



European  
Commission



# Long-term Unemployment 2012

EEO Review

This publication is based on national articles provided by the SYSDERM network. National articles are the sole responsibility of the author(s). The contents of this publication do not necessarily reflect the position or opinion of the European Commission or ICF GHK. Neither the European Commission nor any person/organisation acting on behalf of the Commission is responsible for the use which might be made of any information contained in this publication.

## European Commission

Lieve Engelen (Employment, Social Affairs and Inclusion DG, Unit C.1)

## SYSDERM network

**Belgium:** Robert Plasman, DULBEA – Université de Bruxelles (University of Brussels)  
Brussels

**Bulgaria:** Pobeda Loukanova, Economic Research Institute  
Sofia

**Czech Republic:** Daniel Münich, CERGE-EI – Centre for Economic Research & Graduate Education (Charles University) – Economics Institute (Czech Academy of Sciences)  
Prague

**Denmark:** Per Kongshøj Madsen, CARMA – Centre for Labour Market Research, Aalborg Universitet (Aalborg University)  
Aalborg

**Germany:** Nicola Düll, Economix Research & Consulting  
Munich

**Estonia:** Reelika Leetmaa, Praxis Centre for Policy Studies  
Tallinn

**Ireland:** Jerry Sexton, Economic Consultant  
Dublin

**Greece:** Dimitris Karantinos, EKKE – National Centre of Social Research  
Athens

**Spain:** Elvira González Gago, CEET – Centro de Estudios Económicos Tomillo, SL (Tomillo Centre for Economic Studies)  
Madrid

**France:** Sandrine Gineste, Bernard Brunhes Consultants  
Paris

**Italy:** Giuseppe Ciccarone, Fondazione Giacomo Brodolini (Giacomo Brodolini Foundation)  
Rome

**Cyprus:** Louis N. Christofides, University of Cyprus  
Nicosia

**Latvia:** Alfreds Vanags, BICEPS – Baltic International Centre for Economic Policy Studies  
Riga

**Lithuania:** Boguslavas Gruževskis and Inga Blaziene, Institute of Labour and Social Research  
Vilnius

**Luxembourg:** Patrick Thill, CEPS/INSTEAD – Centre d'Etudes de Populations, de Pauvreté et de Politiques Socio-Economiques (Centre for the study of population, poverty and socioeconomic policy)/ International Network for Studies in Technology, Environment, Alternatives, Development  
Differdange

**Hungary:** Zsombor Cseres-Gergely, Magyar Tudományos Akadémia, Közgazdaságtudományi Intézet (Institute of Economics, CERS HAS)  
Budapest

**Malta:** Manwel Debono, Centre for Labour Studies, L-Università ta' Malta (University of Malta)  
Msida

**Netherlands:** Sonja Bekker, ReflecT Institute, Universiteit van Tilburg (University of Tilburg)  
Tilburg

**Austria:** Ferdinand Lechner, Lechner, Reiter & Riesenfelder OEG  
Vienna

**Poland:** Łukasz Sienkiewicz, Szkoła Główna Handlowa w Warszawie (Warsaw School of Economics)  
Warsaw

**Portugal:** Reinhard Naumann, DINÂMIA – Centro de Estudos sobre a Mudança Socioeconómica (Research Centre on Socioeconomic Change)  
Lisbon

**Romania:** Cătălin Ghinăraș, National Labour Research Institute  
Bucharest

**Slovenia:** Miroljub Ignjatović, Fakulteta za družbene vede, Univerza v Ljubljani (Faculty of Social Sciences, University of Ljubljana)  
Ljubljana

**Slovakia:** Ľuboš Vagač, Centrum pre hospodársky rozvoj (Centre for Economic Development)  
Bratislava

**Finland:** Robert Arnkil, Työelämän tutkimuskeskus Tampereen yliopisto (Work Research Centre, Tampere University)  
Helsinki

**Sweden:** Dominique Anxo, CELMS HB – Centre for European Labour Market Studies HB  
Gothenburg

**United Kingdom:** Kenneth Walsh, TERN – Training & Employment Research Network  
Kidderminster

**Croatia:** Teo Matković, Pravni fakultet Sveučilišta u Zagrebu (Faculty of Law, University of Zagreb)  
Zagreb

**Iceland:** Sveinn Agnarsson, Hagfræðistofnun, Háskóli Íslands (Institute of Economic Studies, University of Iceland)  
Reykjavik

**Former Yugoslav Republic of Macedonia:** Nikica Mojsoska-Blazevski, School of Business Economics and Management, University American College-Skopje  
Skopje

**Serbia:** Mihail Arandarenko, FREN – Fond za razvoj ekonomske nauke (Foundation for the Advancement of Economics)  
Belgrade

**Turkey:** Hakan Ercan, Orta Doğu Teknik Üniversitesi (Department of Economics, Middle East Technical University)  
Ankara

**Norway:** Sissel C. Trygstad, Fafo Institutt for arbeidslivs- og velferdsforskning (Fafo Institute of Labour and Social Research)  
Oslo

## EEO Network Services

**ICF GHK**  
**GHK Consulting Limited**  
**30 St Paul's Square**  
**Birmingham**  
**B3 1QZ**  
**UNITED KINGDOM**

**Tel.:** +44 1212338900

**Fax:** +44 1212120308

**E-mail:** eeo@ghkint.com

**Director:** Patricia Irving

**Managers:** Leona Finlay and Caroline Lambert

**Editors:** Marco Barton, Claire Duchemin, Leona Finlay, Anna Manoudi, David Scott

European Employment Observatory Review

**Long-term Unemployment**

**2012**

**European Commission**

Directorate-General for Employment, Social Affairs and Inclusion  
Unit C.1

Manuscript completed in September 2012

Neither the European Commission nor any person acting on behalf of the Commission may be held responsible for the use that may be made of the information contained in this publication.

© Cover photo: Getty Images

For any use or reproduction of photos which are not under European Union copyright, permission must be sought directly from the copyright holder(s).

***Europe Direct is a service to help you find answers  
to your questions about the European Union.***

***Freephone number (\*):***

**00 800 6 7 8 9 10 11**

(\*) Certain mobile telephone operators do not allow access to 00 800 numbers  
or these calls may be billed.

More information on the European Union is available on the Internet (<http://europa.eu>).

Cataloguing data as well as an abstract can be found at the end of this publication.

Luxembourg: Publications Office of the European Union, 2012

ISBN 978-92-79-23708-9

doi:10.2767/6287

© European Union, 2012

Reproduction is authorised provided the source is acknowledged.

# ■ Table of contents

<b>1.</b>	<b>Recent trends in long-term unemployment in Europe</b>	<b>5</b>
1.1.	LTU trends in the EU in recent years	5
1.2.	EU policy developments connected with the reduction of LTU	7
<b>2.</b>	<b>Incidence of LTU across different groups</b>	<b>8</b>
2.1.	Impact of the crisis on LTU according to age and gender	8
2.2.	Impact of the crisis on LTU according to region of residence	11
2.3.	Impact of the crisis on LTU according to educational level	12
2.4.	Impact of the crisis on LTU according to immigrant or ethnic minority background and nationality	14
2.5.	Impact of the crisis on LTU according to job sectors/occupations	14
2.6.	Other factors affecting the risk of LTU	15
<b>3.</b>	<b>Factors driving transitions into and out of LTU</b>	<b>17</b>
3.1.	Beveridge curves and the relationship between vacancy and unemployment rates	17
3.2.	Structural causes of LTU	23
3.2.1.	Skills mismatches	23
3.2.2.	Geographical mismatches	24
3.2.3.	Tax and social welfare disincentives for reducing LTU	26
3.2.4.	High levels of employee protection	27
3.2.5.	Employers' social security contributions, low wages, undeclared work	28
3.2.6.	The role of economic restructuring and its contribution to LTU	28
3.2.7.	Other factors contributing to the persistence of LTU	29
<b>4.</b>	<b>Policies to prevent and tackle structural unemployment and LTU</b>	<b>30</b>
4.1.	ALMPs	30
4.1.1.	Training measures	30
4.1.2.	Wage subsidies and employer contribution exemptions	32
4.1.3.	Job creation schemes: public works	33
4.1.4.	Prevention: early intervention approaches and profiling	35
4.1.5.	Problems identified with existing ALMPs or improvements needed	37
4.2.	Policies to reduce skills shortages or anticipate skill needs or re-skilling the long-term unemployed	38
4.3.	Unemployment benefit systems	41
4.4.	Other policies measures to reduce LTU	46
<b>5.</b>	<b>Conclusions</b>	<b>47</b>



