intensity of activation and the level of benefits provided, suggesting that high benefit levels call for strong activation measures (although the concept of activation as applied to recipients of long-term sickness and disability benefits is very different from that applied to recipients of unemployment benefits, including the long-term unemployed). While reforms in many countries have tended in the same direction, country differences remain.

As a consequence, the number of long-term unemployed persons receiving these benefits fell in Cyprus, Denmark, Finland, Sweden and the United Kingdom. Some former disability recipients may today be receiving means-tested unemployment benefits instead. In other countries, positive and negative changes in the number of sickness and disability-benefit recipients were small.

Figure 2.9 shows that the share of the working-age population that is inactive and receiving a sickness or disability benefit averages between 5% and 8% in Denmark, Finland, Hungary, Ireland and Croatia. In the two Nordic countries, this group was significantly larger than the long-term unemployed, the same holds true in Sweden.

20 As Scharle et al. 2015 note, "the risk of social exclusion (…) tends to be deeper and more permanent than in the case of the unemployed."

21 The crisis may have put some pressure on governments to slow down or temporarily reverse reforms in compensation policies for the long-term sick and disabled (Scharle et al. 2015).

Independently of benefit receipt, the share of persons not seeking employment due to poor health increased in most European countries in the aftermath of the crisis, but was also on the rise in the pre-crisis period. A number of explanatory factors come into play here, including institutional factors (access and generosity of disability benefits,[22] improvements in diagnostic technology), demographic factors related to the aging of the workforce, and increased health problems after long periods of unemployment. However, the share of persons not seeking employment due to illness rose more strongly during 2008 and 2014 than during the 2005 – 2008 period in Germany, Belgium, the Netherlands, Austria and Portugal.[23]

Early-retirement reforms have increased older workers' employment rates

In a number of countries, pension reforms have been implemented over the past 15 years with the aim of extending working lives. These reforms have been driven by aging populations and the looming threat of financial instability within pension systems. These conditions exerts pressure to remove early-retirement schemes that were often introduced as a way to mitigate increases in unemployment rates during previous economic-restructuring phases (Eichhorst et al. 2013). In some countries, a second driving force is projected labor shortages as a consequence of demographic change.

As a result of previous reforms, employment rates among older workers increased during the pre-crisis period, and continued to increase during the crisis.[24] Pension reforms have made it costly for workers to exit the labor market early, and also costly for companies to push employees into early retirement. A low pension level might be one contributor to increases in employment rates among those aged 65 to 69 in a number of countries. Austerity-policy measures reducing pension levels may have additionally contributed to increasing labor-market participation. Some countries have also increased incentives for continuing to work beyond the statutory retirement age.

In 2013, early retirement as a pathway for exiting the labor market before the age of 65 was still widespread in Croatia (with 48% of survey respondents aged 15-64 citing this as the reason for leaving their last job) and rare in Finland (3%).[25] Even within the group of countries hardest-hit by the crisis (e.g., Greece and Spain), early retirement was less common than in Croatia. This fact is linked to the various countries' pension schemes and reforms implemented to consolidate public expenditures. Interestingly, normal retirement (before the age of 65) was the main reason for leaving the last job during the past 8 years for 65% of inactives in Slovenia, 58% in Greece, 44% in Romania and 43% in France. It is quite likely that the possibility of early retirement informs the selection of workers who will be laid off in the context of firm-based collective bargaining (e.g., in the context of social plans, or informal agreements).

Activation-policy reforms have also had an impact on older workers. Previous unemployment-benefit schemes that acted as a pathway to retirement and could in fact be regarded as a pre-retirement channel (e.g., the "unemployment benefit tunnel" in Finland or the so-called 58 rule in Germany, which exempted older unemployed individuals from job-search requirements) were removed. As indicated in Chapter 1, older workers in most countries have a lower risk than do prime-age workers of becoming unemployed; however, they have a considerably higher risk of becoming long-term unemployed.

Although early-retirement programs stemmed from past political choices and social compromises seeking to reduce unemployment rates among other age groups, the reversal of this policy does not necessarily entail a rise in unemployment rates among these other age groups today (Eichhorst et al. 2013). This is confirmed by recent evidence showing that increased employment rates of older workers have not come at the expense of lower employment rates for youth (OECD 2013a). The volume of labor in an economy is not fixed in a medium-term perspective. In general, it can be observed that employment rates tend either to be low for both young and older workers, or high for both age groups. Nevertheless, it is likely that the rise in LTU rates has deepened segmentation lines between subgroups.

22 There are large variations across Europe with regard to the share of inactive persons indicating they left their last job due to reasons of disability or illness, ranging from 3.4% in Croatia to 29% in the Netherlands. The generosity of disability-pension programs and the ease of eligibility conditions may partially explain these large differences.

23 Eurostat, EU-LFS, measured in percentage-point change.

24 Note that pension reforms are not the only reason why the employment rates of older workers have increased. A higher educational attainment of more recent cohorts and shifts in the economic and occupational structures as well as the aging of the workforce and labor shortages have pushed employment rates upward.

25 Based on LFS mictodata, referring to long-term inactives with work experience whose last job was at most eight years ago by reason for leaving last job.

High unemployment rates have drawn women into employment

In some countries, particularly those hit hardest by the crisis, the employment rate of women has increased more than is reflected by the broader secular trend of rising labor-market participation rates among women. The need to contribute to the household income when living in a jobless household has pushed women to take up employment who were previously not working and or interested in working (the "added-worker effect") (European Commission 2013c). It can be concluded that in the absence of compensatory measures, unemployment is not necessarily reduced by this effect; while employment incentives have increased, these increased incentives have brought other groups into the labor market. However, the added-worker effect has not been strong enough to prevent a significant share of the working-age population (18 – 59 years old) from living in jobless households. In 2013, about 20% of women and 18% of men were living in a jobless household in Greece. As a cross-EU average, almost 11% of the population aged 18 – 59 lived in a jobless household in 2013. This share represented only a slight increase from 9.2 in 2008 (Eurostat).

The role of families in supporting the long-term unemployed varies. An analysis of European household-survey data (EU-SILC) reveals a very strong incidence of inter-household cash transfers supporting long-term unemployed individuals in Bulgaria, Cyprus and Hungary.[26] In addition, one-sixth or more of the long-term unemployed were receiving inter-household cash transfers in Greece, the Czech Republic and Latvia.

Personal employment barriers further reduce employment prospects of LTU

Finally, institutional environments may reduce individuals' opportunities or willingness to search for employment, and thus to participate actively in the labor market. As noted in Chapter 1, family or other care responsibilities are often a key reason preventing individuals from seeking employment. An empirical study based on administrative data for Germany showed that care responsibilities were one of the reasons explaining long-term unemployed individuals' comparatively low probability of entering employment. Other factors identified in this study included weak social networks, substance abuse, health issues and financial debts (Thomsen 2008; see Spermann 2015 for an overview of the more recent literature).

Furthermore, the length of unemployment spells may contribute to health-related problems. In the United Kingdom, men were found to have a higher risk of poor health as a consequence of unemployment than did women, particularly if they had unstable working biographies (Gulliford et al 2014). In addition, employer discrimination and prejudices may lead to persistently low employment prospects (as has been claimed in some French suburbs, where a high share of people come from immigrant families).

It is quite likely that for a significant share of people with high employment barriers, moving from unemployment to inactivity presents a higher risk, and financial incentives may have a comparatively low effect on job-search behavior and job take-up. The prevalence of multiple personal employment barriers among hard-to-place people has prompted a number of countries to create better links between health, social and employment services. While the presence of multiple personal employment barriers is a contributor to long-term unemployment in all groups of countries, the ratio of individuals with such multiple barriers to the entire long-term unemployed population tends to be higher in countries with comparatively low LTU rates.

Conclusions

Long-term unemployment can have a multitude of causes and different factors come into play. Economic contributors to long-term unemployment include low levels of economic competitiveness, weaknesses in a country's production model, a lack of aggregate labor demand, and conditions of economic restructuring. Particularly in the countries hit most severely by the economic crisis, there has been a persistent lack of labor demand due to the slow recovery. In addition, in countries with severe and significant long-term unemployment patterns, economic restructuring and resulting skills mismatches within the labor market are main factors leading to long-term unemployment. Mismatch unemployment is becoming a key problem in a number of Central and East European states. These economies have evolved dynamically (particular Poland, but also the Czech Republic and Hungary), but still need to increase their competitiveness. The low skilled are most negatively impacted by these developments. Skills-adaptation problems are also a significant issue in other countries with significant long-term unemployment patterns, including France and Germany.

26 Own calculations

As a consequence of the crisis, countries in southern Europe implemented a series of labor-market reforms aiming at deregulating the labor market and reducing segmentation. The Great Recession opened up the political feasibility of these reforms, although the timing was not well chosen in economic terms, as labor-market deregulation tends to increase unemployment rates as long as labor demand is weak. It is unclear whether employment growth will prove sustainable and whether the necessary adaptation and investments for the modernization of the production models and the skills structure in these countries will be implemented. As has been argued in the case of Spain, high priority should be given to ameliorating labor market access through higher education improvements, professional training, investments in R&D and the promotion of high value-added industries (Bacaria et al. 2015).

Past experiences, such as those in Finland, Spain and Germany, reveal that it can take very long periods of time for unemployment to fall after having risen rapidly. Both institutional as well as economic factors, in particular adaptation costs of economic restructuring, have played a role in keeping unemployment at high levels. Strategies pursued in the past to reduce unemployment included enhancing labor market flexibility, making the receipt of welfare benefits conditional on activation, promoting the development of a low-wage sector, implementing ALMPs, and opening up the possibility of alternative labor market exit routes. The resulting social compromise of combining different elements of these approaches has differed significantly across Europe.

Relatively easy access to early retirement and disability benefits was often the result of social compromises in the past but has not been a favored policy approach in recent years. A number of reforms in this area that were introduced both prior to and during the crisis largely aimed at increasing labor-market participation rates. Nevertheless, some countries still have comparatively large populations receiving early retirement or disability benefits. To some extent, this can be considered as hiding the problem of long-term unemployment.

Also, approaches to activating the unemployed have evolved differently across countries. Labor-market reforms linking welfare-benefit generosity with strict conditionality and comparatively intensive activation measures were implemented in the decade preceding the crisis particularly in Germany and other "continental" countries. The Nordic countries were the first to develop this type of "workfare" approach. It seems that these countries were subsequently better prepared to cope with the labor-market effects of the crisis. However, underlying economic competitiveness is also higher in these countries, a factor that helped contain the negative employment effects of the recession. The Baltic states experienced significant variations in GDP and in policy orientation (see also Chapter 3), while the Southeast European countries responded to the economic crisis with a disengagement from welfare and activation policies. Low welfare-benefit levels have (recently) been linked to high levels of conditionality in these countries. East-Central European countries show a mixed picture in this respect. In southern Europe, welfare-benefit levels are generally relatively low and activation efforts targeted at the unemployed are less developed as compared to continental European (e.g., Germany and France) and Nordic countries.

Finally, the long-term unemployed population includes people who are difficult to place even under favorable labor-market conditions. The lower the overall LTU rate in a country, the more likely it is that the long-term unemployed individuals belong to this difficult-to-place group.

These individuals often face multiple employment barriers. Long-term unemployment in the context of economic restructuring and/or low aggregate demand may increase the number of unemployed in this group in the long run, as social, health and mental-health problems tend to increase with the duration of unemployment.

3. Addressing long-term unemployment through activation policies

Activation policies: target groups, objectives and approaches

Activation policies aim towards setting the right incentives for people out of employment to actively search for employment and eventually accept suitable job offers as well as to supporting them to find a job by addressing employment barriers. These policies have to strike the right balance between incentives, obligations and investments in employability, or to put it differently, the right balance between "carrots and sticks". The generosity of benefit systems and their links to activation requirements across Europe varies widely (see Chapter 2), as do the strictness of conditionality, active job search requirements and the definition of "suitable employment" (Langenbucher 2015). The increase in unemployment rates due to the Great Recession placed the spotlight on ALMPs[27] and the potential of activation strategies to help the LTU population and other at-risk groups find jobs. ALMPs can play a significant role in supporting employment growth, thus preventing and reducing LTU and facilitating the functioning of the labor market. The objectives of ALMPs are to improve the matching of labor supply and labor demand within a particular economic environment, to increase jobseekers' employability and to intensify job-search activities. For the most disadvantaged groups, the objectives may also include aspects of social integration. There is significant variation across Europe with regard to the design of and budgets dedicated to ALMPs, reflecting the various country-specific welfare states (Duell 2012, Martin 2014). In examining these programs, two central questions arise: Are ALMPs effective in integrating jobseekers, including long-term unemployed and hard-to-place groups into the labor market? And are they cost-efficient from a macroeconomic perspective?

ALMPs have to target a heterogeneous group

As shown in Chapter 1, the target groups for ALMPs are highly heterogeneous even within a given country. As the drivers of long-term unemployment vary greatly across states, this heterogeneity is even higher when considering the European Union as a whole. Any comparison of different ALMPs and the activation strategies in which they are embedded has to take this heterogenteity into account.

Different groups at risk of becoming or remaining long-term unemployed are targeted by activation services to varying degrees. A worldwide survey of PES on the topic of vulnerable groups and LTU shows that the most commonly assisted populations are older workers (aged 50+), the low skilled and young people (up to age 24), all of whom were targeted by over 50% of respondents (Dean 2013). Targeting based on disability (46%) or ethnic minority status (39%) was slightly less common, as was the targeting of women (30%), single parents (28%) and ex-convicts (27%). A total of 15% of respondents said they also targeted "other groups."

In a recent proposal, the European Commission noted that individualized services are not always accessible to LTU target groups, a factor that limits member states' ability to reintegrate these populations back into the labor market. Program-based interventions focusing on LTU subgroups cannot tackle the entire range of specific individual needs, and only a small share of the expenditure on active measures can be allocated to training or start-up support. Low-skilled unemployed persons are four times less likely to participate in lifelong learning measures, and basic-skills education is seldom included in support programs (European Commission 2015d).

27 The OECD defines ALMPs as follows: "Active labor-market programs include all social expenditure (other than education) which is aimed at the improvement of the beneficiaries' prospect of finding gainful employment or to otherwise increase their earnings capacity. This category includes spending on public employment services and administration, labor-market training, special programs for youth when in transition from school to work, labor-market programs to provide or promote employment for unemployed and other persons (excluding young and disabled persons) and special programs for the disabled." https://stats.oecd.org/glossary/detail.asp?ID=28

At the European level, young people have been a key target group for recent initiatives, in particular the Youth Guarantee program. One aim is to bring young people with a qualifying education back into employment relatively quickly. However, many unemployed youth lack labor-market-relevant educational experience; hence, for this population it might be a better long-term strategy to encourage enrollment in relevant education and training programs (Andersen and Svarer 2012). Most PES offer specific services for young people, but overall such institutions do not distinguish between general services for young jobseekers and services specifically for long-term unemployed youth.[28] The definition of the "youth" target group itself also differs across countries. Some PES institutions have interventions targeting young NEETs, such as young people under the age of 21 in Austria, while other services offer programs supporting people until the age of 30 (e.g., Poland).

Approaches to activation reflect different objectives and values

Depending on the target group, the stage of economic restructuring and the prevailing macroeconomic conditions, the objectives of labor-market policies can differ widely. For example, they may seek to place beneficiaries in a VET program; place them in any type of employment, including jobs in the low-wage sector and temporary employment; place participants in sustainable jobs; reduce benefit dependency or reduce poverty and social exclusion more generally.