# 1. Recent trends in long-term unemployment in Europe

The definition of 'long-term' when referring to unemployment can differ across and within national contexts. Typically, a period of unemployment of one year or more is retained as the criteria for measuring long-term unemployment (LTU); this criteria is used by Eurostat and is used by convention in the remainder of this report <sup>(1)</sup>.

Across the EU, the reduction of unemployment — and in particular of spells of long-lasting unemployment — is a priority for citizens and policymakers alike. There is ample evidence that long periods of unemployment create a negative impact on personal health and well-being (such as low self-esteem), long-lasting effects on a person's career arising from the ensuing difficulties in finding a suitable job opportunity after a long time away from the labour market and negative consequences in terms of professional development and individual earnings prospects. Indeed, the longer people remain unemployed, the harder it becomes for them to find a job, notably due to the risk of skills depreciation.

For some individuals, the experience of LTU can lead to permanent alienation from the labour

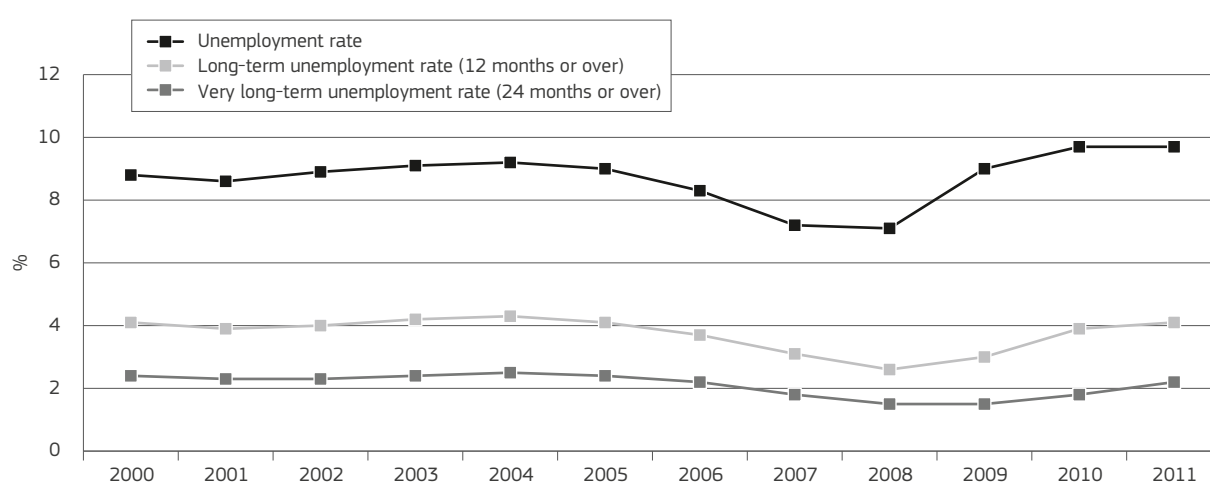
market, with subsequent risks of material deprivation, poverty and social exclusion. For some of the older segments of the workforce, spells of long unemployment can result in a forced exit from the labour force or early retirement due to the lack of other available options.

The persistence of a large number of long-term unemployed persons over long periods of time generates huge social as well as economic costs in terms of passive labour market expenditure and/or on social assistance systems which can provide support when the long-term unemployed exhaust their rights to unemployment benefits (UB).

## 1.1. LTU trends in the EU in recent years

In 2011, those unemployed for more than a year in the EU totalled almost 10 million — including 3 million who had been unemployed for 12 to 17 months, 1.6 million for 18 to 23 months, 3.2 million for 24 to 47 months and 1.9 million for more than 48 months.

Figure 1.1 — Trends in unemployment, LTU and very LTU rates since 2000 (annual data), EU-27



Source: Eurostat, Labour Force Survey [lfsa\_ugad].

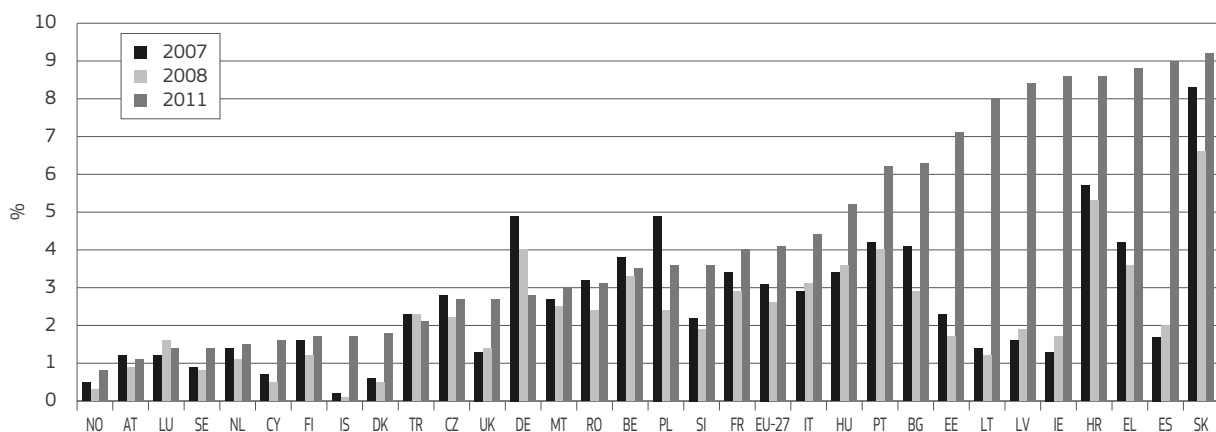
<sup>(1)</sup> The definition used by Eurostat in the LFS for the long-term unemployment rate is the 'share of unemployed persons since 12 months or more in the total number of active persons in the labour market.' In addition, the 'very long-term unemployment rate' is the share of unemployed persons since 24 months or more in the total number of active persons in the labour market.

In the current context, special attention should be paid to the monitoring of LTU indicators following the peak of the economic recession, as typically LTU comes with a lag. Indeed, the EU unemployment rate reached its peak in mid-2010 and the latest annual data available from Eurostat show no signs of alleviation of LTU rates. Figure 1.1 shows that in 2011, 4.1% of the active population of the EU-27 had been unemployed for one year or more and over 2% had been unemployed for two years or more.

As shown in Figure 1.2 below, recent trends are diverse across the EU; EEA and candidate countries are heterogeneous. Overall, the

average LTU rate in the EU has slightly decreased from 2007 to 2008 and has increased more significantly between 2008 and 2011, reaching 4.1% (one percentage point higher than in 2007). In the context of the recession, the LTU rate in Spain jumped from 2% in 2008 to 9% in 2011. A notable exception is Germany, where a continuous decrease in the LTU rate has been recorded, from 4.9% in 2007 to 2.8% in 2011. As of 2011, LTU rates were particularly high in southern EU countries and in most of the EU-12 in central and eastern Europe. In contrast, LTU rates were below 2% in all Nordic countries, Austria, Cyprus, Luxembourg and the Netherlands.