Given these different objectives, active labor-market measures and services can either take a preventive approach, aiming to keep people from falling into the ranks of the long-term unemployed, or a curative approach, tackling already-existing long-term unemployment. In addition, the approaches can be linked to a particular philosophy of workfare or mutual obligation – in the latter case, for example, leading to a focus on direct public sector job creation in the non-traded sector (see also Chapter 2). The underlying principle here is that the beneficiary should contribute to society in return for benefit receipt. Various philosophies and cultures underlying the implementation of ALMPs are reflected either in "work-first approaches" that focus on a quick integration into the labor market (irrespective of job quality) or "train-first approaches," which regard investments in training as a precondition for sustainable labor-market integration.

The objectives of increasing PES efficiency in job brokering and in matching labor demand and supply have guided labor-market policy reforms and PES modernization in a number of countries. Countries have made different choices regarding the combination of a market-based strategy with a regulated and coordinated approach to delivering activation services and ALMPs (with a quasi-market model appearing particularly in the United Kingdom and Australia, OECD 2015b, OECD 2012b). While it makes sense to draw on the expertise of private and non-governmental organizations specialized in dealing with highly disadvantaged groups, this does not replace the need for in-house capacity bulding because the management of outsourcing services for the most disadvantaged is in itself highly complex as the experiences from the UK and Australia have shown. Capacity building has not drawn significant attention, and remains at a comparatively low level in some of the eastern and southeastern European countries (see Duell and Kurekova 2011 on Slovakia; Dimitrov and Duell 2015 on Bulgaria; Karamessini 2014 on active labor-market policies in Greece).

Cooperation between various institutions (e.g., between PES institutions, schools, social-welfare services, and disability-insurance services), the creation of one-stop-shops in some countries, and the outsourcing of specialized services and measures targeting hard-to-serve groups to specialized institutions (which are often NGOs and active in the social economy) have been increasingly recognized as efficient models for delivering ALMPs for hard-to-place groups, among them many long-term unemployed.

Activation strategies

Outreach and registration are the starting points for activation

Long-term unemployed persons usually need to be registered at the local PES in order to make use of guidance and job-brokerage services, or to participate in active labor-market measures. According to the European Commission, the share of long-term unemployed registered at their national PES institutions in 2013 varied from 24% in Romania to 93% in Finland (European Commission 2015d). Between 80% and 90% of long-term unemployed were registered

28 Examples of services for long-term unemployed youth include "special programs" offering flexible support in Poland that also target those aged under 30, or in-depth diagnosis for the long-term unemployed in Bulgaria; in the United Kingdom, young unemployed persons are referred to the private employment service providers under the Work Program after nine months, and can also be referred for guidance to the National Careers Service (European Commission 2014).

at national PES offices in the Nordic countries, Germany, France, Belgium, Spain, Portugal, Slovenia, Slovakia, the Czech Republic and Lithuania. However, roughly half or less of the long-term unemployed were registered in the United Kingdom, Italy, Bulgaria, Netherlands, Estonia and Latvia. In the vast majority of member states, the receipt of social-assistance benefits is contingent upon registration with the PES. Most countries have rules associated with benefit receipt that require participation in activation programs, with sanctions for non-compliance. Some countries (e.g., Bulgaria, Romania, Slovakia, Hungary, Portugal, Netherlands and Belgium) impose unpaid community-service work requirements on recipients as an expression of the "mutual obligation" principle. Only Germany, Denmark, Sweden and the United Kingdom offer support services or measures as a right to long-term unemployed.

In 11 member states, discontinuous participation in activation programs over the course of long unemployment spells is linked to the fact that primary responsibility for the unemployed person is shifted from the PES to the social-assistance offices when his or her status shifts to long-term unemployed. Different institutions often fail to coordinate services to a sufficient degree. However, in nine member states (among them the UK, Ireland, Netherlands, Germany and the Czech Republic), institutional coordination is promoted in the form of a single point of contact or so-called one-stop-shop. Various other forms of partnerships are continuing to evolve in other member states (European Commission 2015d). However, limits to coordination between these services remain, and need to be addressed. These shortcomings hinder access to adult-learning programs, debt counseling, integration support for migrants (e.g., recognition of qualifications) and critical social and family services (e.g., child care, health and rehabilitation support).[29] None of the countries with above-average LTU rates have specifically sought to create a coherent referral-and-support system for the long-term unemployed by reforming service-delivery structures.

Profiling jobseekers improves program quality and targeting

Profiling is used in a wide range of countries to facilitate quick identification of those in need of intensified help and "expert" services (Konle-Seidl, 2011). By contrast, ready-to-work jobseekers receive comparatively less assistance, enabling scarce resources to be used in the most efficient way. Indeed, most PES institutions use profiling systems that segment customers into categories based on their immediate employability, with those identified as comparatively less employable receiving additional guidance and support.

Some PES distinguish between "standard" support and "case management," with the latter approach representing a working method for the hard-to-place. In Poland, PES services have introduced a new approach to profiling, with a greater focus on LTU. This status gives individuals access to specific services (e.g., activation and integration programs and services contracted to external providers). In Estonia, two types of customers are distinguished depending on their needs (assessed through interviews with personal advisors): "job mediation clients" (easily employable) and "case management clients" who need intensive, tailored support as a result of multiple employment obstacles (European Commission 2014). Germany has a dual system of public employment-service delivery: the PES provides services primarily to the insured unemployed, while job centers serve the unemployed on social assistance – that is, largely the long-term unemployed. Interviews are used to assess customers' individual needs and set up individual action plans (IAP). Unemployed persons with complex profiles are offered a reinforced service called "employment-oriented case management." Finland too has a dual system. Another approach, which may superficially appear less costly, is group counseling.

Early intervention and intensive counseling for unemployed persons is essential

Intervening soon after job loss helps mobilize benefit recipients back into employment as soon as possible, which reduces benefit spending and saves on government expenditure over the long term. There are significant country-to-country differences in terms of the frequency of interviews and collective informational sessions with unemployed persons (Immervoll and Scarpetta 2012, Martins and Pessao 2014). European countries with well-developed activation strategies often begin intensive counseling and follow-up programs earlier for specific target groups such as young people.

In Poland, "special programs" (offering more flexible and intense support than is typically provided) have led to high re-employment rates for various categories of the unemployed, including hard-to-place and long-term unemployed individuals. In Latvia, a 2013 pilot project called the "Intensified Action Plan" for long-term unemployed supported about 2,800 beneficiaries,

29 European Commission 2015a referring to Champion and Bonoli 2014 article of FP7 project LOCALISE

among which about 40% of participants ultimately found employment (in some cases self-employment). (European Commission 2014).

In Germany, a specific counseling and guidance program for hard-to-place jobseekers – the Internal Holistic Integration Service (Interne ganzheitliche Integrationsberatung, or Inga) – has been in place since 2013 in all public employment agencies. Older jobseekers may benefit from this. A total of 63% of those supervised by Inga teams were in employment six months after joining, a stronger outcome than seen in other programs.

The French PES implemented two national action plans dedicated to LTU successively in 2011 and 2012, providing services via innovative methods such as collective counseling and a focus on services for the long-term unemployed in remote locations. In Bulgaria, in order to reach potential participants who live far from urban areas, employment services have been offered using mobile PES units and remote workplaces since 2006. Collective counseling is used in many countries including Bulgaria, Slovakia and Portugal to support the long-term unemployed. In Portugal, services aimed at overcoming personal-employability shortcomings are delivered in the form of group-based interventions focusing on motivation, promotion of self-esteem, and the development of personal and social skills (European Commission 2014).

In some countries, IAPs are drawn up for all unemployed individuals after a defined length of unemployment, while others use this instrument only for specific target groups such as youth and older workers (Duell and Vogler-Ludwig, 2011, Tubb 2012). In general terms, there is a tendency to seek to shorten the length of unemployment spells through the implementation of IAPs (Duell 2012).

PES staffing concepts for LTU affect activation outcomes

The high caseload faced by PES counselors is an acute problem in many countries, particularly in many southern and eastern European countries, as it hinders the delivery of tailored services for the long-term unemployed.

While PES offices try to identify persons at risk of LTU as early as possible, few PES or job centers have in-house counselors specialized in support for the long-term unemployed. As documented by the European Commission (2014), only few countries have implemented special projects for the long-term unemployed in response to the Great Recession. For example, the job center in Copenhagen, Denmark, works with teams of specialized LTU counselors who support either unskilled long-term unemployed individuals or university graduates. In Austria, the PES office in Vienna has specific counselors in charge of supporting LTU persons with a mental or physical handicap. In Bulgaria, in addition to "generalist" PES counselors, some specialized counselors are in charge of supporting unemployed individuals of Roma origin and encouraging inactive Roma to register with the PES. A number of countries (e.g, France, Croatia, Germany, Austria and Denmark) have specific advisors dealing with youth, including the long-term unemployed among them (European Commission 2014).[30]

One widespread trend is toward providing smaller caseloads (number of jobseekers per PES counselor) and greater specialization for those in-house counselors that deal with hard-to-place customers. In France, for example, counselors supporting those with the weakest links to the labor market support about 70 persons each. In Germany, case managers offering tailored support to jobseekers with multiple placement barriers support about 75 customers each, and receive special training (European Commission 2014, Duell and Thurau 2014a). Studies indicate that a low caseload is a precondition for effective activation (Spermann 2015). In Estonia, job-mediation consultants serve between 200 and 300 clients, while case managers serve 100 to 150 clients. In Poland, a "client-advisor function" has been created as part of the new focus on supporting jobseekers "in a special situation within the labor market," including the long-term unemployed. Similarly, the Croatian PES is planning to introduce "employment-preparation counselors" who will conduct individual counseling sessions for hard-to-place persons. Several countries, including Belgium, Latvia, Portugal and Slovakia, do not distinguish between counselors dealing with the long-term unemployed and other groups (European Commission 2014).

30 In Denmark, services for young unemployed persons without university qualifications are handled by a special youth job center. In Austria, the AMS Vienna has an office dedicated to the young unemployed (AMS Jugendliche), who receive support from specially trained "youth counselors." (reported in Duell 2012). In France, the work of youth advisors took place as part of a "reinforced support" program. In addition, from 2011 to 2014, the employment center implemented a reinforced support plan for 50,000 young people (initial target) with a low-to-medium level of educational achievement and recurrent problems in accessing sustainable employment. On average, the beneficiaries of this had been registered as unemployed for 14 months over the last three years. The reinforced support included six months of individual coaching by in-house counsellors (including weekly contact and in-work follow-up support). Since 2011, 59,000 young people have been given support through this program. An evaluation following the first year of implementation (based on 28, 500 participants) showed good post-program results, with 65% of participants in employment after finishing the program, and 6% in education and training.

Active labor-market policy measures

Overview

ALMPs aimed at reducing or preventing long-term unemployment can be broadly classified as either demand-side or supply-side measures. Broadly, demand-side measures fall into the following categories:

i) the provision of short-term work with the aim of sustaining labor demand, so as to overcome a business-cycle downturn;

ii) measures designed to generate labor demand for disadvantaged groups, but without expanding labor demand as such (unless wage subsidies are permanent);

iii) measures to increase labor demand by lowering labor costs and promoting the expansion of a low-wage sector, often through a combination of social benefits and low wages;

iv) direct job-creation measures that aim to create additional jobs for target groups who are difficult to place (even in a favorable labor-market context);

v) measures that provide subsidized or otherwise supported employment and vocational rehabilitation for jobseekers with health-related problems; and

vi) job creation through macroeconomic and industrial-policy measures (that are largely outside the scope of this chapter).

Supply-side measures focus on the jobseeker's employability, the adaptation of his or her skills to existing labor demand, and on his or her job-search activities. In the following section, demand-side measures and supply-side measures will be looked at in more detail.

Demand-side measures

Some ALMPs provide financial incentives to employers to continue their current employment relationships with workers, thereby aiming to decrease outflows from employment. These measures support already-employed workers (insiders), and are targeted toward jobs deemed to be at risk of redundancy. They include wage subsidies and reductions in social-security contributions, as well as short-time work schedules or work sharing (widely used during the crisis) (Brown and Koettl 2012). These measures are usually adopted for a limited period of time and are targeted at specific sectors, geographical areas with high unemployment rates or specific groups. Short-time work is often combined with government-subsidized on-the-job training measures. As discussed in Chapter 2, reduced-hour work measures allow hours worked to be allocated more flexibly rather than addressing the overall number of persons employed.

Employment incentives at the regular labor market

Employment incentives and hiring subsidies are targeted at integrating difficult-to-place groups into the labor market. They seek to compensate these workers' initial lower productivity (or assumed lower productivity in the case of discrimination). However, these workers' productivity is expected to increase over time as they gain work experience and skills on the job, thus eliminating any disadvantage. Hiring subsidies focus their incentives specifically on unemployed workers (Brown and Koettl 2012, Duell 2012).

Job-creation measures

The objective of job-creation measures is to create additional demand for work for the members of disadvantaged groups that are the most difficult to place. This objective can additionally complement supply-side strategies, which seek to bolster program participants' willingness to work and

TABLE 3.1 **Wage subsidies**

Strengths	Success factors ("Do")
Support the recruitment of specific groups – provide incentives for employers to hire the long-term unemployed (compensation for reduced productivity for a limited period of time).	The PES must be able to meet employer needs concerning contract duration. Subsidies must be combined with other measures (counseling, coaching, etc.) Subsidies should focus on the most difficult to place, thus limiting deadweight effects. The subsidy levels must be adequate and proportionate.
Weaknesses	**"Don't"**
Crowding-out effects for regular employment. Risk of deadweight if not well targeted. Risk of subsidy dependency (employers).	The PES must not fail to provide follow-up services (in-work support). Incentives should not be set too high (deadweight) or too low (not sufficiently attractive for employers).

Source: European Commission 2014.

are aimed at maintaining or improving employability, while being implemented in the context of the mutual-obligation principle and the workfare philosophy (see Chapter 2 for the details of these concepts). Direct job-creation measures can be based on employment contracts or wage-subsidy schemes, or can function as in-work benefit programs without an employment contract (e.g., municipal activation work programs in Slovakia and the so-called "one-euro-jobs" program in Germany, both of which target disadvantaged and long-term unemployed groups). All of these programs are intended to lead to net job creation, rather than allowing program participants to substitute for another potential worker. Job-creation measures are more often implemented with a focus on the long-term unemployed than on the short-term unemployed (European Commission 2015d).

Current-day job-creation measures usually differ from those typically implemented in the 1980s and 1990s (e.g., relief work in Sweden, community-work programs in the United Kingdom in the 1980s, large-scale wage-subsidy-based job-creation measures in Germany in the 1990s, and similar experiences in France; see Meager and Evans 1998) both in scale and objective. These earlier programs were implemented on a larger scale, and in some cases also had a "distributional" aspect, allowing for job rotation in times of high unemployment. Evaluation results were mixed.

In-work benefits

A number of countries have introduced or recently scaled up in-work benefit programs with the aim of supporting low-paid workers living in low-income households (OECD 2014a). In-work benefits have two objectives: preventing households from entering poverty and creating incentives to accept low-paid work. They mitigate the disincentives to employment created by welfare benefits. In-work benefits can also be regarded as disguised wage subsidies which seek to promote the low-wage sector with the aim of reducing unemployment rates. Depending on how in-work benefits are targeted, they can result in much-improved incentives for non-marginal employment (Immervoll and Scarpetta, 2012, Koch et al 2011). However, they are not effective for all groups.

In the context of labor market reforms introduced a decade ago in Germany, a type of wage cost subsidy for additionally created jobs with a social or ecological utility was introduced. The measure targets means-tested Unemployment Benefit II recipients. Referrals to this measure have been recently reduced due to the negative evaluation results (substitution and deadweight effects, distorting competition and missing additionality, little learning effects, the absence of pro-active guidance). Evaluation results from Austria on an in-work benefit "Kombilohn" (combination wage) scheme indicate that this instrument (as a standalone measure) was not effective in integrating the long-term unemployed because of stigmatization effects among skilled or highly skilled unemployed participants (see an overview in Duell 2012, Kettner and Rebien 2007, Lechner and Wetzel 2012).

Nevertheless, in the context of high unemployment, the use of in-work benefits for promoting the development of job opportunities can be useful in reducing unemployment and benefit dependency. However, once unemployment has sufficiently declined, in-work benefits should be well-targeted and implemented through small-scale programs.

Sheltered employment

Subsidized employment is also used in cases when the worker's disadvantage is considered permanent. For example, jobseekers with disabilities are provided with public-works jobs or other "sheltered" employment.

TABLE 3.2 Subsidized work placements in protected-environment or public-works programs

Strengths	Success factors ("Do")
Create direct employment for the long-term employed individual, as well as an opportunity to integrate into society. Help to maintain/update skills and work habits of the long-term unemployed. Act as a safety net when benefit eligibility expires.	Aim at gradual integration into the open labor market. Ensure targeting is appropriate. Strong monitoring/evaluation. Combine with training measures and other support.
Weaknesses	**"Don't"**
Risk of "parking effects" and "locking-in effects,"[31] preventing participants from taking up regular employment. Lack of career-progression opportunities.	Apply policies indiscriminately to all long-term unemployed.

Source: European Commission 2014.

31 ALMPs can have negative effects on job search due to the reduction in time available to look for work while participating in the ALMP measure. The locking-in effect (also called the retention effect) refers to ALMP participants' lower probability of finding a job compared to unemployed persons who are not in ALMPs (Brown and Koettl 2012).

TABLE 3.3 **Training measures**

Strengths	Success factors ("Do")
Help develop or maintain/improve life skills and soft skills. Address skills obsolescence (technical skills) and prepare the long-term unemployed for redeployment in new occupations/sectors.	Vocational training should be relevant to (local) labor-market needs. Training should be combined with other measures and practical experience.
Weaknesses	**"Don't"**
Long training periods can have "parking" effects. Low impact on employment if not linked with placement services.	Systematic use of training for all long-term unemployed persons (without other measures) is neither efficient nor cost-effective.
Source: European Commission 2014.	

Supply-side measures

Training and retraining programs are used for a variety of profiles among the registered unemployed. "Train-first" approaches to supporting the long-term unemployed are intended to address jobseekers' employability, and thus all kinds of skills gaps by providing (further) vocational training, employability support, "second chance" education, basic skills for the disadvantaged, employer-specific training, initial vocational training, skills conversion and adaptation training, entrepreneurship training, computer-skills training or professional language-skills training (EEPO 2015). Classroom-based learning can be combined with practical experience and workplace learning, and/or followed by a placement with an employer (European Commission 2014). In cross-EU comparison, Germany, Austria, Italy, Estonia and Ireland (in descending order) spend the highest shares of their ALMP budget on training measures (Eurostat LMP database).

Vocational training for the unemployed can help address the mismatch between labor demand and supply (EEPO 2015). Most member states have some local or regional input into the design of training programs. European Commission recommendations accord with member states' experiences in suggesting that training for unemployed people is more effective when it is integrated (or at least combined) with other active labor-market instruments (such as information, guidance, counseling, work experience) in combination with financial supports that act on the supply as well as on the demand side (benefits, incentives, allowances) (EEPO 2015).

Training measures are an important skills-adaptation instrument for the unemployed with health-related problems and recipients of disability benefits who have some work capacity or for whom it is impossible to develop a work capacity. Although many countries have reformed their disability-benefit systems to focus on activation rather than compensation (see Chapter 2), rehabilitation services remain underdeveloped, underfunded or underused, except in Finland, France, Germany, the Netherlands and Sweden.

Employer counseling on the topic of disabled workers is provided by few PES offices and among those with such services, the main focus is on recruiting disabled jobseekers, facilitating workplace adjustment and understanding available subsidies. Some PES employ employment advisors specifically tasked with assisting employers who are considering recruiting disabled individuals. In the Netherlands, employers and employees on sick leave are obliged to develop, follow and update a reintegration plan called an IRO.

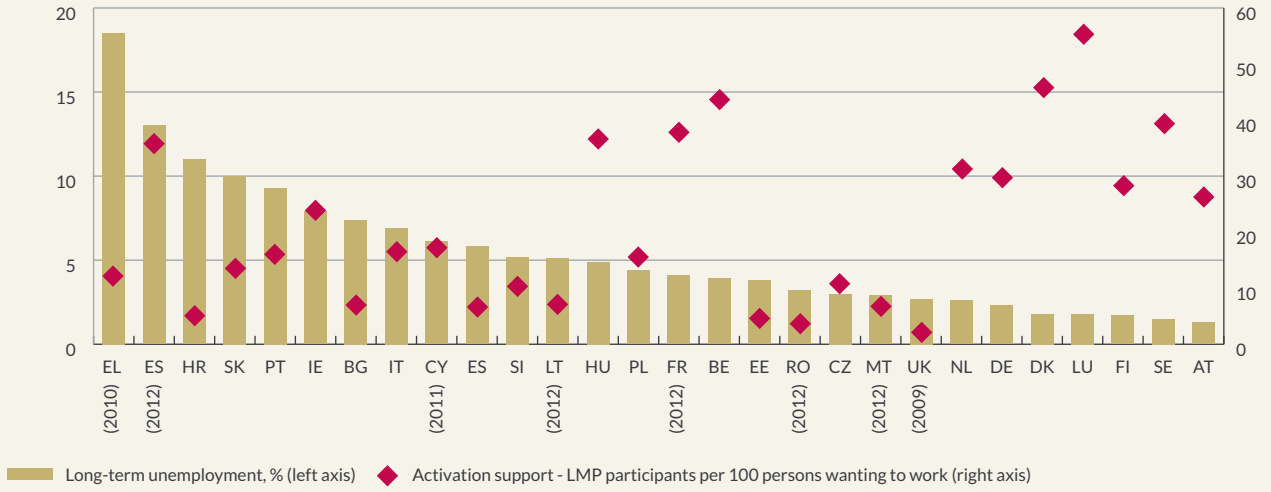
ALMP spending and participation in comparative perspective

Activation efforts are generally measured by two indicators: public spending on ALMPs and participation rates, defined as the stock of participants in ALMPs as a proportion of the total labor force. Both indicators exhibit large variation across countries, both before and after the Great Recession (Figure 3.1 and Figure 3.2). Whether expenditures are assessed as a percentage of GDP or per unemployed, Nordic countries show the highest ALMP spending levels, followed by the continental European countries (see also Annex Figure A6). Eastern and southern European countries, along with the United Kingdom, allocate the smallest amount of resources to ALMPs, but while expenditures are slowly increasing in eastern Europe, they have been decreasing in southern Europe despite the dramatic increase in short- and LTU rates.

ALMP spending has not kept up with the rise in long-term unemployment

As shown by Figure 3.2, ALMP spending levels have not responded sensitively to the level of LTU. While there is a positive correlation between unemployment rates and spending on passive income support – because many of those who lose jobs are entitled to unemployment benefits and other forms of income support – this is not the case for active spending. While spending on income support is

FIGURE 3.1 **Long-term unemployment and participation in ALMPs, 2013**



Age Group 15–74

Source: Eurostat / OECD LMP database

BertelsmannStiftung

strongly countercyclical, spending on active programs tends to react only moderately to business-cycle fluctuations in most countries, with the Nordic countries offering an exception to this rule. This lack of responsiveness implies that spending per unemployed person tends to decline as unemployment rates rise during cyclical downturns. However, it is precisely in downturns that jobseekers depend most heavily on ALMPs (Immervoll and Scarpetta 2012).

According to the Eurostat LMP database, countries spending the highest amount on employment incentives per person wanting to work in 2013 included (in descending order) Denmark, Sweden, Luxembourg, Finland, and the Netherlands. However, some countries increased their expenditure per person wanting to work significantly in the context of the economic crisis, particularly if they were starting from a very low level; this was the case in Estonia, Hungary, Slovenia, Latvia and Lithuania (in descending order). However, another group of countries including Romania, the Netherlands, Spain and Portugal reduced expenditure (Eurostat, LMP database). Spending in the Nordic countries remains at a high level despite some fluctuations, followed by the continental countries, where spending per person is declining. Ireland also has a comparatively high spending level, but saw this drop sharply following the onset of the crisis. In the southern European countries, where workers have been dramatically affected by the Great Recession, ALMP spending remains low and is even decreasing, while eastern Europe and the United Kingdom have shown continuously low expenditure levels as noted above (Figure 3.2).

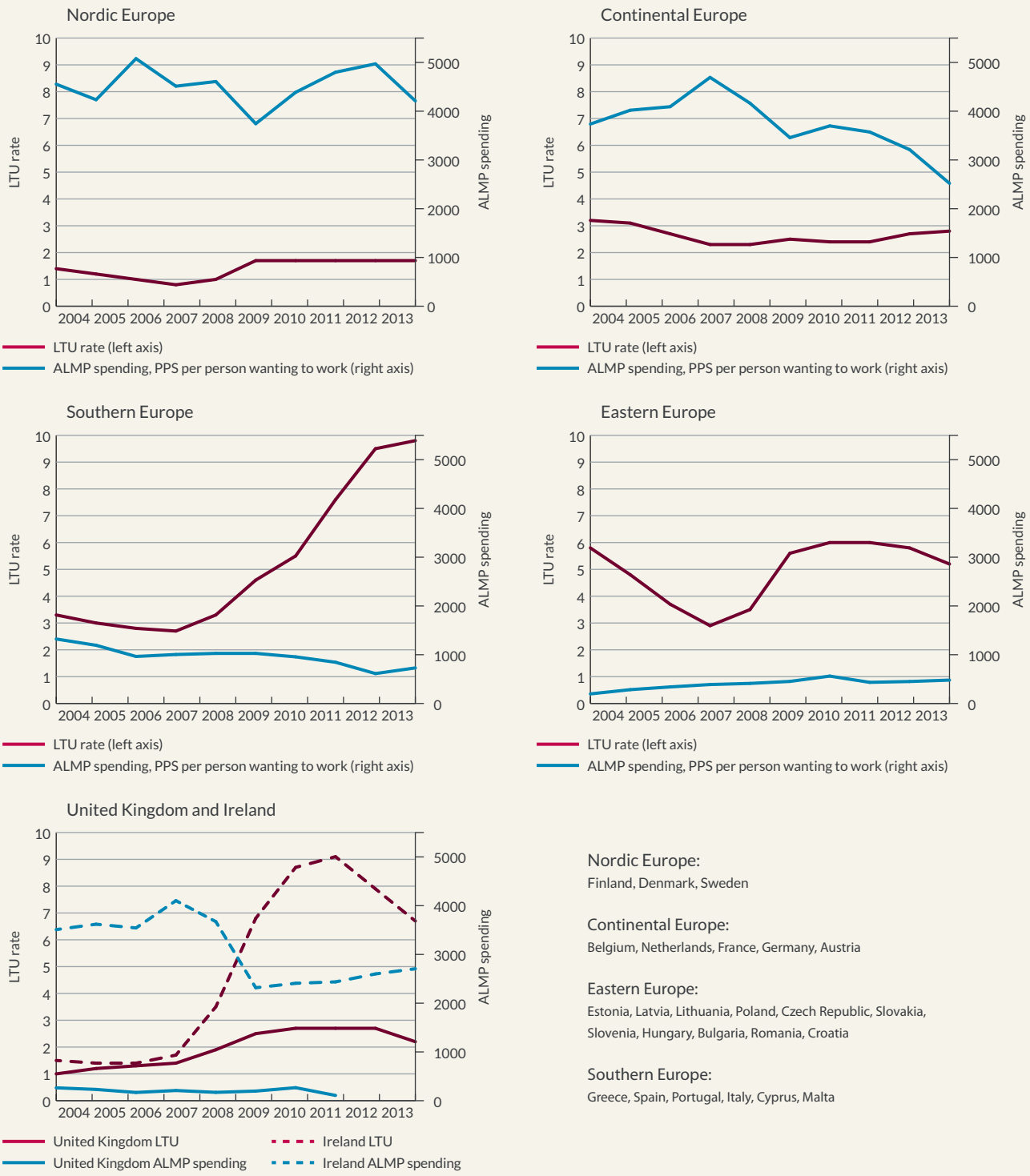
With regard to ALMP spending and participation by policy area, as shown in Figure 3.3, countries differ significantly in the type of ALMP they focus on. Moreover, shifts in spending and participation rates can be observed in reaction to the crisis. Spending on PES institutions and training programs are most often the largest items, altogether accounting for about half or more of total spending. However, while in the Nordic countries (Denmark and Sweden), Continental Europe (France, Germany, the Netherlands) and Italy, PES spending increased after the economic crisis, the remaining countries cut PES spending (Spain, Slovak Republic, Czech Republic, UK) or had a stable budget (Ireland) (see Figure 3.3, Figure 4.4). The following detailed observations can be made:

- Spending on training measures was cut in many countries,[32] but increased in Sweden and Spain and remained stable in Ireland. The same goes for participation in training, with the exception of Germany, where training budgets were cut even though participation increased significantly.

- Spending priority was placed on employment incentives particularly in southern Europe, where expenditure in this area increased after the crisis, as well as in the Nordic countries. This strategy is less prevalent in Continental and eastern Europe, and in the United Kingdom and Ireland. However, participation in employment-incentives programs shows a significantly

32 In Denmark, France, Germany, the Netherlands, Greece, Italy and Poland.

FIGURE 3.2 **Long-term unemployment and ALMP spending per person wanting to work**



Age Group 15–74

Note: Long-term unemployment as % of labor force. ALMP spending is per person wanting to work, per year, in €, 2004-2013. ALMP = LMP measures categories 2–7, including training measures, direct job creation, employment incentives, supported employment and vocational rehabilitation, and start-up incentives (short-term work not included).

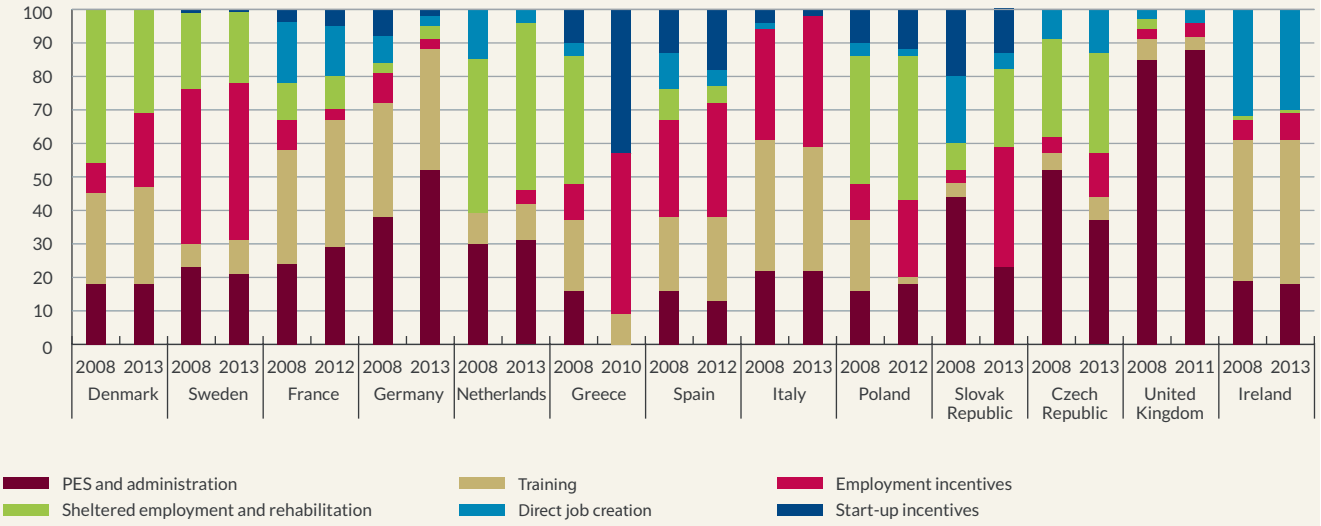
Source: Eurostat / OECD LMP data base.