Figure 1.2 — LTU rates (annual averages)



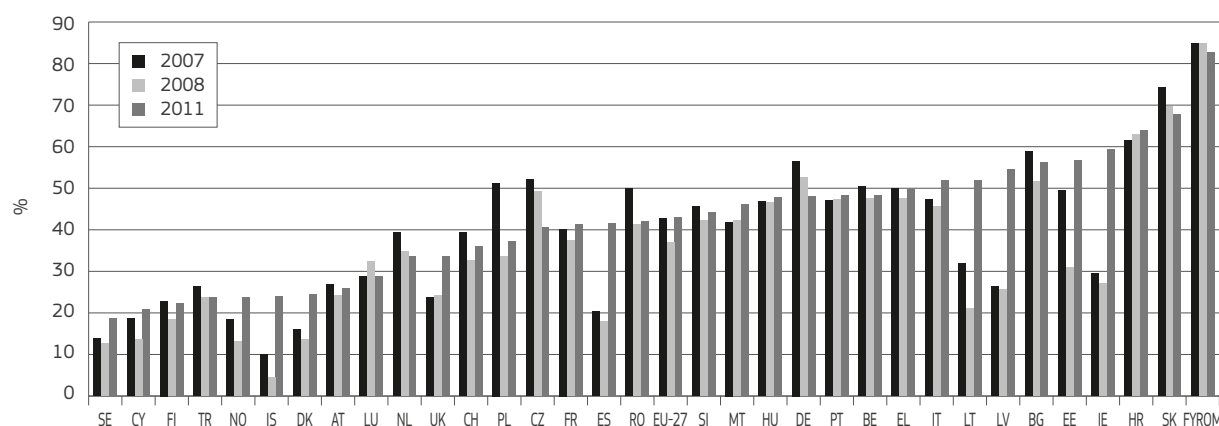
Source: Eurostat, Labour Force Survey [lfsa\_ugad].

Steep rises in the LTU rate have resulted in an augmentation of the share of the long-term unemployed among all unemployed persons from 2008 to 2011, going back to 2007 levels. From Figure 1.3, we see that in 2011, around 43% of all unemployed in the EU had been in this situation for a period of one or more years, compared to 37% in 2008. Among the EU, EEA and candidate countries, only Scandinavian and Nordic countries

(as well as Turkey) have less than a quarter of jobseekers in long-term unemployment. The largest increases in the proportion of long-term unemployed among all unemployed have been observed in the countries which have been most impacted by the global economic recession, such as Ireland, the Baltic countries and Spain, as flows from unemployment to employment have dramatically reduced.



Figure 1.3 — LTU as a percentage of the unemployment rate by country (annual averages)



Source: Eurostat, Labour Force Survey [lfsa\_ugad].

## 1.2. EU policy developments connected with the reduction of LTU

The European Social Fund (ESF), one of the main EU financial tools to support the implementation of the European Employment Strategy at the national level, can finance actions in Member States aiming to support and retrain the long-term unemployed, so they can return to the labour market <sup>(2)</sup>. Indeed, efforts to reduce the duration of unemployment are a key element of the European Employment Strategy — and of any strategy to reduce overall unemployment. Currently, there is no specific target set at the EU level concerning the reduction of LTU. However, it is clear that initiatives to curb LTU will also be instrumental in achieving the 75% employment rate target for adults (aged 20–64) across the EU set by the Europe 2020 strategy.

Fostering the activation, up-skilling and hiring of the long-term unemployed and ensuring that such groups of jobseekers have better access to quality employment services (including personalised services) is necessary. This objective is an integral part of the implementation of the EU Employment guideline 7 adopted in 2010 on ‘Increasing labour market participation of women and men, reducing structural unemployment and promoting job quality’.

More recently, the 2012 Joint Employment Report annexed to the Annual Growth Survey <sup>(3)</sup> has further highlighted the role of effective active labour market policies mutually supported by adequate benefit systems to maintain employability and help people get back to work. More specifically, the Joint Employment Report draws attention to the need for extra support for the long-term unemployed due to the considerable obstacles they face to reintegrate into the labour market: ‘Retraining and work experiences targeted to long-term unemployed can help sustain their employability. Efficient and effective employment services, supported by local partnerships, need to provide more personalised activation and job search support, effective job matching and ensure coordination with social assistance support’.

In order to improve the chances for the long-term unemployed to get back to work, the recent Commission Communication ‘Towards a job-rich recovery’ <sup>(4)</sup> also recommended Member States to put in place hiring subsidies (for new hiring) targeted towards this particularly vulnerable groups of jobseekers.

The following section looks at how various groupings are affected by LTU, setting out the differences within groups associated with the risk of becoming long-term unemployed.

<sup>(2)</sup> The ESF regulation 1081/2006 for the 2007–13 programming period explicitly mentions as part of the scope of intervention of the fund actions related to ‘enhancing access to employment and the sustainable inclusion in the labour market of job seekers and inactive people, preventing unemployment, in particular long-term and youth unemployment’.

<sup>(3)</sup> COM (2011) 815 final.

<sup>(4)</sup> COM (2012) 73 final.

## 2. Incidence of LTU across different groups

The main aim of this section is to identify groups according to age and sex, educational level, immigrant/ethnic minority status, job sector/occupation and region of residence affected by LTU and analyse the differences between the pre-crisis and the current period. The following subsections highlight these characteristics and how they may affect the risk of becoming long-term unemployed.

### 2.1. Impact of the crisis on LTU according to age and gender <sup>(5)</sup>

**Summary:** Age and sex are characteristics highly associated with the risk of LTU. Older people are more affected by LTU than younger generations. However, there has indeed been an increase in the proportion of long-term unemployed amongst younger people during the crisis period. During the early part of the last decade, women were slightly more likely to be long-term unemployed than men. However, during the economic crisis, as relatively more men were affected by job losses, this translated into increased LTU among men.

The most predictive variable for the risk of LTU is the age of the unemployed person: older workers are more affected by long-term unemployment than the remainder of the active population as their transition from job to job is hampered by various obstacles. These include the negative stereotypes of older workers among employers resulting in discrimination in recruitment procedures, greater risks of skills obsolescence among older workers and their over-representation in economic sectors facing restructuring, hampering their redeployment to new jobs.

In 2011, the majority of the unemployed aged 50–64 in the EU had been jobless for more than a year, compared to about 45% of the

unemployed in the 'core' 25–49 age group. In comparison, the proportion of young jobseekers unemployed for more than a year appeared lower, at around 30%. However, this is largely due to many young jobseekers only entering the labour market in their twenties. In addition, a clear sign of the deterioration of the labour market situation among young people in the context of the economic crisis is the increase in the proportion of long-term unemployed among young unemployed by 4 percentage points between 2006 and 2011.

### LTU increasing for younger cohorts and decreasing for older cohorts, UK

Analysis by age groups clearly shows that the incidence of LTU is growing for the younger cohorts and reducing for the older age groups in the **UK**. For example, for 18 to 24 year olds, some 8.9% of all claimants in this group in 2007 were long-term unemployed, but this had increased to 13.6% in 2012. Similarly, the 25 to 49 year old age group saw the proportion of LTU increase from 20% to 28.3% over the same period. However, for those aged over 50 years the proportion fell from 48.4% to 32.5%. Nevertheless, it is still the case that the older unemployed are more likely to be long-term unemployed. In a recent paper, the Trades Union Congress (2012) <sup>(6)</sup> reported that young people (18 to 24 year olds) have been disproportionately affected by LTU. It looked at figures from 2000 and found that while the proportion of LTU had increased by around 50% for all age groups, for young people it had grown by 874% (from 6260 to 60955), an increase of 264% in 2011 alone.