BertelsmannStiftung

stronger focus in selected countries (Ireland, Sweden, France, UK) and even a drastic increase in Greece and Slovakia in reaction to the crisis.

- Direct job-creation strategies are particularly common in Ireland and some eastern European and continental European countries.
- Sheltered employment and rehabilitation remained an important policy area in terms of spending and participation in Nordic and Continental Europe, and in eastern Europe, reflecting a potential awareness of sickness and disability as a major labor-market issue (Immervoll and Scarpetta 2012).

FIGURE 3.3 **ALMP spending by type of program, 2008 and 2013**

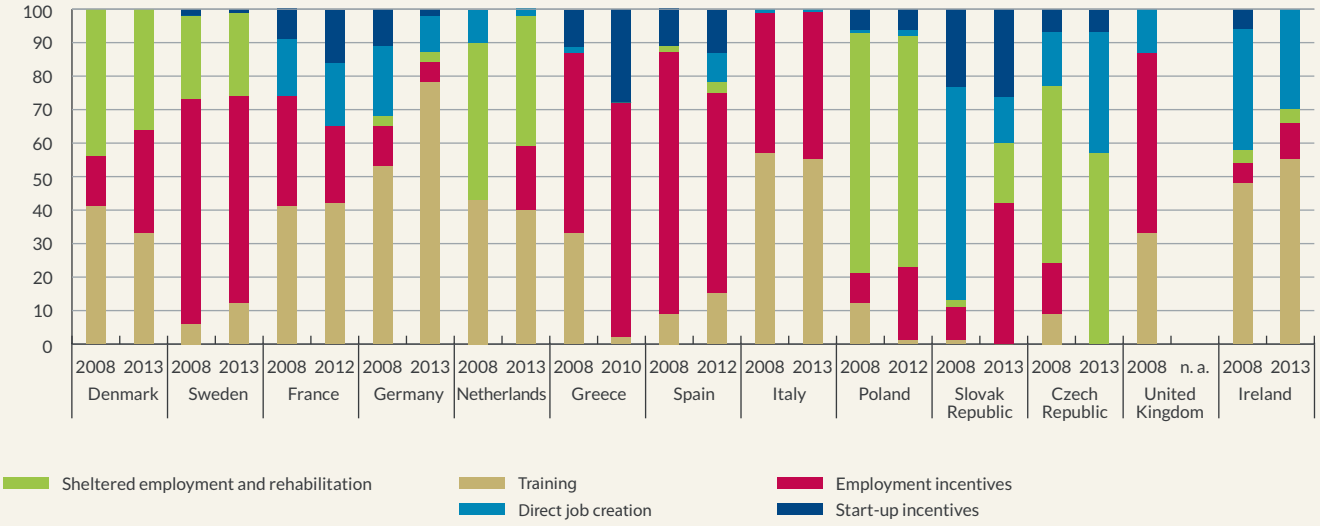


Note: Colored bar segments represent % of total national ALMP spending, by category.

Source: Eurostat / OECD LMP database

BertelsmannStiftung

FIGURE 3.4 **Participant stocks by type of measure, 2008 and 2013**



Source: Eurostat / OECD LMP database

BertelsmannStiftung

- Start-up incentives constitute only a small portion of total spending, except in eastern Europe, where they were used substantially especially during the early transition phase from a centrally-planned to a market-based economy. However, measured by participation, France, Greece, Spain and some eastern European countries showed an increased focus on start-up incentives as a response to the crisis.

ALMP potential and limitations

While the evaluation literature on ALMPs is very valuable in quantifying what works and what doesn't, it is important to point out two restrictions. First, ALMP spending is not exogenous, but instead responds to changing labor-market conditions (Martin 2014). Hence, analyses have to consider the overall economic environment and the institutional setting in which ALMPs are embedded. Another limitation of most studies is that they evaluate individual programs rather than broader activation strategies. For this reason, they cannot account for important interactions between policy areas, which are indeed the essence of activation (Immervoll and Scarpetta 2012). However, putting these concerns to one side, the majority of evaluation studies suggest that ALMP spending and activation policies can help in reducing unemployment and LTU (Martin 2014[33], Card et al. 2010, Card et al. 2015). In the following table, before providing evidence on the effectiveness of individual activation policies, the primary unintended positive and negative effects of ALMPs are summarized:

TABLE 3.4 **Positive and negative unintended effects of ALMPs**

Competition effect	+	The competition effect highlights ALMPs' role in strengthening outsiders relative to insiders within the job market. Typically, labor turnover costs, firing costs, and hiring and training costs for new employees give insiders market power which they use to their own advantage, for instance to push up their own wages. The competition effect strengthens outsiders' positions, and thus exerts a downward pressure on wages in addition to the labor-supply effect. ALMPs that strengthen outsiders' position within the labor market include job-creation incentives, human-capital enhancement and improved matching.
(Ex ante) threat effect	+	The prospect of participating in ALMPs might generate an ex ante threat effect, increasing incentives for unemployed workers to search for a job. This is the case for activation policies that make payment of unemployment benefits conditional on participation in workfare programs as well as on an active job search.
Transition effect	+	Bringing unemployed workers back into jobs via ALMPs increases the probability of subsequent employment thanks to the transition effect. This effect is strongest for long-term unemployed workers, who suffer from skill attrition and the loss of a work routine during their unemployment. Once the subsidy expires, they are more valuable to the employer than previously; and even if fired, the former long-term unemployed workers are now short-term unemployed with stronger human capital and improved re-employment probabilities.
Deadweight effect	–	The indirect deadweight effect lowers the cost-effectiveness of ALMPs. It refers to the expenditure of resources on beneficiaries who would have achieved the policy aim even without program participation.
Cream-skimming effect	–	The effectiveness of ALMPs can be undermined by the cream-skimming effect, in which only those workers with high employment probabilities are selected for participation. This is particularly relevant if case workers assign workers to ALMPs, and have an incentive to show that their clients have a good re-employment rate.
Displacement effect	–	The displacement effect in the labor market refers to a situation in which the employment created by ALMPs displaces or crowds out regular employment. For example, firms may hire subsidized workers instead of hiring unsubsidized workers, or unsubsidized employees are fired and replaced by subsidized workers. In addition, a displacement effect also refers to conditions in which formerly subsidized workers are not retained following the subsidy's expiration but is replaced by a new subsidized hire. As a consequence, the principle of additionality is often imposed, with only newly created jobs being subsidized. Displacement effects may only be short-term.
Substitution effect	–	Under the substitution effect, ALMPs may provide employers with incentives to substitute one worker for another to perform the same job due to a change in the relative labor costs of workers' different skill levels (e.g., low-wage subsidies might motivate firms to substitute low ability workers for medium-ability workers).
Locking-in effect	–	ALMPs can have negative effects on job search due to the reduced time available to search for a job while participating in ALMP measures. The locking-in effect (also called eh retention effect) refers to ALMP participants' lower probability of finding a job compared to the unemployed who are not in ALMPs.

Source: Based on Brown and Koettl 2012.

33 Survey results relate to cross-country panel datasets quantifying possible macroeconomic effects.

According to Card et al. (2015), ALMPs on average have relatively small effects in the short run (<1 year after program), but larger positive effects in the medium (1 – 2 years post program) and long run (2+ years). In addition, the time profile of impacts varies by type of program, with larger gains evident for programs that emphasize human-capital development. Moreover, Card et al. observe systematic heterogeneity across participant groups, with job-search assistance and sanction programs being relatively more successful for some disadvantaged participant groups, whereas training and private-sector employment subsidies tend to work better for the long-term unemployed. Labor-market impacts also include wage increases for participants as compared to non-participants.

Within the literature, there is disagreement as to whether activation strategies are more or less effective in times of recession and recovery. On the one hand, economic slumps may be precisely when the benefits from activation efforts (enhanced re-employment) are weakest. This is due to the lower number of vacancies and the greater degree of competition from the larger pool of unemployed, which increases displacement effects (Crépon et al. 2013). On the other hand, activation may have a comparatively stronger re-employment impact during recessions if the unemployed focus on a formal job search. Research from France shows that a hiring credit targeted at small firms and low-wage workers did have a significant impact on employment during the 2008 – 2009 recession (Cahuc et al. 2014). In particular, the hiring credit, although it was not conditional on net job creation, did not induce firms to engage in layoffs in order to hire workers at lower cost.[34] In addition, lock-in effects may be less relevant during recessions, as employment alternatives to training are scarcer (Martins and Pessoa 2014).

In times of crisis, a particular concern is that the effectiveness of activation policies may decrease in part because service offers are in shorter supply. In addition, the changed composition of the pool of unemployed may call for different kinds of ALMPs; in a situation with low unemployment, for example, the group is dominated by individuals who face more serious employment barriers, while more core workers enter during a slump (Andersen and Svarer 2012).[35]

34 According to the authors, the positive employment effect needs to be understood in the context of the French minimum wage.

35 As ALMPs serve both to strengthen search incentives and to improve qualifications, a slump may simultaneously reduce the importance of the incentive problem while increasing the importance of the qualification problem. The former effect comes because unemployment benefits may be less distortionary in a slump, and hence the need to maintain search incentives through ALMPs is accordingly smaller. The latter effect comes because a deep recession is associated with structural economic changes, and some core workers may therefore find that their human capital has to some degree become obsolete (Andersen and Svarer 2012).

Finally, in a context of very high unemployment rates, wage subsidies and direct job-creation programs may de facto be offering a rotation of jobs among the unemployed population, with temporary jobs subsidized by PES institutions substituting for permanent jobs. This phenomenon would decrease the number of permanent jobs available, but would have the advantage of offering employment opportunities to people who might otherwise be in danger of remaining unemployed. Wage subsidies and job-creation measures alone cannot act as a substitute for macroeconomic policies aimed at stimulating aggregate demand, or for structural policies, although they can be part of it.

Table A1 in the Annex offers examples of promising measures targeted at the long-term unemployed in several European countries, while Table A2 summarizes evaluation results of ALMPs in general.

Several challenges make it difficult to draw general conclusions from the experience of European countries in tackling LTU: diverging definitions of program objectives, differences in implementation conditions including institutional settings, differences in methodological design, and most importantly variation in overall economic climate and labor-market conditions, as already mentioned above. Nevertheless, evaluations enable some general recommendations regarding ways in which ALMPs can effectively tackle long-term unemployment:

- Overall, **holistic approaches focusing on early identification and early intervention** are key elements in improving the effectiveness of activation measures (Duell 2012). While there are indications that statistical-profiling tools can be quite efficient, these may not suffice to identify the appropriate activation measure. Outreach, case management, creation of IAPs, and mentorship are widely recognized as good practices (Lechner and Wetzel 2012). Surveys point to the necessity of appropriately combining multiple components such as job-search assistance as a first stage with training, wage subsidies or public works as a second stage (Card at al. 2010 and 2015). Long-term guidance and follow-up with target groups is needed.

- Existing empirical evidence suggests that **personalized service**s are more effective in promoting a transition into the open labor market (European Commission 2013b). Further, the European Network of Public Employment Services highlights the relevance of individualized service, coordination of support services,

a stress on mutual obligation, and support for employers (European Commission 2015c).

- **Wage subsidies** can be effective if they are well-targeted and operated as small-scale programs. However, the potential impact of demand-side instruments such as wage subsidies may be reduced in times of weak labor demand, as competition with the short-term unemployed becomes more intense. Evaluation studies of wage subsidies in Hungary, where they are explicitly targeted at the long-term unemployed, found that they had a positive impact, particularly for men with secondary-level vocational education. Similarly positive impacts for the long-term unemployed were found in the Netherlands, at least in the short-term (European Employment Observatory 2012). A further positive effect found in eastern European economies consisted in a reduction in informality (Kuddo 2009). Mechanisms providing incentives for employers to retain workers after the subsidy expires need to be in place.[36]

- **Job-creation measures** need to be well designed and need to incorporate training if they are to be effective. Experiences with social enterprises in particular have shown positive results for hard-to-place jobseekers. Many PES offices (for instance, in the Czech Republic, Slovakia, Poland and Portugal) use public-works programs as a regular part of their ALMP offers and/or to support the long-term unemployed (European Commission 2014). In Slovakia, poor results are reported from the municipal activation work programs. Negative outcomes were also reported in Hungary, while mixed results have been documented in Germany, Austria, Bulgaria and the United Kingdom (European Employment Observatory 2012, Duell 2012). In their meta-evaluation, Card et al (2015) find that public sector job creation measures do often not promote exits to regular employment. On the positive side, evaluations indicate that public-works programs can help disadvantaged groups by serving as an anti-poverty program or safety net (Kuddo 2009). Furthermore, job creation may have a positive impact on participants' motivation (Duell 2012).

- Evidence on the effectiveness of **sheltered employment** and social enterprises is mixed. Some countries, such as France and Austria, use subsidized work placements in "sheltered environments" in the non-profit sector or in "socioeconomic employment companies," as they are called in Austria, to help the long-term unemployed sustain their work habits. While the effect of sheltered work environments on the transition to the regular labor market has been questioned, implementation of ALMPs through social enterprises seems relatively successful for hard-to-place unemployed (Walther and Pohl 2005 referring to Austria, Denmark and Italy; Meager and Evans 1998, European Employment Observatory 2012 for Austria; Duell et al. 2010 for Switzerland, Duell etl. 2009 for Finland).

- The results of **training measures** tend to be positive in the medium and long term, especially if training leads to the acquisition of formal vocational qualifications and if it is workplace-based (Lechner et al. 2013, Duell 2012). The recent shift in Europe from "work-first" to "train-first" approaches may be particularly effective during economic downturns, when the opportunity cost of time spent on a training program is lower. The anticipation of future skills needs will become a crucial factor in improving training effectiveness (Duell 2012).

- **Institutional cooperation**, increasing multisector partnerships, and cooperation with employers are imperative even beyond programs dealing with the long-term unemployed and other groups facing multiple employment barriers. Efficiency may be increased if specific socio-pedagogic guidance is offered to employers in times of high unemployment, as wage subsidies might be less attractive (European Commission 2014, Duell 2012, Brown and Koettl 2012).

To conclude, Collins (2013) highlights the danger of assessing ALMPs on the basis of output measures that solely look at activation rates, and of calculating economic efficiency based only on short-term expenditure and outcomes. Such approaches bias the policy response to the unemployment crisis toward the easiest to activate – typically those who are unemployed due to domestic-demand problems rather than because of skill deficits or structural issues. The losers in such a policy are those with the weakest links to the labor market, who may need longer and more personal intervention. An inappropriately framed policy hence risks to defer the hard work to the future at the cost of trapping many in years of long-term unemployment and welfare dependency.