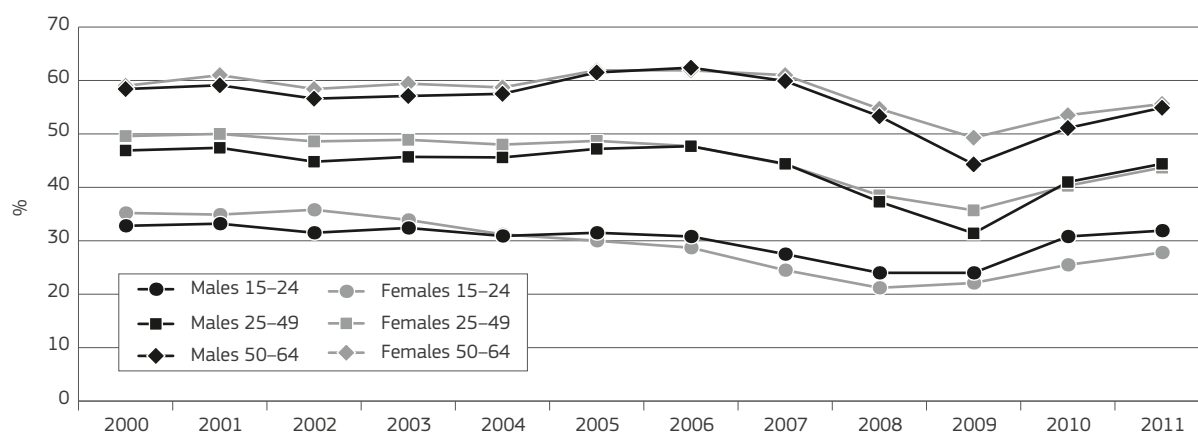
<sup>(6)</sup> Trades Union Congress (TUC) (2012) *Youth long-term unemployment rises* <http://www.tuc.org.uk/economy/tuc-21125-f0.cfm>

<sup>(5)</sup> Eurostat, Labour Force Survey regular series data provide a breakdown of long-term unemployment data by age and sex only. The Labour Force Survey also provides statistics for LTU share and LTU rate by NUTS II region.

Gaps between age groups have been consistent across the last decade, despite the changing

economic context, as shown in Figure 2.1 below illustrating the trends since 2000.

**Figure 2.1 — LTU as a percentage of the unemployment rate, by age and sex (annual average), EU-27**



Source: Eurostat, Labour Force Survey [lfsa\_ugad].

Gender gaps are also observed in relation to the risks of LTU. In the first half of the last decade, female jobseekers were slightly more likely to be long-term unemployed than male jobseekers, regardless of their age. Between 2005 and 2008, in the context of sustained employment growth, the ratio between long-term unemployed and all unemployed declined more sharply among males than among females. However, the recession had the opposite impact, as male workers have been relatively more affected by dismissals and this translated into a higher proportion of male LTU. Among the young unemployed, males are more likely to

have been unemployed for more than a year in comparison to females; this can be explained in part by the higher proportion of male early school leavers entering the labour market.

Table 2.1 provides data for the countries under consideration in 2011, giving a good illustration of the wide variations found among sexes and age groups. In countries such as Ireland and the UK, unemployed males are more likely to be long-term unemployed than their female counterparts. Conversely, in Greece, percentages of long-term unemployed are higher among the female unemployed.

Table 2.1 LTU as a percentage of the total unemployment rate  
for given sex and age groups, 2011

	Males			Females		
	15–24	25–49	50–64	15–24	25–49	50–64
<b>EU-27</b>	31.9	44.4	54.9	27.8	43.7	55.6
<b>BE</b>	31.6	47.4	68.4	32.6	51.0	71.5
<b>BG</b>	51.9	58.0	59.2	44.6	54.6	62.9
<b>CZ</b>	33.0	41.4	46.2	23.3	41.9	48.6
<b>DK</b>	10.1	28.2	45.1	:	22.4	42.8
<b>DE</b>	26.2	48.9	63.8	20.6	45.3	61.4
<b>EE</b>	:	65.6	66.3	:	50.3	68.2
<b>IE</b>	51.4	68.1	70.7	37.1	49.5	54.2
<b>EL</b>	38.8	45.3	49.2	45.7	55.3	57.8
<b>ES</b>	34.8	39.2	52.3	29.5	42.8	57.8
<b>FR</b>	29.8	42.3	59.0	26.6	41.5	55.9
<b>IT</b>	47.4	51.6	56.4	48.2	53.6	53.5
<b>CY</b>	15.9	22.3	27.7	18.6	19.1	:
<b>LV</b>	37.2	62.7	68.1	:	50.0	61.6
<b>LT</b>	40.5	55.7	53.3	:	51.0	68.3
<b>LU</b>	:	33.3	:	:	26.5	:
<b>HU</b>	37.1	48.4	54.1	34.3	48.3	58.2
<b>MT</b>	:	66.0	:	:	:	:
<b>NL</b>	13.9	34.7	55.9	13.6	32.7	52.9
<b>AT</b>	:	28.1	48.6	:	23.9	44.4
<b>PL</b>	27.5	37.2	44.9	25.1	40.3	49.4
<b>PT</b>	29.3	47.5	64.7	23.5	50.2	68.2
<b>RO</b>	42.4	41.6	46.2	40.3	40.8	44.7
<b>SI</b>	32.9	46.4	51.3	38.3	41.9	54.2
<b>SK</b>	56.4	72.6	73.8	51.0	67.1	77.5
<b>FI</b>	7.1	28.0	45.1	:	17.2	36.9
<b>SE</b>	8.0	24.8	37.6	5.3	20.2	32.3
<b>UK</b>	27.7	43.0	47.0	20.3	30.7	36.6
<b>HR</b>	57.1	59.7	79.3	54.7	64.1	80.7
<b>FYROM</b>	66.3	86.1	93.1	58.8	84.6	90.1
<b>TR</b>	13.6	20.2	31.9	22.6	36.9	39.3
<b>NO</b>	:	31.0	:	:	27.3	:

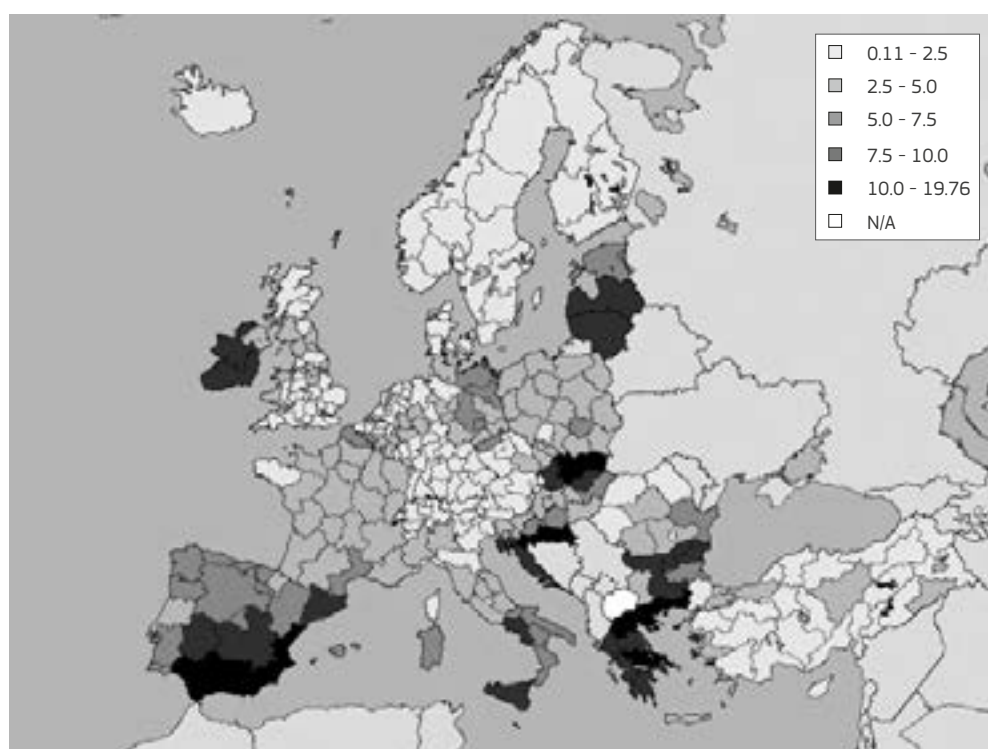
Source: Eurostat, Labour Force Survey, [lfsa\_upgal].

## 2.2. Impact of the crisis on LTU according to region of residence

**Summary:** European level data reveal distinct differences in the risk of LTU according to geographical location or region of residence. Some of these differences reflect the varying levels of growth, the industrial structure and skills composition of their populations. For some countries the differences span across the north-south divide of their territory, others are based on an urban-rural divide, while others demonstrate a link between poor regions and high LTU. In some countries regional differences have not been affected by the crisis and the status quo remains largely intact.

Another important factor in the risk of LTU is geographical location, as there are pronounced regional differences across the EU and within countries, as illustrated in Figure 2.2 below. For instance in **Spain**, Catalonia excepted, a marked north-south divide is evident with the LTU rate across Spain varying from 4.3% in Navarra to over 12% in Andalucía. Across all European regions, overseas territories are particularly affected, with rates of 13.42% in Canarias and 18.9% in overseas French territories. LTU tends to be less widespread in capital regions than in rural or less populated areas. For instance in **Slovakia**, the LTU rate is much lower in the Bratislava region (around 2.4%) than in the rest of the country with some regions facing double-digit rates. This divide is also observed in countries where the average LTU rates are lower: in **Romania**, for example, while the LTU rate is extremely low in the capital region (0.3%), it reaches almost 5% in the region of Centru.

Figure 2.2 LTU rates in 2011, by NUTS 2 region



Source: Eurostat, LFS (overseas territories not displayed on the chart) [LFS main tables, code:tgs00053].

In **Denmark**<sup>(7)</sup>, LTU also follows a centre-periphery pattern, with the Copenhagen area having a rather low level of LTU. Higher levels are found, for instance, in Northern Jutland and the southernmost parts of Denmark. This again reflects the differences in the overall growth of different regions, their industrial structure and the skills composition of their population.

Similarly, **Poland, Romania and Serbia** also note a differentiation in LTU rates between rural and urban areas. The Polish labour market is characterised by a strong regional differentiation in relation to LTU. At the end of 2011, the share of LTU relative to total unemployment ranged from 27.1% in the Lubuskie Voivodeship to 41.6% in the Podkarpackie Voivodeship. Longer average unemployment spells are also more notable in rural areas than in urban areas. In terms of an urban–rural divide in **Serbia**, living rurally means a higher risk of LTU — 76.8% in rural compared with 72.1% LTU share in urban settlements. The LTU share is inversely correlated with the level of economic development, which is also confirmed by the regional profile of LTU: the share of LTU in less developed southern regions of Serbia (Sumadija and West Serbia, 77.4%; South East Serbia, 77.8%) is higher than in richer northern regions (Belgrade and Vojvodina, 71.3% and 68.7%, respectively). The relative position of the rural population has also deteriorated during the crisis. In October 2008, the rural LTU share of 72.2% was only slightly higher than the urban LTU share of 71.1%; within three years the gap has widened from 1.1 pp to 4.7 pp.

A north–south divide in LTU rates is evident in **Greece, Italy, Belgium and Portugal**, while **Croatia and Slovenia** also note a link between poorer regions and higher LTU rates. In **Greece**, the long-term unemployed were unequally distributed across the 13 NUTS 2 regions of the country. In 2010, the LTU rate ranged from as low as 2.1% in the region of Notio Aigaio to 7.85% in Dytiki Makedonia. In general, the island regions with pronounced tourist-related activities exhibited the lowest risk of LTU and the remote northern mainland regions, the highest. Examining the regional picture in **Italy** shows that unemployment and LTU rates, as well as LTU shares, are higher in the south and the islands, than in the northern regions and the centre. The impact of the crisis on these indicators has however been stronger in the north and weaker in the south and the islands, leading to

a reduction in regional disparities. In **Belgium**, too, the southern region of Wallonia is over-represented in long-term unemployment figures.

Some countries, such as the **UK and Croatia**, have not seen a significant difference in the regional picture of LTU between 2007 and the present. In the **UK**, in May 2012, the regional differences in the proportion of LTU across the UK range from a high of 27.9% in the West Midlands to a low of 19.3% in the South West. Furthermore, this was also the case in 2007, though at a lower level overall. Historically, the West Midlands has been a centre for manufacturing industry and to some extent this remains a strong feature of the region but it is unlikely to account for much of the increase in LTU. The motor vehicles sector which dominates manufacturing in the region has performed well since the recession. A significant proportion of the job losses in this and other regions will be related to public sector cuts. This is also the case for London, which had the second highest proportion of LTU at 27.8% in May 2012, though job losses in the financial services sector have also been high and contributed to this increase. Similarly, in the three NUTS 2 regions of **Croatia**, no change in the distribution of LTU is visible from 2007 to 2011, with the highest unemployment and the highest risk of LTU being found in central and eastern Croatia.

### 2.3. Impact of the crisis on LTU according to educational level

**Summary:** One of the key features of LTU is its relationship to low educational and skill levels. All educational groups have been affected by the crisis in relation to LTU, but it is the lower educated groups that still experience the highest rates.

In the majority of Member States, low educational levels are linked to the risk of becoming long-term unemployed. Low education is a major risk factor for LTU in **Germany, Estonia, Croatia, Greece, Spain, Lithuania, Luxembourg, the Netherlands, Austria, Portugal, Slovenia, Slovakia, Finland, Sweden and Serbia**.

In some countries all educational groups have experienced increasing risks of LTU, but people with the lowest levels of education have experienced the highest LTU rates. A clear example of this relationship is illustrated in **Serbia** where the share of LTU is highest among the least educated, and lowest among the highest educated. The long-term

(7) While the analysis of regional disparities in LTU in the first half of this sub-section is based on information gleaned from Eurostat, the following analysis (until the end of this sub-section) comes from information directly provided by the Sysdem experts in their review articles.

unemployed share among persons without formal education is 88.8%, dropping to 82.0% for those that completed primary education, 73.7% for high school graduates and to 63.7% for those with university education. Education also plays a major role in the risk of LTU in **Estonia**. All educational groups suffered increasing LTU rates as a share of each group's active workforce from 2007 to 2011. The most rapid increase hit the least educated group with over 16% of active people in this group being long-term unemployed in 2011 (compared to around 7.5% of the workforce with secondary education and less than 4% of those with higher education).

In **Luxembourg**, National Statistical Office (STATEC) data (2008) showed that the proportion of the low-skilled among the long-term unemployed is particularly high: among the various levels of qualifications, those individuals with basic qualification (*scolarité obligatoire*) are the most represented with 59%. Figures for May 2012 point towards two more trends that strongly relate LTU to educational reforms. First, LTU is higher, the longer the low-skilled are in search of a new job (3 561 jobseekers waiting for more than 24 months). Second, LTU is significantly high among the low-skilled category with a basic qualification and competence level (*niveau inférieur*).