36 http://ec.europa.eu/europe2020/pdf/themes/23_active_labour_market_policies_02.pdf

Conclusion and open questions

As fiscal consolidation proceeds across Europe, public expenditures are under pressure, and there is limited fiscal flexibility to increase spending for ALMPs. Public spending on ALMPs should be guided, first and foremost, by evidence of their cost-effectiveness. However, another important determinant in policy choices is the fact that there are strong societal forces seeking to preserve the status quo; abolishing or adapting existing measures often results in (perceived) losses for a number of interested parties, who thus object to the envisaged reform measure.

Future activation policies should be based on a broad range of instruments and work methods, with an eye to the inclusion of the most vulnerable within the labor market as well as to helping the large number of long-term unemployed with mid- or high-level skills. Such a policy should offer tailored labor, training and integration services, while simultaneously seeking opportunities for the unemployed to transition into the regular economy. Locally led initiatives are needed to create a more decentralized, tailored ALMP approach. This in turn may lead to concrete synergies beyond policy boundaries and in partnership with various relevant stakeholders (Collins 2013, Van Steendam et al. 2011). At the same time, due to the precarious economic and budgetary environment, policymakers are faced with a paradox. On the one hand, substantial investments in activation policies seem necessary in order to avoid long-term structural unemployment in the future, and to increase labor-market participation rates. On the other hand, budgetary constraints undermine support for ALMPs (Van Steendam et al. 2011)

If activation policies able to address and prevent LTU successfully are to be designed, several key questions must be addressed by researchers, practicioners and policymakers:

1. A first question concerns the ability of activation policies to deliver good labor-market outcomes in a downturn when the supply of job vacancies is reduced significantly. While critics claim that activation is a "fair-weather" instrument that works only when labor demand is high, this negative view ignores the evidence that countries that have been successful in implementing activation have weathered the Great Recession relatively smoothly. This suggests that effective activation strategies may help make labor markets more resilient to adverse demand shocks. However, the question remains: Should the emphasis on benefit conditionality be weakened and more resources devoted to ALMPs when labor demand is weak? Should large-scale wage-subsidy-based job-creation programs be implemented in countries with low levels of aggregate labor demand despite the danger of substitution and deadweight effects?

2. A second question concerns how best to use activation approaches to benefit recipients who have weak links to the labor market. Activation works best for benefit recipients who are relatively job-ready. However, evaluations show that activation policies are less successful in helping those receiving long-term-sickness or disability benefits find work (Martin 2014). Is there general public support for extending activation appraoches to these groups? People with disabilities in particular have very active lobby groups in all countries, and these lobbies are very skeptical regarding activation. Given the large numbers of working-age people receiving such benefits and the relatively low exit rates, it should be a priority to determine how activation strategies can target people with health-related issues. What mix of rehabilitation, benefit conditionality and workplace-support programs are needed? How can one achieve the necessary coordination between the health care sector, PES and private employment-service providers, rehabilitation services and employers so as to improve employment prospects for this target group?

3. A third question concerns the kind of career opportunities that activation can generate for benefit recipients who find work. The evidence shows that for many beneficiaries, activation leads to low-wage jobs that do not offer good career prospects, and which may not lift them permanently out of poverty. Thus, should the aim be to help the unemployed access high-quality jobs even at the risk of larger displacement effects, or should activation strategies focus simply on rapid activation?

4. A fourth question relates to the right balance between "work-first" and "train-first" strategies. While there is evidence that train-first strategies are more effective in times of downturn, the value of the training received depreciates if no employment opportunities are available. Could new approaches do a better job of linking work and training?

5. Fifth, given the trend toward subcontracting private employment-services providers to operate alongside national PES offices, how should contracts be

optimally designed and monitored in order to secure the desired outcomes for clients and the general public? Different countries opt for different solutions, and it is still unclear which deliver the most positive results. Moreover, as a quasi-market in employment services is created, the issue of remuneration for the private providers is critical. How can the "creaming" of clients by the private providers be minimized, and how can they be motivated to achieve good placements into sustainable jobs for long-term unemployed and otherwise disadvantaged clients?

6. Finally, the Internet is reducing the cost of job search and worker recruitment compared to traditional recruitment channels including PES offices. At the same time, PES institutions, like most public agencies, are under pressure to cut their costs and deliver services more effectively. One cost-saving option is to rely more substantially on e-services to help place clients into jobs.[37] However, evaluations from Denmark, Germany and Switzerland show that the approaches PES case workers take to activate their clients matter; personalized counseling and job-search monitoring are important pillars of effective activation, requiring face-to-face contacts with clients instead of e-services (Martin 2014). How can staff hours and information and communication technology best be used?

To conclude, the development and implementation of activation policies in Europe has involved significant changes in labor-market policy institutions, legislation, and management principles. This has taken time and has required experimentation and testing. There remains a need for considerable systematic evaluation of the coordinated policy packages that serve as the essence of activation strategies. Evaluations need to take into account potential synergies between individual policy elements and assess which individual programs work best if employed in combination with other measures. This suggests that there is scope for better coordination between policy domains. More generally, financial incentives and benefit conditionality can increase participation in employment services, thus resulting in better employment prospects and a possible virtuous cycle of reduced caseloads and improvements in service quality. Lastly, it should be stressed that activation policies and employment support are best seen as a means of "greasing the wheels" of the labor market. However, they cannot be a substitute for job creation, nor for sustained efforts to remedy the shortcomings of the education and VET systems (Immervoll and Scarpetta 2012).

37 According to Martin (2014), 90% of unemployment benefit recipients in the Netherlands are treated via e-services and only 10% of clients – those profiled as being at the highest risk of LTU – are receiving face-to-face treatment. The Finnish PES also intends to move in a similar direction in order to cut costs and target its resources more to the most-disadvantaged job seekers. Private employment service providers have a strong incentive to rely more heavily on e-services as a way of cutting costs and boosting their profits.

4. Lessons for policy

Long-term unemployment rates are very high in all countries that experienced a sovereign-debt crisis, as well as in some other South and Southeast European countries. In most of these countries, long-term unemployment has become the dominant feature of unemployment. Active labor-market services and programs are a key policy instrument for preventing the rise of long-term unemployment and reducing it once it emerges. However, they have to serve a highly heterogeneous target group, including long-term unemployed persons with varying educational levels, professions and work experiences. Programs also need to be directed toward inactive persons returning to the labor market, for instance after education, a child-rearing break or a period of illness.

Given the considerable heterogeneity among long-term unemployed groups within a country and across Europe, conclusions and recommendations must be adapted to specific contexts, although some general lessons for policy can be drawn from the analysis of this report:

Develop coherent and comprehensive activation approaches

- Active labor-market policies have to serve a highly heterogeneous group of long-term unemployed, including well-educated prime age workers as well as several vulnerable groups. Activation strategies need to address the long-term unemployed as well as people who are not (or not intensively) searching for work, but who want to work or would work under conditions of proper incentives and guidance. This calls not only for **easy registration procedures at PES but also pro-active outreach activities.**

- In countries with very high LTU rates, active labor-market policies must be regarded as a **mainstream option** with some additional measures for disadvantaged groups, while in countries with low LTU rates they have to be **tailored more specifically to vulnerable groups** and their specific needs.

- An efficient organization of employment services calls for an **early identification** of the employment barriers facing individuals specifically. **Profiling** and classifying the long-term unemployed in terms of employment barrier types is the first step in establishing suitable services and programs.

- As a general rule, the longer the unemployment spell the more difficult it is to place the unemployed into a job. Evaluation evidence points to the importance **of early intervention and activation**, for example by establishing an Individual Action Plan early on.

Build up the capacity of public employment services

- Countries with a high number of unemployed per PES staff and little externalization of services should **build up their institutional capacities** and increase the number of staff per workless person. Staff must be well trained and fluctuating staff numbers among PES employees should be reduced.

- The potentials of the Internet should be tapped, since the costs of job search and recruiting workers online is comparatively low. **E-services**, like e-coaching, can also be used to reach out and serve certain target groups and helps organize the work of PES more efficiently. PES counselors will then have more time to provide intensive counseling and follow-up services for disadvantaged and vulnerable groups. Evaluation evidence indicates that intensive face-to-face counseling and follow-up is particularly effective for these target groups.

- PES should introduce and develop further the concept of a **"case manager"** to deal with the most disadvantaged groups that often face multiple employment barriers.

They also should establish specialized units for specific groups (e.g., young people, people with disabilities).

- Employment services should cooperate with **private providers** (including the social economy and NGOs) specialized in the treatment of disadvantaged and vulnerable groups in order to take advantage of their expertise. Outsourcing and the externalization of services need to be well managed in order to avoid creaming effects.

- PES should build trusting **relationships with employers** in order to be able to place the most disadvantaged and vulnerable groups of jobseekers. PES should also involve employers, workplace representatives as well as representatives of societal groups to work as mentors for specific target groups.

Provide adequate funding on the basis of a social investment approach

- Budgets for employment services and active labor market policy measures need to be appropriate and **reflect the volume of long-term unemployment**. As far as possible, pro-cyclical spending patterns should be avoided.

- All PES are today faced with the challenge of **"doing more with less"** in terms of time and (financial) resources available. Policymakers must take the long-term and wider social costs of long-term unemployment into account when deciding upon budgets and consider activation as a **social investment.**

- As PES resources are inevitably limited, institutions need to ensure that spending on activation measures remains **efficient** while simultaneously avoiding deadweight, creaming and parking effects.

Invest in employability

- Active labor market policies must help jobseekers adapt their competencies and skills profile to employers' demand. The type, **content and quality of training** measures are decisive. PES can play an important role in tackling the challenge of adapting skills supply to skills demand, in particular in countries undergoing major sectoral restructuring. Although further training and retraining is expensive, these measures save social costs in the long term. More research is needed on the right strategy and training offers to adapt skills in a cost-efficient manner.

- Training measures can also be appropriate for **avoiding skills devaluation.** Strengthening the links between training measures and work experience can increase ALMP effectiveness.

- ALMPs often have to redress **weaknesses in the education and VET system** (e.g., early school leavers, low participation in further training over the working life). Efficient VET and continuing-education training systems are crucial for preventing long-term unemployment.

- Improving and developing further **vocational rehabilitation services and programs** is strongly recommended. More research in this area is necessary. Involving psychologists and occupational doctors would help identify remaining work capacity, the type of tasks that can be carried out, the need for workplace adaptation and for training as part of vocational rehabilitation.

Make use of a broad range of measures and personalized services

- Activation policies should be based on a **broad range of instruments** and work methods and offer tailored training and integration services. Locally led initiatives and decentralized approaches are particularly promising.

- In the context of high unemployment, in addition to training policies, the use of in-work benefits to promote the development of job opportunities can be useful in reducing unemployment and benefit dependency. However, once unemployment has sufficiently declined, **the use of in-work benefits,** wage subsidies and job creation programs should be **well targeted** and limited to disadvantaged and vulnerable groups among the long-term unemployed.

- Guidance throughout the program and after program completion should be provided to participants as well as to employers. Measures should, as much as possible, increase prospects for **sustainable employment.**

Ensure adequate balance of "carrots and sticks"

- Countries should further move toward a strategy of **balancing "carrots and sticks,"** that is, combining intensive counseling, monitoring and follow-up as well as referral to ALMPs with the strict regulation of conditionality of adequate unemployment benefits.

- **Eligibility and conditionality rules** for out-of-work benefits (including long-term illness and disability benefits) need to reflect the benefit level: if benefits are generous, activation conditions should be strict. The receipt of adequate financial benefits can then incentivize people to participate more actively in the labor market.

- For welfare benefits to be efficient, it is important to prevent fraud while improving access to benefits and eligibility.

- Countries should **improve the coordination** of ALMPs with benefits and make-work-pay policies by establishing a coherent referral-and-support system for the long-term unemployed.

Integrate activation into a broader policy-mix against long-term unemployment

- Combating long-term unemployment and its detrimental effects on society and the economy calls for a **broad approach involving different policies**, ranging from ALMPs, social inclusion policies and awareness of discrimination to macroeconomic, structural, regional and educational policies.

- Southern European countries in particular have to **modernize their production models**, invest in skills, R&D and the promotion of high value-added industries in order to create additional employment opportunities.

- All relevant stakeholders, at local, national and EU-level, must demonstrate a **shared commitment** to reducing inequalities in labor market access and investments in initial and further training.

- Welfare policies need to be carefully designed in order to **prevent an exclusion of disadvantaged groups** from the labor market while targeting the reduction of long-term unemployment.

References

Andersen, Torben M. and Michael Svarer (2012): Active labor market policies in a recession. *IZA Journal of Labor Policy (1)*7: 1–7. http://www.izajolp.com/content/1/1/7

Bacaria, Jordi, Josep M. Coll and Elena Sánchez-Montijano (2015): The Labour Market in Spain: Problems, Challenges and Future Trends. *Social Inclusion Monitor Europe Policy Brief 2015/01, September*.

Bentolila, Samuel and Giuseppe Bertola (1990): Firing Costs and Labor Demand: How Bad is Eurosclerosis? *Review of Economic Studies 57(3)*: 381–402.

Boockmann, Bernhard, Thomas Zwick, Andreas Ammermüller and Michael Maier (2012): Do hiring subsidies reduce unemployment among older workers? Evidence from two natural experiments. *Journal of the European Economic Association (10)*: 735–764.

Brown, Alessio J.G. and Johannes Koettl (2012): Active Labor Market Programs: Employment Gain or Fiscal Drain? *IZA DP No. 6880*. http://ftp.iza.org/dp6880.pdf

Cahuc, Pierre, Stéphane Carcillo and Thomas Le Barbanchon (2014): Do Hiring Credits Work in Recessions? Evidence from France. *IZA DP No. 8330*. http://ftp.iza.org/dp8330.pdf

Caliendo, Marco and Steffen Künn (2013): Regional Effect Heterogeneity of Start-Up Subsidies for the Unemployed. *IZA DP No. 7460*. http://ftp.iza.org/dp7460.pdf

Caliendo, Marco and Steffen Künn (2010): Start-Up Subsidies for the Unemployed: Long-Term Evidence and Effect Heterogeneity. *IZA DP No. 4790*. http://ftp.iza.org/dp4790.pdf

Carcillo, Stéphane, Rodrigo Fernández, Sebastian Königs and Andreea Minea (2015): NEET Youth in the Aftermath of the Crisis: Challenges and Policies. *OECD Social, Employment and Migration Working Papers No. 164*. Paris: OECD Publishing. http://dx.doi.org/10.1787/5js6363503f6-en

Card, David, Jochen Kluve and Andrea Weber (2015): What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations. *IZA DP No. 9236*. http://ftp.iza.org/dp9236.pdf

Card, David, Jochen Kluve and Andrea Weber (2010): Active Labor Market Policy Evaluations: A Meta-analysis. *The Economic Journal (120)*: 452–477.

Ciccarone, G. (2014): "EEPO Review Stimulating Job Demand: The Design of Effective Hiring Subsidies in Europe." *European Employment Policy Observatory*.

Collins, Micheál L. (2013): Retraining and Activating the 'Distant Unemployed': New Roles and Measures for Locally Based ALMPs. Dublin: Nevon Economic Research Institute. www.nerinstitute.net/download/pdf/distant_unemployed_iwplms_tcd_sep_2013.pdf

Crépon, Bruno, Esther Duflo, Marc Gurgand, Roland Rathelot and Philippe Zamora (2013): Do labor market policies have displacement effects? Evidence from a clustered randomized experiment. *Quarterly Journal of Economics 128(2)*: 530–580.

Chzhen, Yekaterina and Dominic Richardson (2014): Young People (not) in the Labor Market in Rich Countries during the Great Recession. *Innocenti Working Paper No.2014-12*, Florence: UNICEF Office of Research.

Dean, Andrew (2013): Tackling Long-Term Unemployment Amongst Vulnerable Groups. *OECD Local Economic and Employment Development (LEED) Working Papers, 2013/11*. Paris: OECD Publishing. http://dx.doi.org/10.1787/5k43jct8n2nv-en

Dimitrov, Yordan and Nicola Duell (2014): Activating and increasing employability of specific vulnerable groups in Bulgaria : a diagnostic of institutional capacity. Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/2015/02/24051697/activating-increasing-employability-specific-vulnerable-groups-bulgaria-diagnostic-institutional-capacity

Duell, Nicola (2012): Can Active Labor Market Programs Reduce Long-Term Unemployment? *Thematic Review Seminar on "Tackling Long-Term unemployment – effective strategies and tools to address long-term unemployment."* Brussels, 8 November 2012, Mutual Learning Programme, Autumn Seminar 2012. http://www.mutual-learning-employment.net/uploads/ModuleXtender/Trscontent/64/Nicola_Duell_Discussion_paper_Final.pdf

Duell, Nicola (2004): Defining and assessing precarious employment in Europe: a review of main studies and surveys. *Economix Discussion paper prepared for the ESOPE project, DG Research, Framework V Programme*.

Duell, Nicola and Lena Thurau (2014a): Overcoming employment barriers for disadvantaged youth: is linking job creation to training measures a way out? *Mutual Learning Program of the European Commission, DG Employment Social Affairs and Inclusion*, Peer Review on "Emplois d'avenir" – "Jobs for the Future." http://ec.europa.eu/ social/main.jsp?langId=en&catId=1070&newsId=2028&furtherNews=yes

Duell, Nicola and Lena Thurau (2014b): Stimulating Job Demand: The Design of Effective Hiring Subsidies. *Economix Research & Consulting*, March 2014, EEPO Review.

Duell, Nicola and Lucia Kurekova (2013): Activating Benefit in Material Need recipients in the Slovak Republic, Central European Labour Studies Institute, *CELSI Research Report Nr. 3*. http://www.celsi.sk/media/research_reports/celsi-rr-3.pdf

Duell, Nicola and Kurt Vogler-Ludwig (2011): The Role of Public Employment Services in Youth Integration. A Review of Good Practice. *Analytical Paper, PES to PES dialogue. The European Commission Mutual Learning Program for Public Employment Services, DG Employment, Social Affairs and Inclusion*.

Duell, Nicola, Peter Tergeist, Ursula Bazant and Sylvie Cimper (2010): Activation Policies in Switzerland. *OECD Social, Employment and Migration Working Papers Nr. 112*. www.oecd.org/els/workingpapers

Duell, Nicola, David Grubb and Shruti Singh (2009): Activation Policies in Finland. *OECD Social, Employment and Migration Working Papers Nr. 98*. www.oecd.org/els/workingpapers

Ehlert, Christoph, Jochen Kluve and Sandra Schaffner (2012): Temporary Work as an Active Labor Market Policy: Evaluating an Innovative Program for Disadvantaged Youths. *IZA DP* No. 6670. http://ftp.iza.org/dp6670.pdf

Eichhorst, Werner, Franziska Neder, Verena Tobsch and Florian Wozny (2015): A European perspective on long-term unemployment. *IZA DP No. 9321*.

Eichhorst, Werner, Tito Boeri, An De Coen, Vincenzo Galasso, Michael Kendzia and Nadia Steiber (2013): How to Combine the Entry of Young People in the Labor Market with the Retention of Older Workers? A study prepared for the European Parliament. *IZA DP No. 7829*.

Escudero, Verónica (2015): Are active labor market policies effective in activating and integrating low-skilled individuals? An international comparison. *Research Department Working Paper No. 3. Geneva: ILO*. http://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_345758.pdf

Eurobarometer (2014): Undeclared Work in the European Union. *Special Eurobarometer report 402*. DOI: 10.2767/37041.

Eurofound (2015a): Social inclusion of young people. Luxembourg: Publications Office of the European Union. http://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1543en.pdf

Eurofound (2015b): Access to social benefits: Reducing non-take-up. Luxembourg: Publications Office of the European Union.

Eurofound (2012): NEETs – Young people not in employment, education or training: Characteristics, costs, policy responses in Europe. Luxembourg: Publications Office of the European Union. www.eurofound.europa.eu/sites/default/files/ef_files/pubdocs/2012/54/en/1/EF1254EN

European Commission (2016): Employment and Social Developments in Europe 2015. Social Europa. Directorate General Employment, Social Affairs & Inclusion, Luxembourg: Publications Office of the European Union.

European Commission (2015a): Literature review and identification of best practices on integrated social service delivery. Part II - Country case studies. Luxembourg: Publications Office of the European Union.

European Commission (2015b): Cost–benefit Analysis of Remedial Interventions for the Long-term Unemployed. Report prepared by the ICON-INSTITUT Public Sector GmbH, in consortium with ISG, CBS and Quantos S.A.

European Commission (2015c): Proposal for a COUNCIL RECOMMENDATION on the integration of the long-term unemployed into the labor market. Brussels: SWD (2015) 176 final.

European Commission (2015d): COMMISSION STAFF WORKING DOCUMENT Analytical Supporting Document Accompanying the document Proposal for a Council Recommendation on the integration of the long-term unemployed into the labor market. Brussels: COM(2015) 462 final.

European Commission (2015e): Assessment report on PES capacity. July 2015.

European Commission (2015f): Employment and Social Developments in Europe 2014. Social Europa. Directorate General Employment, Social Affairs & Inclusion, Luxembourg: Publications Office of the European Union.

European Commission (2015g): Labor Market and Wage developments in Europe. Social Europe. Directorate General for Employment, Social Affairs & Inclusion.

European Commission (2014): PES approaches for sustainable activation of the long-term unemployed. Brussels: Peer Review Comparative Paper.

European Commission (2013a): Background paper – Workshop 2 – Early intervention and activation, Thematic Event on 'Practical support for the design and implementation of Youth Guarantee Schemes', La Hulpe, 2013, Brussels.

European Commission (2013b): PES approaches for sustainable activation of people with disabilities. *Analytical Paper, PES to PES Dialogue, The European Commission Mutual Learning Program for Public Employment Services*.

European Commission (2013c): Labour Market Developments in Europe 2013. *European Economy No. 6*, Directorate General for Economic and Financial Affairs.

European Employment Policy Observatory (EEPO) (2015): Thematic Review synthesis: upskilling unemployed adukts (aged 25 to 64). The organisation, profiling and targeting of training provision. Birmingham: EEPO network services http://ec.europa.eu/ social/main.jsp?langId=en&catId=89&newsId=2265&furtherNews=yes

European Employment Policy Observatory (2014): Activating jobseekers through entrepreneurship: Start-up incentives in Europe. Brussels: European Employment Policy Observatory Review.

European Employment Observatory (2012): Long-term unemployment. Executive summary. Brussels: European Employment Observatory.

Fedeli, Silvia, Francesco Forte and Ottavio Ricchi (2015): The Long Term Negative Relationship between Public Deficit and Structural Unemployment: An Empirical Study of OECD Countries (1980–2009). *Atlantic Economic Journal 43 (1)*: 39–54.

Gal, Peter and Adam Theising (2015): The macroeconomic impact of structural policies on labour market outcomes in OECD countries: A reassessment. *OECD Economics Department, Working Papers, No. 1271*. Paris: OECD Publishing. http://dx.doi.org/10.1787/5jrqc6t8ktjf-en

Gautié, Jérôme (2014): France's Social Model: Between Resilience and Erosion. In Daniel Vaughan-Whitead (ed.): The European Social Model in Times of Crisis and Austerity Policies: 95-132. Geneva: ILO (International Labor Organization).

Gulliford, Jenny, Damian Shannon, Tyna Taskila, David Wilkins, Martin Tod and Stephen Bevan (2014): Sick of being unemployed. The health issues of out of work men and how support services are failing to address them. *The Men's Health Forum and The Work Foundation*, London.

Hazans, Mihails (2011): "Informal workers across Europe: Evidence from 30 European countries." *IZA DP No. 5871*.

Immervoll, Herwig and Stefano Scarpetta (2012): Activation and employment support policies in OECD countries. An overview of current approaches. *IZA Journal of Labor Policy 1(9)*, http://www.izajolp.com/content/1/1/9

Jaenichen, Ursula and Gesine Stephan (2011): The effectiveness of targeted wage subsidies for hard-to-place workers. *Applied Economics 43(10)*: 1209–1225.

Karamessini, Maria (2014): The Greek Social Model: Toward a Deregulated Labor Market and Residual Social Protection. In Daniel Vaughan-Whitead (ed.): The European Social Model in Times of Crisis and Austerity Policies. ILO (International Labour Organization), Geneva.

Kettner, Anja, Martina Rebien (2007): Soziale Arbeitsgelegenheiten. Einsatz und Wirkungsweise aus betrieblicher und arbeitsmarktpolitischer Perspektive. *IAB-Forschungsbericht, 02/2007*, Nürnberg: IAB.

Kluve, Jochen (2010): The effectiveness of European active labor market programs. *Labor Economics (17)*: 904–918.

Koch, Susanne, Christiane Spies, Gesine Stephan and Joachim Wolff (2011): Kurz vor der Reform. Arbeitsmarktinstrumente auf dem Prüfstand. *IAB-Kurzbericht 11/2011*.

Konle-Seidl, Renate (2011): Profiling systems for effective labor market integration. Use of profiling for resource allocation, action planning and matching. *PES to PES Dialogue, the European Commission Mutual Learning Program for Public Employment Services, DG Employment, Social Affairs and Inclusion*, May, 2011.

Kuddo, Arvo (2009): Employment Services and Active Labor Market Programs in Eastern European and Central Asian Countries. *World Bank SP Discussion Paper No. 0918*. Washington DC.: World Bank. http://siteresources.worldbank.org/SOCIALPROTECTION/ Resources/SP-Discussion-papers/Labor-Market-DP/0918.pdf

Langenbucher, Kristine (2015): How demanding are eligibility criteria for unemployment benefits, quantitative indicators for OECD and EU countries? *OECD Social, Employment and Migration Working Papers, No. 166*. Paris: OECD Publishing. http://dx.doi.org/10.1787/5jrxtk1zw8f2-en

Lechner, Michael, Conny Wunsch and Patrycja Scioch (2013): Do Firms Benefit from Active Labor Market Policies? *IZA DP No. 7614*. http://ftp.iza.org/dp7614.pdf

Lechner, Ferdinand and Petra Wetzel (2012): Long-term Unemployment. Austria. *European Employment Observatory*.

Lindbeck, Assar and Dennis J. Snower (1988): The Insider Outsider Theory of Employment and Unemployment. Cambridge: MIT Press.

Martin, John P. (2014): Activation and Active Labour Market Policies in OECD Countries: Stylized Facts and Evidence on their Effectiveness. *IZA Policy Paper No. 84*. http://ftp.iza.org/pp84.pdf

Martin, John P. and Stefano Scarpetta (2011): Setting It Right: Employment Protection, Labour Reallocation and Productivity. *IZA Policy Paper No. 27*.

Martins, Pedro S. and Sofia Pessoa e Costa (2014): Re-employment and Substitution Effects from Increased Activation: Evidence from Times of Crisis. *IZA DP No. 8600*. http://ftp.iza.org/dp8600.pdf

Matus, Murielle and Anne Stehlin (2014): le chômage de longue durée. Vers une mesure de 'l'éloignement à l'emploi ' de longue durée? *Pôle emploi, Etudes et recherches. Décembre 2014 / n°2*.

Meager, Nigel and Ceri Evans (1998): The evaluation of active labor market measures for the long-term unemployed. *Employment and Training Department, International Labor Office Geneva, Employment and Training Papers 16*.

Moczall, Andreas (2013): Subsidies for substitutes? New evidence on deadweight loss and substitution effects of a wage subsidy for hard-to-place job-seekers. *IAB Discussion Paper, 05/2013*, Nuremberg. www.econstor.eu/bitstream/10419/84933/1/747106193.pdf

Muñoz de Bustillo, Rafael and José-Ignacio Antón (2014): Turning Back before Arriving: The Dismantling of the Spanish Welfare State. In Daniel Vaughan-Whitead (ed.): The European Social Model in Times of Crisis and Austerity Policies. Geneva: ILO (International Labor Organization).

Murray, Ellen and Helen Tubb (2013): PES approaches to low-skilled adults and young people: Work-first or train-first? *Toolkit for PES to PES Dialogue*. Brussels: European Commission DG Employment, Social Affairs and Inclusion.

Neubäumer, Renate (2012): Bringing the unemployed back to work in Germany: training programs or wage subsidies? *International Journal of Manpower 33*: 159–177.

OECD (2015a): OECD Employment Outlook 2015. Paris: OECD Publishing.

OECD (2015b): Connecting People with Jobs. Activation Policies in the United Kingdom. Paris: OECD Publishing.

OECD (2014a): OECD Employment Outlook 2014. Paris: OECD Publishing.

OECD (2014b): Education at a Glance. Paris: OECD Publishing.

OECD (2013a): OECD Employment Outlook 2013. Paris: OECD Publishing.

OECD (2013b): Tackling Long-Term Unemployment amongst Vulnerable Groups. Paris: OECD Publishing.

OECD (2012a): OECD Employment Outlook 2012. Paris: OECD Publishing.

OECD (2012b): Activating Jobseekers. How Australia does it. Paris: OECD Publishing.

OECD (2010a): OECD Employment Outlook 2010. Paris: OECD Publishing.

OECD (2010 b): Sickness, Disability and Work: Breaking the Barriers. A Synthesis of Findings across OECD Countries. Paris: OECD Publishing.

Orlandi, Fabrice (2012): Structural unemployment and its determinants in the EU countries. *European Economy Economic Paper 455*.

Quinitini, Glenda, John P.Martin and Sébastien Martin (2007): The Changing Nature of the School-to-Work Transition Process in OECD Countries. *IZA DP 2582*. http://www.oecd.org/employment/emp/38187773.pdf

Saint-Paul, Gilles (2014): Can Active Labor Market Policy Be Counter-Productive? *IZA DP No. 8551*. http://ftp.iza.org/dp8551.pdf

Saint-Paul, Gilles (1996): Exploring the Political Economy of Labour Market Institutions. *Economic Policy 11(23)*: 263-315.

Scarpetta Stefano, Anne Sonnet and Thomas Manfredi (2010): Rising Youth Unemployment During the Crisis: How to Prevent Negative Long-Term Consequences on a Generation? *OECD Social, Employment and Migration Working Papers, No. 106*. Paris: OECD Publishing. www.oecd.org/els/workingpapers.

Schmillen, Achim and Matthias Umkehrer (2014): Verfestigung von früher Arbeitslosigkeit. Einmal arbeitslos, immer wieder arbeitslos? *IAB Kurzbericht 16/2014*.

Spermann, Alexander (2015): How to Fight Long-Term Unemployment: Lessons from Germany. *IZA DP No. 9135*.

Scharle, Agota (2013): PES approaches for sustainable activation of people with disabilities: Analytical Paper. *PES to PES Dialogue*, European Commission.

Scharle, Agota, Balázs Váradi and Flóra Samu (2015): Policy convergence across welfare regimes: the case of disability policies. *Working Paper no 76*.

Thomsen, Stephan L. (2008): Explaining the Employability Gap of Short-term and Long-term Unemployed Persons. *ZEW Discussion Papers, No. 08-062*.