Even in countries such as **Germany** and **Austria** (which show a positive picture in terms of unemployment during the 2007–11 period), those with lower educational levels suffer more from LTU. In **Germany**, between 2007 and 2011, unemployment fell more sharply for the high- and medium skilled than for the low-skilled. In 2011, the unemployment rate among low-skilled workers (ISCED 0-2) amounted to 13.4%, five-times higher than those who were highly skilled (2.5%; ISCED 5-6) <sup>(8)</sup>.

A clear trend is evident in some countries including **Bulgaria**, **Cyprus**, **Slovenia**, and **Croatia**: that the position of highly educated people also deteriorated in the labour market between 2007 and 2011. In **Bulgaria** for

instance, in 2008 and 2011, the share of low educated long-term unemployed was around 70% and 65% respectively among people in this group. The decrease of the share of low educated workers in LTU from 2008 to 2011 is because of an increase in LTU of individuals with secondary and higher education. Meanwhile in **Croatia**, according to national PES data, those educated to the tertiary level comprise a minority amongst the long-term unemployed, but their share slightly increased between 2007 and 2011 (from 5.6% to 6.9%), as did the share of the long-term unemployed with upper secondary education. By contrast, the share of the long-term unemployed with short vocational or below upper secondary education declined from 71.7% to 68.4%. In **Cyprus**, the highest unemployment rate in 2011 was among those with upper secondary and post-secondary non-tertiary education (ISCED levels 3 and 4, at 8.6%) and this group also experienced the largest rise in unemployment since 2008. The next highest 2011 unemployment rate was among those with pre-primary, primary and lower secondary education (ISCED levels 0 to 2, at 7.6%), while the lowest 2011 rate was experienced by those with tertiary education (ISCED levels 5 and 6, at 7.1%). However, even this last group has experienced a very substantial increase in unemployment since 2008. In **Portugal**, individuals with four years of basic education (first cycle) constitute the largest group of individuals who are long-term unemployed. For the older generation of workers, completing the first cycle of basic education was the norm. The strong decrease in the share of this group relative to total LTU (from 44% to 33%) may be explained, in part, by the fact that a large part of this generation is reaching retirement age. However, the speed of the change (11 p.p. in four years) indicates that other factors have also come into play. One of the major reasons may have been that workers with higher educational levels have been more vulnerable to the effects of the crisis. This applies in particular to those with secondary education whose share rose from 12% to 17% and those with nine school years (third cycle) whose share increased from 16% to 20% in 2007.

<sup>(8)</sup> The data refer to the 1997 ISCED classification.



## 2.4. Impact of the crisis on LTU according to immigrant or ethnic minority background and nationality

**Summary:** In general, national reports on LTU data clearly show a link between immigrant status and/or being a member of an ethnic minority and the risk of being long-term unemployed; a stark example of this is seen with the Roma population in Slovakia, who account for relatively large proportions of the long-term unemployed despite representing only 7%–9% of the total population.

Several countries including **Belgium, Denmark, Germany, Estonia, Greece, Finland** and **Sweden** report that immigrant background is an important risk factor concerning LTU and that third country nationals face higher LTU risks than native workers. In **Slovakia**, the Roma are clearly more exposed to LTU. According to the latest available official statistics from 1999, the Roma accounted for almost 20% of total unemployment, 30% of LTU and as much as 52% of very LTU (more than 48 months) while representing only 7%–9% of the total population. All available evidence suggests that the labour market position of the Roma population has worsened since then. In **Denmark**, a study from the Ministry of Employment shows that ethnic background has an important effect on the risk of LTU. Thus, the rate of LTU for immigrants from non-western countries and their descendants is more than five times higher than the rate for unemployed persons of Danish origin. Immigrants from western countries also have a higher rate of LTU than those of Danish origin, but the difference is not as dramatic. In **Finland**, unemployment among immigrants has stayed at a higher level than in the native population. The reasons include the high demands on language skills, employers' attitudes, and lack of information about the process of employing immigrants.

Conversely, **Cyprus** experienced increased LTU risks for domestic workers during the 2007–11 period. In 2008, before the economic crisis affected **Cyprus**, unemployment was highest among EU-27 nationals (6.6%), followed by non-EU nationals (3.8%) and Cypriots (3.3%). At the height of the boom, Cypriot unemployment was essentially frictional, third country nationals arrived to short-term predetermined jobs and were only unemployed where predetermined matches fell through for ad hoc reasons, while EU nationals who came to Cyprus for family reasons may have had more difficulty

forming employment matches. By Q1 2012, EU nationals continued to have the highest rate of unemployment (15.5%), but Cypriots experienced a sharp rise in unemployment (10.8%), overtaking non-EU nationals (7.4%). The reasons for this reversal are clear. Third country workers are imported into short-term jobs because of their lower cost. During the economic crisis, the job-matching process became less effective, leading to increased unemployment for this group. However, Cypriot workers, particularly unskilled ones, experienced increased matching difficulties and were replaced by cheaper non-EU and EU-27 workers.

## 2.5. Impact of the crisis on LTU according to job sectors/occupations

**Summary:** Workers in manufacturing and industry, construction, information and financial activities and the agriculture sector experienced an increased risk of becoming long-term unemployed as a result of the crisis, while the occupations most affected by LTU include unskilled, semi-skilled, craft and agricultural workers. However, in cases like the UK, the crisis affected sectors such as retail, financial services and public services, which employ high proportions of women, resulting in women's risk of LTU increasing.

The main job sectors affected by LTU as a result of the crisis include manufacturing and industrial, construction, information and financial activities (**Greece**), and agriculture. In countries such as **Greece, Spain, France, Ireland, Hungary** and **Norway**, male-dominated, cyclical sectors, such as manufacturing and construction, have been most affected by the economic crisis. As a result, manual workers have been most affected by LTU in these countries. The opposite was the case in the **UK**, where job losses during the downturn mostly affected sectors where women form a high proportion of the workforce, such as retail, financial services and public services, and where LTU has increased amongst women because of this sectoral factor. In **Spain**, the downturn in the construction sector explains the sharp downturn of employment and the increase of unemployment. This sector has also been strongly affected and has contributed to rising LTU. Also, the last occupation held by the unemployed worker has become a relevant factor, explaining the duration of their periods of unemployment. Occupations associated with higher skills such as managers and professionals are less prevalent among the long-term unemployed. In **Norway**, workers in building and construction and in industrial sectors are more exposed to LTU



compared to other groups, as these sectors were the first to be affected by the economic downturn in 2008/2009; some of the workers laid off during this period were still unemployed in 2010. Workers in building and construction more often had problems with finding new work, compared to, for instance, engineers or IT specialists. Meanwhile, in **Ireland** the collapse in building activity in 2008–09 displaced large numbers of craft and less skilled workers which subsequently accentuated the LTU problem. In **France**, the economic crisis has more greatly affected those sectors typically dominated by men, for example, industrial or temporary work. Particular occupations can result in a greater risk of LTU: for example, unemployed persons registered as a result of redundancy seem to be at a greater risk of LTU than other unemployed persons. Conversely, the risk of LTU is limited for those registering as unemployed following a fixed-term contract of employment, resignation, or temporary contract — even if these groups are more exposed to the risk of the reoccurrence of unemployment. Nevertheless, age can partially explain this situation (older workers are very well represented in redundancies and young people in fixed and temporary contracts).

The occupations most affected by LTU, include unskilled, semi-skilled, craft and agricultural workers in **Ireland, France, Cyprus, Lithuania, Poland, Slovenia, Croatia and the Former Yugoslav Republic of Macedonia**. In **Ireland**, the occupational category most affected by LTU was skilled manual (or craft) workers, for which the unemployment total in 2012 involved an LTU share of 72%, compared with 26.5% in 2007. A similar (if less extreme) pattern is evident over this period for ‘elementary or unskilled’ occupations and machine/plant operators. These three occupational categories, which can be described as ‘craft, semi skilled and unskilled’, accounted for over 60% of the overall LTU total in 2012. Similarly, in **Poland**, the occupations with the highest share of long-term unemployed are craft and related trades workers, personal services workers and salespersons. Occupational structure is also important in **Slovenia**. The higher share (22.9%) of long-term unemployed is found in the group of elementary occupations (occupations that generally require a low level of education or skills). A relatively high share of the long-term unemployed is also found in other occupational groups such as: craft and related trades workers (14.4%); service workers and shop and market sales workers (10.7%); and plant and machine operators and assemblers (10.8%).