Thurau, Lena (2009): Flexicurity as a Best Practice. In Kovalcik, Jozef et al. (ed.): Europe in Motion. Society, Labor Market and Sustainability in the Age of Migration. Bratislava: Friedrich-Ebert-Stiftung: 274-290. http://library.fes.de/pdf-files/bueros/slowakei/07273.pdf

Tubb, Helen (2012): Activation and Integration: Working with Individual Action Plans: Toolkit for Public Employment Services. Brussels: The European Commission Mutual Learning Program for Public Employment Services, DG Employment, Social Affairs and Inclusion.

Van Steendam, Ianis, Jos Raymenants and Willem De Klerck (ed.) (2011): Active labor market policies for the Europe 2020 strategy. Ways to move forward. Flemish Department of Work and Social Economy. http://www.werk.be/sites/default/files/ALMP2020_CONGRESS_BOOK_ENG.pdf

Kurt Vogler-Ludwig and Luisa Stock (2010): NAIRU and Okun`s Law – The macro economy in a nutshell? Brussels: European Employment Observatory.

Vaughan-Whitead, Daniel (ed.) (2014): The European Social Model in Times of Crisis and Austerity Policies. Geneva: ILO (International Labor Organization).

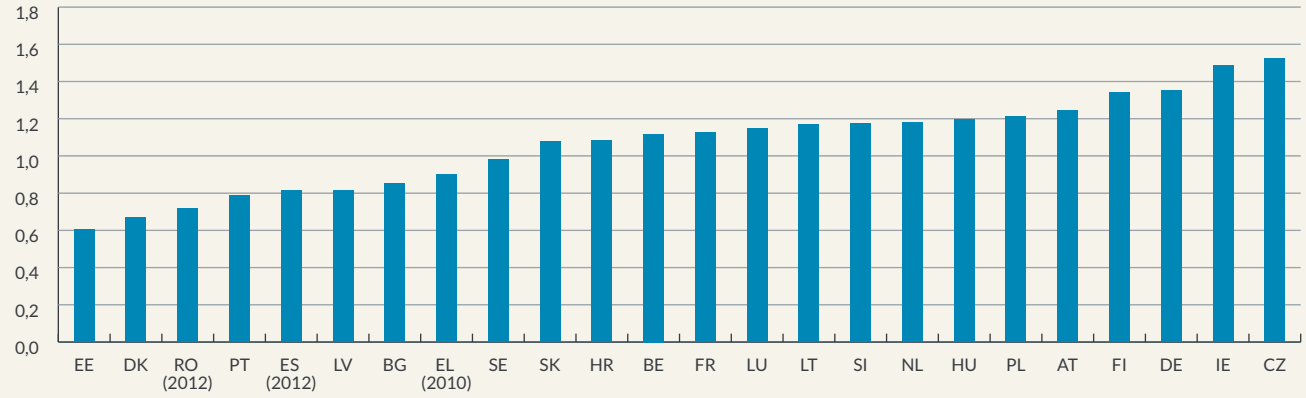
Wolff, Joachim and Gesine Stephan (2013): Subsidized work before and after the German Hartz reforms: design of major schemes, evaluation results and lessons learnt. *IZA Journal of Labor Policy 2(16)*. http://www.izajolp.com/content/2

Annex

Glossary

Activation	Efforts to get working-age people off benefits and into work.
Activation offer/support	Measures aimed at getting working-age people off benefits and into work.
Activation rate	Share of people [in this context long-term unemployed] that are activated (placed on an ALMP measure).
Active inclusion	Active inclusion means enabling every citizen, notably the most disadvantaged, to fully participate in society, including having a job.
Active labor market policies	Government programs that intervene in the labor market to help the unemployed find work.
Caseload	The number of cases handled by employment counselors.
Coverage rate	Share of the amount or extent to which jobseekers access certain types of support.
Employment incentives	Wage subsidies or targeted reductions in social security contributions for employers hiring certain categories of jobseekers.
Hiring subsidies	See "employment incentives."
Inactivity	Persons not in paid employment at all, not seeking a job and/or not available for work.
Individual action plan	Documents to which jobseekers and employment-service providers subscribe, stating rights and obligations, goals and steps to achieve the goals. In most cases, these can be renewed and revised to adjust to the changing situation of a jobseeker.
Intensified case management	Very individual intense support and assisting approach.
Intensified service/support	Providing more and better support, implying higher frequency of contacts between jobseeker and case handlers.
Enforcement of benefits conditionality	Sanction or threat of sanction for refusal to take an offer (e.g., ALMP or job offer).
Lifelong learning	Continuing education.
Long-term unemployment rate	The number of people who are out of work for 12 months and longer, have been actively seeking employment and are available for work.
Low skilled	People who do not have finished secondary school (achieving International Standard Classification of Education level 0-2).
One-stop shop	Gathering various services under one roof to simplify access to services.
Passive labor market measures/ Passive support	Unemployment insurance/ social welfare payments to unemployed people (see also unemployment benefits).
Profiling	Assessing the individual employment potential.
Single point of contact	Coordination of client intake and follow-up through case handling facilitating contacts between the jobseeker and the other relevant services or authorities.
Short-term unemployment	Unemployment period that does not last longer than one year.
Social enterprise	A social enterprise is an organization that applies commercial strategies to maximize improvements in human and environmental well-being.
Structural unemployment	This concept refers to the level of unemployment that depends on institutional, structural, or behavioral elements, with (at least theoretically) no role for the economic cycle.
Transition to employment	The successful integration into the labor market.
Unemployment benefit	Social welfare/ social insurance payments by authorized bodies to unemployed people.

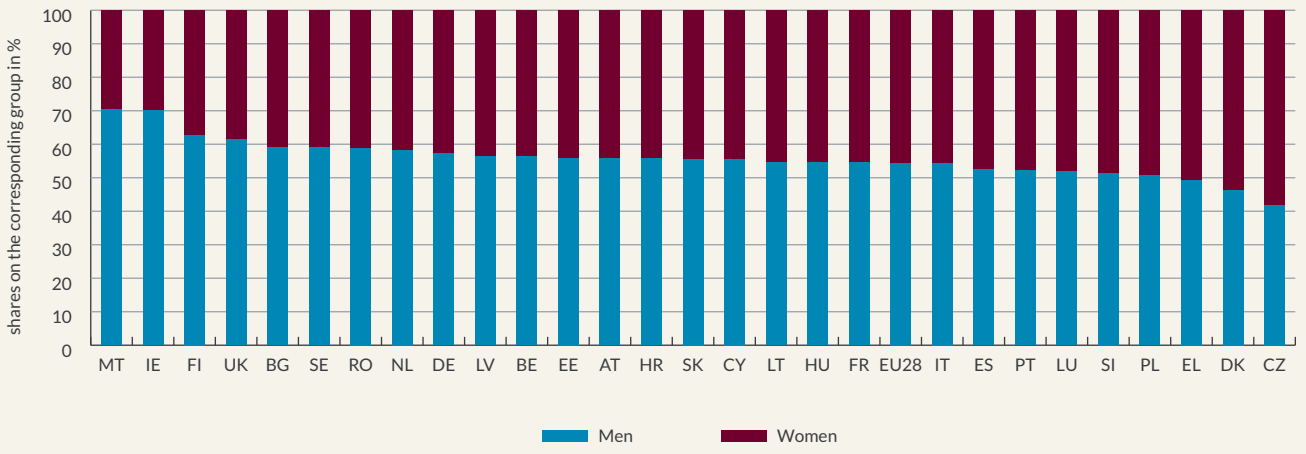
FIGURE A.1 **Ratio registered unemployment to LFS unemployed in %, 2013**



Source: Eurostat, based on PES data and LFS data.

BertelsmannStiftung

FIGURE A2 **Long-term unemployment (LTU) by gender, 2013**

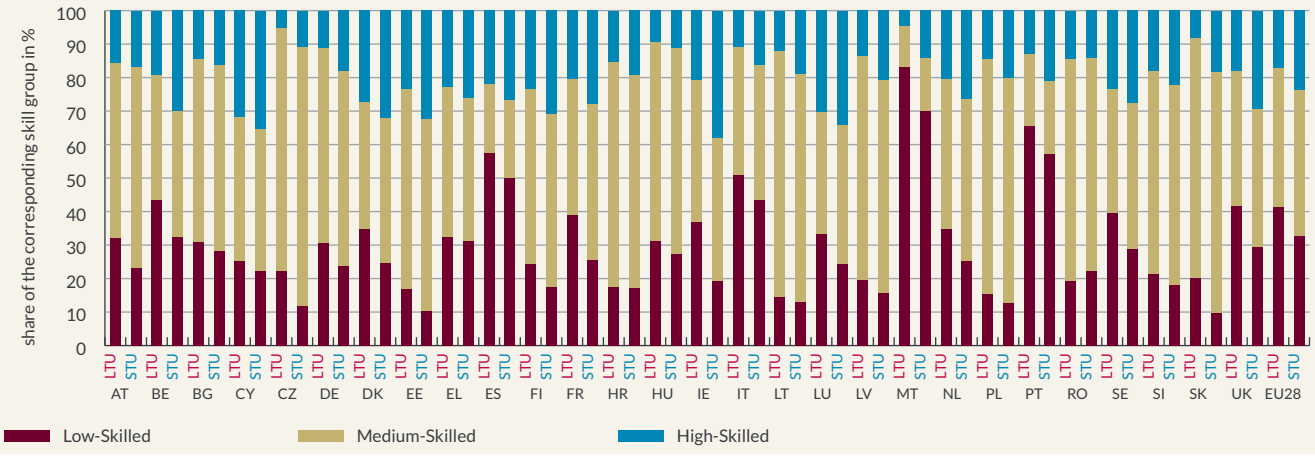


Age Group 15–64

Source: Eurostat, LFS microdata, own calculations.

BertelsmannStiftung

FIGURE A3 Long- and short-term unemployment by skill level, 2013

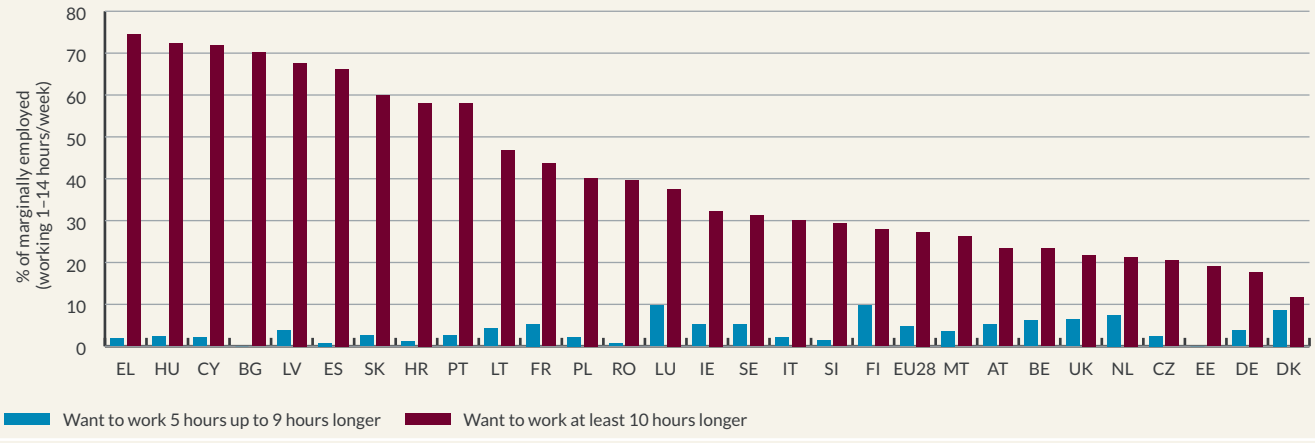


Age Group 25–64

Source: Eurostat, LFS microdata, own calculations.

BertelsmannStiftung

FIGURE A4 Marginally employed workers (working 1–14 hours/week): Desired working time, 2013

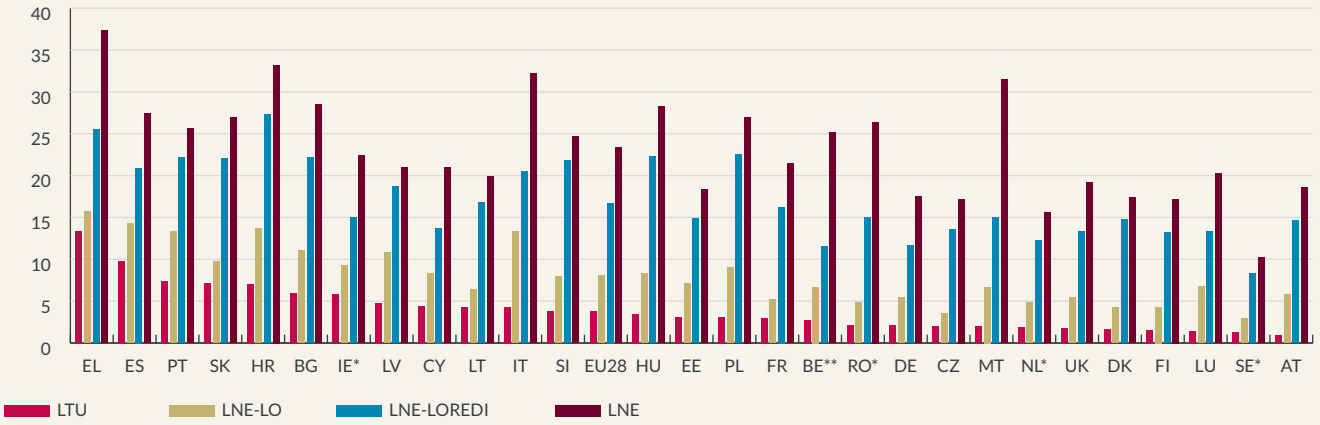


Age Group 15–64

Source: Eurostat, LFS, own calculations.

BertelsmannStiftung

FIGURE A5 Comparison of alternative indicators LTU, LNE-LO, LNE-LOREDI, LNE, 28 European countries, 25–64 years, 2013



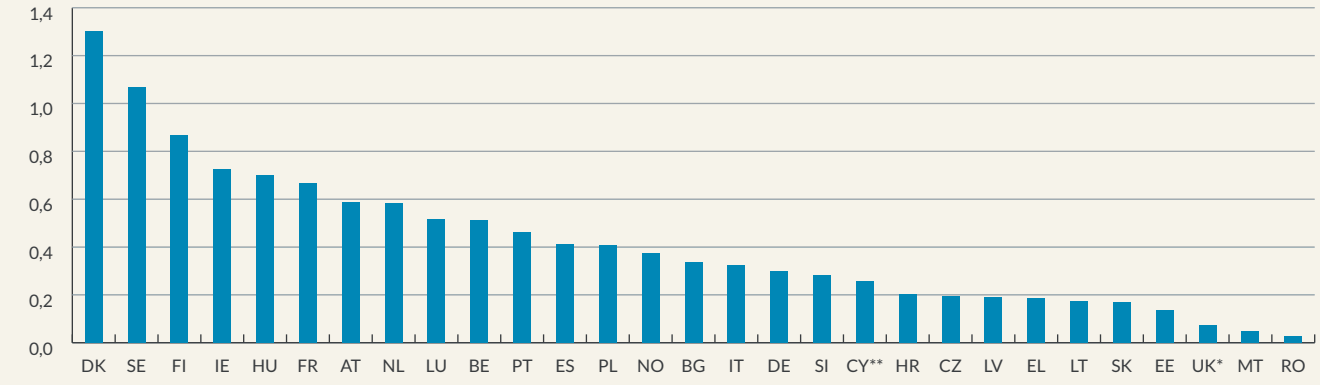
* considerable share of NA on lenght of inactivity (>1% of working age population) ** considerable share of NA on willingness to work (>1% of working age population)

Note: LTU: Long-term unemployed. LNE-LO: Long-term non-employed with labor-market orientation. LNE-LOREDI: Long-term non-employed with labor-market orientation, retired or disabled. LNE: All long-term non-employed.

Source: Eurostat, LFS microdata, own calculations.

BertelsmannStiftung

FIGURE A6 Expenditure on ALMP as % of GDP, 2013



* data refers to 2010 ** data refers to 2012

Source: Eurostat / OECD LMP database.

BertelsmannStiftung

TABLE A.1 **Examples of successful or promising measures for LTU**

Country	Type of measure	Target group and success factors
Austria	Social-economic work agencies (work placements)	16,644 participants in 2012; positive results so far.
	Needs-based minimum benefit (BMS) (2014: monthly rate of €814 for single persons)	Those no longer eligible for unemployment benefits and those whose earnings are below a threshold; cooperation of municipality, PES and third parties. Inclusion of BMS clients in activation services and integration into the labor market increased.
Belgium	Job-training (training and counseling)	Targets older LTU. Some 50 % of participants have found a job, a training or a slot a specific new group guidance (2012).
	Targeted paths toward work for persons from impoverished backgrounds	Information on two projects in Antwerp and Alost in Belgium focused on experimental paths toward work for persons living in poverty.
	Back at work paths for (formerly) imprisoned	Information on four projects run in Belgium to help formerly imprisoned transition into employment.
	Job creation through social entrepreneurship/private sector	Social flexibility and attention to local needs as levers in large-scale sustainable job creation by the Flemish organization "vzw IN-Z."
Bulgaria	Support for Employment scheme (wage subsidies and mentoring)	Since project began in 2012, more than 25,000 persons (6,178 of which were LTU) were included into employment. Some 50% of participants are recruited by private-sector employers.
Croatia	On-the job training: vocational training at employers' premises	Monitoring data shows 19,321 participants (especially young people) in 2013.
Czech Republic	Work without Barriers	This measure includes diagnostics, individual counseling, motivational training, functional and financial literacy and professional retraining courses.
Denmark	Contract between Ministry of Employment, the National Employment Council and regional councils about regional targets	Generate annual reports on the labor market situation to promote standardization and equal access to services country-wide. Success factors included clearly focused and well-articulated goals; reduced complexity of work by separating the responsibilities of job centers from benefit administration; and well-designed incentives. Results so far include the equal treatment of citizens across municipal boundaries, a higher degree of predictability and transparency between citizens and caseworkers.
	For 2012 and 2013, the government implemented and funded a special service for LTU who are members of unemployment insurance funds and had less than six months of unemployment benefit eligibility.	The services offered included individual counseling sessions by personal job counselors and a fast track to job training or internships. Employers were entitled to a bonus when hiring among this group.
Estonia	Coaching for working life (training)	Internal evaluation showed positive results: many participants enter employment within a year after the measure.
Finland	Job search counseling, highly individualized activation and ALMP for LTU, provided by LAFOS Centers	Target group includes people with multiple disadvantages, LTU and PES delegate clients. Funding comes from central government (50%) and municipalities (50%). Horizontal, cross-sectional cooperation in LAFOS Centers is one of the outcomes of a broader government reform enhancing horizontal policymaking through intra-ministerial cooperation and the introduction of new program management methods. Success factors include sustained and ongoing dialogue between social and labor services and the limited type and number of actors involved.
France	Reinforced support for young people with repeated problems to access employment	In terms of accessing sustainable employment, this meausre yielded better results compared to other internal or subcontracted support.
	Ardelaine – a cooperative dedicated to local sustainable development	Its primary mission has been to achieve sustainable local development by promoting respect for the environment throughout the supply chain.

Country	Type of measure	Target group and success factors
Germany	"Erstausbildung junger Erwachsener" (initial vocational training for young adults)	No results available so far. Customer and employee surveys to monitor soft impacts are scheduled.
	"Perspektive 50plus Beschäftigungspakte in den Regionen" (Prospects for those over 50)	Launched in 2005 and terminated in 2015. Financed by the Federal Ministry of Labour and Social Affairs to re-activate and integrate older (50plus), low- or semi-skilled long-term unemployed, into employment and to change attitudes of employers and enterprises as well as to identify and mainstream best practices and innovative tools. The program targeted jobseekers who have been or are at risk of becoming LTU or who have been drawing benefits for a longer period. A total 77 regional employment pacts were established (jobcenters, local stakeholders, companies, chambers, trade unions, municipalities, training institutions, churches and social service providers). Regional partners could adapt the program to regional and local needs thanks to a rigorous simplification of administrative rules. The budget is free-to-use. Implemented measures include, coaching, profiling, training in communication skills and job application training, further training, internships and wage subsidies. The program success rested on the combination of individualized counseling and coaching as well as pro-active outreach to employers.
Italy	ESEDRA Cooperative	Work integration is the main mission of ESEDRA, which works in the energy and environmental sectors. Its development has been driven by a desire to give work opportunities to disadvantaged people. Success factors: Both vertical and horizontal integration; incentive systems in place.
Latvia	Measure for the unemployed disadvantaged groups (subsidized jobs)	A total of 1281 LTU participants; 83.1% found a job in the open labor market within 6 months of completing participation.
Poland	Special programs (SP, mix of measures) in the National Action Plan for Employment (KPDZ)	Re-employment rates increased substantially. In 2014, vertical coordination was improved by increasing the role of the regional governments and giving them more autonomy in initiating regional level programs as long as they follow the KPDZ.
	Activation and integration program (PAI)	Cooperation between district employment agencies and communes. Under the PAI, expenses associated with activation were borne by the employment office and municipality. State subsidization depends on whether the program is carried out independently by the district or in cooperation with social welfare centers.
Slovakia	Youth Employment Initiatives (wage subsidy)	Assessment of outputs in 2013 claim that almost 12,000 new job positions were created (€70 million budget).
Spain	Claros	Claros supports the reintegration of women into the workforce. In 2011, 41 contracts were created with public authorities in various cities of Andalusia and Valencia.
Sweden	Job Net 2 program (co-financed by the European Social Fund) organized a work trial for very LTU. These are also supported by continued PES coaching.	The follow-up was intense with a caseload of 10-20 jobseekers per counselor and a requirement to direct at least 50% of counseling time at employers. The intervention led to a shortened duration of unemployment, particularly in cases including subsidized employment (European Commission 2015d).
United Kingdom	Jobcentre Plus and New Deal staff	Targets people with unemployed status. Objectives include conducting job search and in-work benefit calculations, and promoting and referring customers to the services of specialist providers. Impact assessments showed positive impact on the job entry targets for people with disabilities, while no impact for others (lone parents). Stable political support coupled with broad welfare reform and ongoing reform support over a longer period contribute to the intervention's success (total cost: €2.7 billion).
	Gloucester Works: Area-Based Approach Targeting Disadvantaged and Minority Populations	An area-based intervention to support disadvantaged and vulnerable groups within the city of Gloucester, with the aim of enhancing individuals' skill levels and supporting them as they transition into employment.
	Unionlearn in the Community: Tackling Disadvantage	Unionlearn aims to support the disadvantaged by offering community learning activities in partnership with the Trade Union Centre's member unions.

Source: European Commission 2014 (Host and Peer country papers), European Commission 2015a, 2015d, Dean 2013.

TABLE A.2 **Effectiveness of ALMPs**

ALMP	Instrument	Objective	Positive effects	Negative effects
Demand-side measures: **Incentives for retaining employment**	Work sharing/ Short-term work	Reduce outflow from employment	Temporarily prevent layoffs	Substantial deadweight, substitution and displacement effects (Van Steendam et al. 2011). Negative competition, wage effects and effect on temporary jobs. Locking-in effects, skill acquisition disincentives and retaining low-productivity workers.
	Wage subsidies Hiring subsidies		Continued employment of insiders	
Demand-side measures compensating for initially lower productivity of specific target groups: **Incentives for creating employment**	Wage subsidies Hiring subsidies	Increase outflow from unemployment	Employment of outsiders (European Employment Observatory 2012)	Deadweight and displacement effects (see for a literature review Duell 2012). Negative competition, wage effects, locking-In effects, skill acquisition disincentives (Van Steendam et al. 2011).
	Wage subsidies in direct job creation programs		Significant transition and screening effects; competition effects.	Potentially sizeable short-run, displacement effects. Limited deadweight and substitution effects, displacement.
	Self-employment incentives		Potentially large transition and screening effects; competition effects	Potentially high deadweight and displacement effects.
Supply-side measures: **Incentives for seeking a job and working**	In-work benefits and subsidies	Create employment incentives; reduce in-work poverty	Positive screening, wage and competition effects; limited transition effects	Deadweight, substitution and displacement (Crépon et al. 2013). Skill acquisition disincentives and incentives for low-productivity work. Locking-in effects (Crépon et al. 2013)
	Public works		Threat effect; infrastructure provision; safety net (Kuddo 2009)	Strong stigmatizing and locking-in effects (Crépon et al. 2013). Skill acquisition disincentives.
	Activation and workfare	Make unemployment more costly	Threat effects and wage effects (Martins and Pessao 2014)	During participation in the program, participants tend to not serach for a job and may not be available (Locking-in effects).
	Sanctions	Make unemployment more costly	Threat effects and wage effects (Martins and Pessao 2014)	
Supply-side measures: **Incentives for human capital formation**	On-the-job training	Enhance labor supply by improving skills; increase productivity and employability	Strong screening, competition and transition effects (Ehlert et al. 2012)	Sizeable deadweight costs as well as cream-skimming and locking-in effects. Small wage effects.
	Classroom training		Weak screening, competition and transition effects (Ehlert et al. 2012)	
Supply-side measures: **Improved labor market matching**	Job-search assistance	Increase job search and matching efficiency	Competition effects, threat effects combined with sanctions (Martin 2014, Martins and Pessao 2014)	Deadweight and cream-skimming effects. Displacement, wage and churning effects.
	Employer intermediation service			
	Counseling, monitoring			

Note: LM=labor market

Sources: based on Brown and Koettl 2012, Martin 2014, Immervoll and Scarpetta 2012, Card et al. 2010 and 2015, Martins and Pessoa 2014, Kluve 2010, Duell 2012, European Commission 2014, Ehlert et al. 2012, Collins 2013, Van Steendam et al. 2011, Andersen and Svarer 2012, Crépon et al. 2013, Caliendo and Künn 2010, Kuddo 2009, Moczall 2013, European Employment Observatory 2012, Lechner et al. 2014

	Impact in normal times	Impact during crisis and recovery	Cost-effectiveness
	Increased labor market (LM) segmentation. Increase in unemployment-prone groups; lower productivity. Inhibits efficient labor Reallocations. Reduced outflow from Unemployment. Increased LM persistence, LTU. Skill attrition, lack of adaptation.	Useful temporarily at beginning of severe recession (Card et al. 2015). Might obstruct recovery if not phased out swiftly.	Costly while potential negative longer-term impacts. Only useful for a very limited time for existing schemes in severe recession (Van Steendam et al. 2011).
		Potentially useful temporarily at beginning of severe recessions. Might obstruct recovery if not phased out swiftly.	Cheapest and most cost-effective measure. As automatic stabilizer: target disadvantaged, especially LTU workers for limited period.
	Improving disadvantaged groups' access to the LM.	Provides disadvantaged groups access to the LM, but potentially crowds out other groups. More effective if low-scaled and highly targeted. Maintains LM attachment in recessions.	
	Cost-effective countercyclical automatic stabilizer to increase outflow from unemployment. Increase LM flows; reduction of persistence. Strengthen LM attachment; promote adaptability. Skill attrition, lack of adaptation.	Important stabilizer during recoveries. Maintains LM attachment in recessions (Card et al. 2015. Job quality important. If large scale than positive effect on economic growth,if deadweight, effects can be limited	Potential negative longer-term impacts (Lechner et al. 2014). Low motivation if poor job quality, stigmatization, (Duell et al. 2011).
	Increase in LM flows; reduction of persistence. Strengthen LM attachment; reduces LTU; promote adaptability.	Supports recoveries.	Cost-effective, but restricted applicability.
	Increase LM persistence; LTU. Increase in unemployment-prone groups, lower productivity. Skill attrition, lack of adaptation.	Redistributive instrument to soften income shortfalls. Temporary use in crises together with demand-side policies (Card et al. 2010, Crépon et al. 2013, Ehlert et al. 2012).	Cost-ineffective. Costly and no long-run positive employment effects. Cost-effective redistribution policy in crises, but targeting issues.
	Lower employment probabilities. Skill attrition; lack of adaptation (European Employment Observatory 2012).	Temporary safety net in middle-income countries during crises (Card et al. 2015). Employment of last resort in low-income countries during crises (Kuddo 2009).	Cost-ineffective. Costly and no long-run positive employment effects. Safety-net role in crises.
	Increase in employment incentives; increase in LM flows; reduction of persistence; shorter unemployment durations (Martins and Pessao 2014).	No special role during crises, but can promote recovery in tandem with demand-side policies (Crépon et al. 2013, Card et al. 2010 and 2015)	Cost-effective policy in shifting toward active income support.
	Increase in employment incentives; increase in LM flows, reduction of persistence, shorter unemployment durations (Van Steendam et al. 2011, Martins and Pessao 2014).	No special role during crises, but can promote recovery when in tandem with demand-side policies (Crépon et al. 2013, Card et al. 2010 and 2015).	Cost-effective policy in shifting toward active income support (Van Steendam et al. 2011).
	Effective in increasing long-run employability and earnings through skill upgrading. Strengthen LM attachment; promote adaptability; increase of LM flows. Shorter unemployment durations (Ehlert et al. 2012).	During recessions, can counter disadvantages of work-sharing schemes, strengthen LM attachment, upgrade skills. Most effective in strengthening recoveries (Martins and Pessao 2014).	On the job-training targeted at LTU workers are mostly cost-effective in the long-run (Card et al. 2010, Van Steendam et al. 2011, Martins and Pessao 2014). Training focus involving employers and providing formal qualifications is important (Lechner et al. 2014, Duell 2012).
	Increase outflow from unemployment; Job search incentives; Strengthen LM attachment; Increase of LM flows, shorter unemployment durations; Promote adaptability (Martin 2014, Van Steendam et al. 2011).	Strong role in supporting the recovery (Martin 2014).	Cost-effective policy, essential for a functioning LM with short-term impact (Van Steendam et al. 2011). Provision of search assistance has proven strong impacts on employability, esp. for disadvantaged workers.

Imprint

© 2016 Bertelsmann Stiftung
Bertelsmann Stiftung
Carl-Bertelsmann-Straße 256
33311 Gütersloh
Telefon +49 5241 81-0
www.bertelsmann-stiftung.de

Responsible
Joscha Schwarzwälder

Authors
Nicola Düll
Lena Thurau
Tim Vetter

Copy editor
Barbara Serfozo, Berlin

Graphic design
Nicole Meyerholz, Bielefeld

Photos
Steve Debenport/iStockphoto.com

Printing
Hans Kock Buch- und Offsetdruck GmbH, Bielefeld

Adresse | Kontakt

Bertelsmann Stiftung
Carl-Bertelsmann-Straße 256
33311 Gütersloh
Telefon +49 5241 81-0

Joscha Schwarzwälder
Project Manager
Programm Nachhaltig Wirtschaften
Telefon +49 5241 81-81530
Fax +49 5241 81-681530
joscha.schwarzwaelder@bertelsmann-stiftung.de

www.bertelsmann-stiftung.de

BertelsmannStiftung