## 2.6. Other factors affecting the risk of LTU

**Summary:** Other characteristics were identified in some country contexts as affecting whether or not individuals were likely to find themselves long-term unemployed. These included disabilities, the duration of previous work periods, and the type of assistance they were receiving or whether in fact they were receiving any support.

In several countries links exist between LTU and other characteristics including disability (Luxembourg) and multiple disadvantage (Austria) and the length of prior period of service (Slovenia and Croatia) or the type of benefit/assistance payment jobseekers were in receipt of, whether or not jobseekers were in receipt of UB (Denmark and Hungary). In **Luxembourg**, an important unemployed group affected by LTU is the disabled, who represent 16% of the long-term jobseekers in contrast to 2% of all jobseekers. The total of both recognised disabled groups (*salariés handicapés* and *salariés à capacité de travail réduite*) has further increased from 2 595 in July 2010 to 3 313 in March 2012 and it is this particular category which needs attention. National Agency for Employment data shows that among the disabled, the low-skilled are particularly disadvantaged in their search for employment. A characteristic related to the long-term unemployed in **Slovenia** is the length of service before becoming (long-term) unemployed. In 2010, most of the long-term unemployed (20.5%) had 20 to 30 years of work experience, followed by those who had worked for 30 years or more (18.8%), and then those who had worked 10 to 20 years (16.4%) (ZRSZ, 2011 <sup>(9)</sup>). From 2005 to 2010, the largest increase (by 6.8%) in the share of long-term unemployed was detected for those in the category of having been employed 30 years or more. This means that, again, older individuals are a vulnerable group. However, there is also a relatively high share of those who have no working experience at all among long-term unemployed (15.7% in October 2010), but this fell by 9.2% compared with 2005. This group is composed mainly (64%) of young people. In **Denmark**, the recipients of unemployment social assistance show a significantly higher share of LTU in comparison to the members of an unemployment insurance fund. This reflects the different levels of employability of the two groups receiving income from these two different sources.

<sup>(9)</sup> Zavod Republike Slovenije za zaposlovanje (ZRSZ) (Employment Service of Slovenia), *Dolgotrajno brezposelne osebe na ZRSZ (Long-term unemployed persons at ESS)*, 2011. Internet: [http://www.ess.gov.si/\\_files/2251/Analiza\\_DBO.pdf](http://www.ess.gov.si/_files/2251/Analiza_DBO.pdf)

## The stock, inflow and outflow of LTU, Hungary

Detailed regression analysis draws on estimations about factors contributing to LTU status for the two years before and after 2009. LTU is considered among the stock unemployed (in the ILO sense), and also for all non-working individuals not in receipt of pension benefit and who are not in full-time education. This distinction is important in that a large number of people who have not worked for a long time cease to search for work and do not count as unemployed, but remain part of the labour reserve. Findings are in line with the main characteristics of long-term unemployed groups reflecting lower education levels, women of childbearing age, and older workers.

The analysis also estimates the factors that contribute to flows (rather than the stock) into LTU. Looking at raw rates, it appears

that there is a higher turnover among the long-term unemployed (according to ILO definitions). The slight changes over time were backed by an increase in the inflow to LTU as well as a decrease in the outflow from nonworking LTU status.

Inflow into LTU is more strongly influenced by regional characteristics and age (especially in the case of the non-working), while outflows are more strongly related to education and timing within the year. This pattern fits with the complex nature of events over 2008–11. The crisis hit specific parts of the country and specific industries/jobs and this was largely responsible for the inflow into LTU in the period under consideration. On the other hand, the activation policy of governments during this period emphasised the activation of longer term unemployed persons as opposed to the newer unemployed. Given this policy, it is quite likely that the outflow was dominated by individual characteristics.

### 3. Factors driving transitions into and out of LTU

This section attempts to analyse the factors driving transitions into and out of LTU in countries where evidence is available. As an instrument to assess labour market (dys)function, Beveridge curves are presented (also known as a UV-curve) plotting vacancies (V) relative to the unemployed (U) over time. It is held that if both vacancies and the unemployed are present, but jobs are not being formed, the unemployed will remain unemployed for longer periods of time and those leaving school/entering the labour market will become unemployed. **Movements along** the curve tend to represent business cycle fluctuations (and for which economic growth tends to be the remedy), while **shifts in the curve (away from the origin)** tend to indicate structural reasons concerning the ability of labour markets to form job matches. LTU will tend to shift the curve away from the origin.

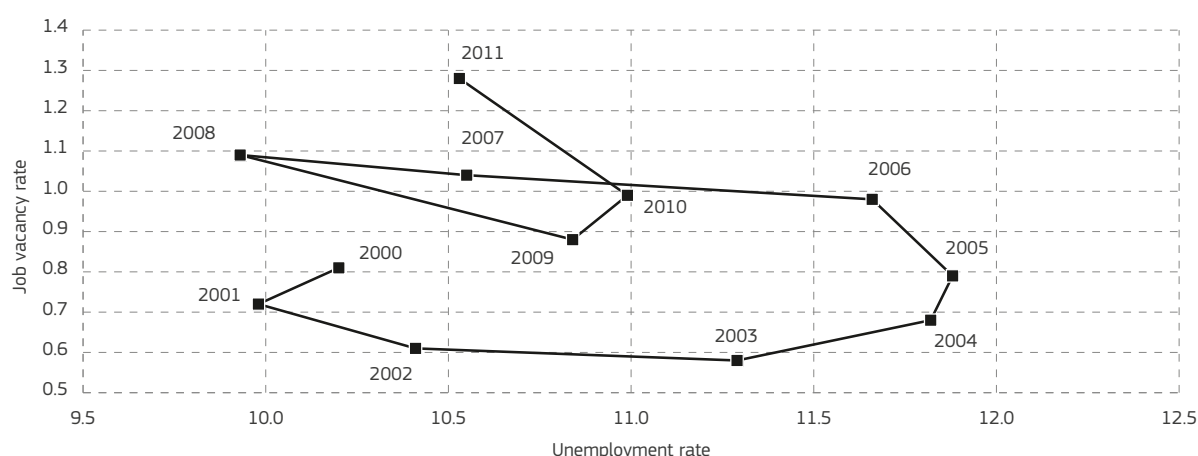
markets. In other countries, the Beveridge curve illustrates how unemployment is affected by the cycles of the economy. In some countries, for example **Italy**, the Beveridge curve analysis does not show a systematic pattern that can explain whether the changes in unemployment rates are linked to cyclical or structural factors, while in other countries, the Beveridge curve analysis is inconclusive, mainly because the available data are unreliable.

Many countries among those in focus, including **Belgium, Bulgaria, Cyprus, Slovakia** and **Sweden**, note that the Beveridge curve has shifted outward in recent quarters, indicating that structural problems are contributing to LTU in their labour markets. In **Belgium**, in 2008 and 2009, the economic crisis resulted in a further drop in vacancies and a rise in unemployment. In 2011, the cyclical improvement in the economy produced a strong increase in the number of vacant posts, but only a slight drop in the number of jobseekers. Between 2007 and 2011, the Beveridge curve (see Figure 3.1) therefore moved outwards (since the vacancy level was higher in 2011 than in 2007, at almost identical rates of unemployment), highlighting a certain mismatch between the supply of and demand for labour.

#### 3.1. Beveridge curves and the relationship between vacancy and unemployment rates

**Summary:** Beveridge curves in many countries have shifted outward in recent quarters, indicating that structural problems are contributing to LTU in respective labour

Figure 3.1. Belgium's Beveridge curve (percentages of the active population, annual averages) <sup>(10)</sup>



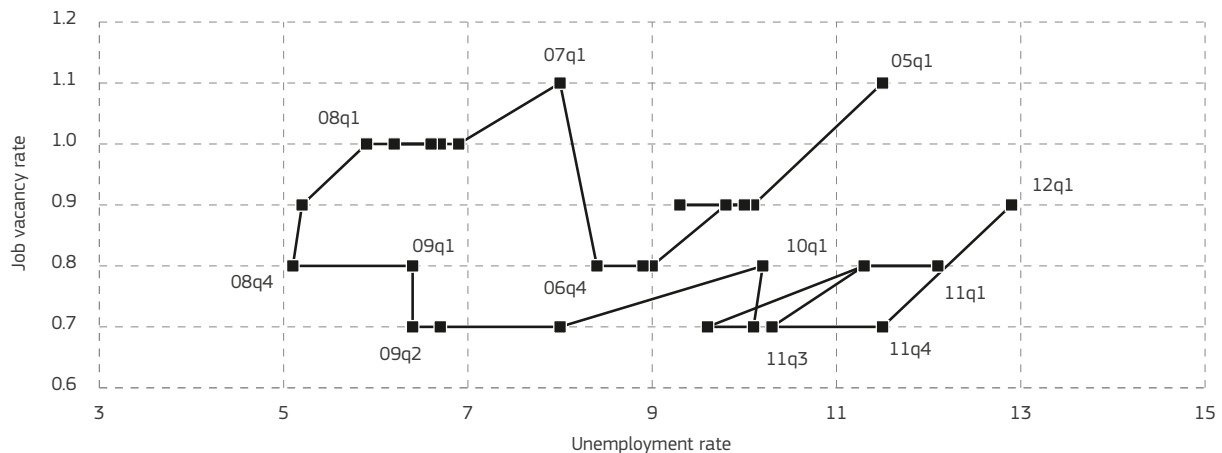
Source: Actiris, FOREM, ICN, ONEM, VDAB, calculs CSE, in Conseil Supérieur de l'Emploi (Juin 2012).

<sup>(10)</sup> (1) Vacancies listed by the regional public employment services, with the exception of job offers made through temporary work agencies or those made available as part of subsidised programmes. (2) The administrative unemployment rate is used, based on the number of out-of-work jobseekers (National Employment Office).

In **Bulgaria**, the Beveridge curve (Figure 3.2) moved to the right and upwards during the period Q4 2008 to Q1 2012 <sup>(11)</sup> in the context of a tightening of the labour market. This indicates deepening structural problems and

a reduction in the ability of the Bulgarian labour market to form job matches. The two anti-clockwise loops at the end of 2010 and in 2011 indicate some short-run adjustments to cyclical shocks.

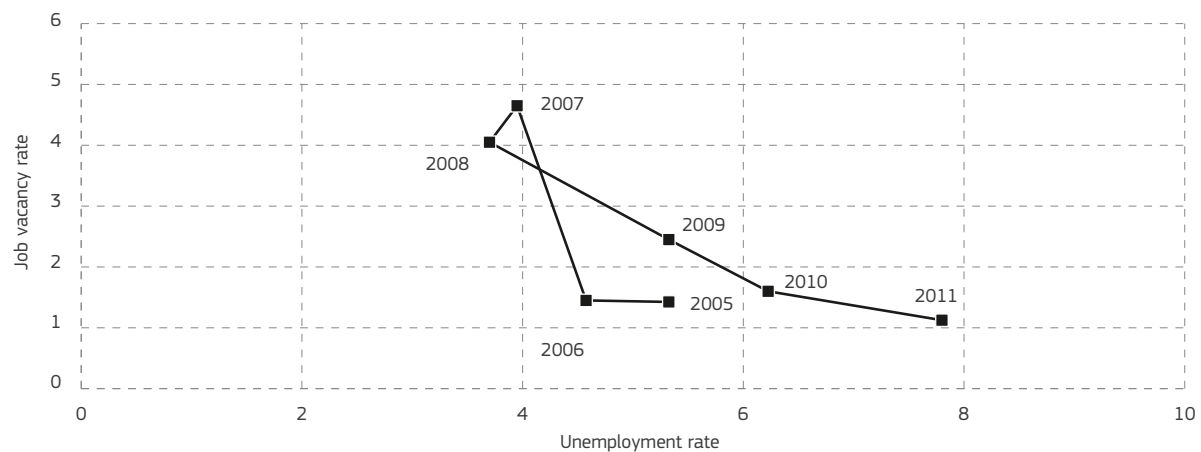
Figure 3.2: Bulgaria's Beveridge curve (Q1 2005 to Q1 2012)



Source: Eurostat [lfsq\_urgaed], [jvs\_q\_nace].

The JVR data for Q3 2009 and Q1 2012 are preliminary. Source: NSI, Bulgaria.

Figure 3.3: Cyprus' Beveridge curve



Source: Eurostat, LFS quarterly unemployment rate, update 27 June 2012.

(\*) Vacancy rate calculated from the following sources:

Eurostat, job vacancy statistics, NACE Rev1.1, NACE Rev2.

Eurostat, LFS employment by sex, age and nationality, update June 27, 2012.

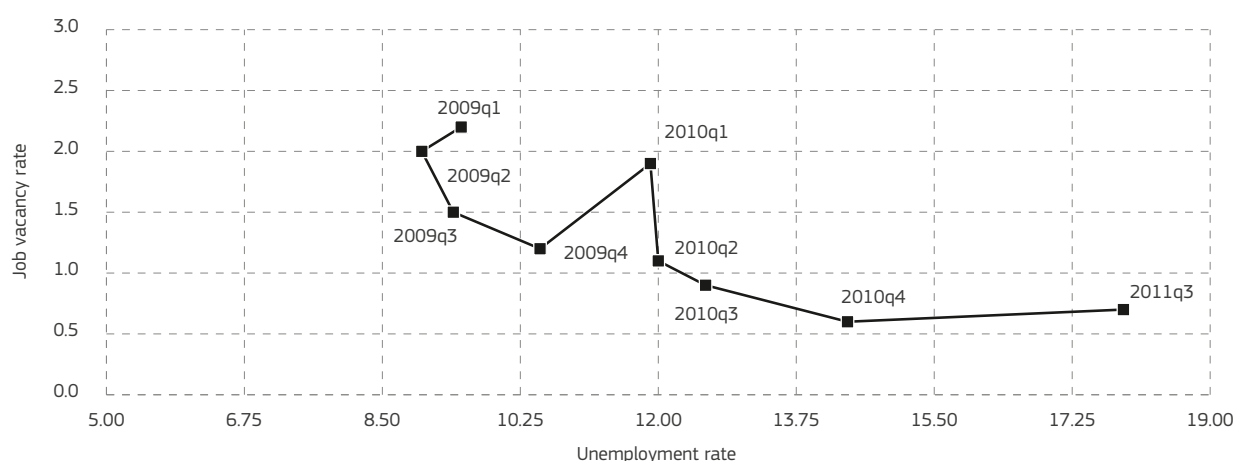
<sup>(11)</sup> Data are available only for this period.

In **Cyprus**, as the unemployment rate declined following the 2002–03 slowdown (4.0% in 2007), the vacancy rate rose to a peak of 4.7% in 2007. When the international crisis reached Cyprus in 2008, the unemployment rate continued to decline (to 3.7%), but so did the vacancy rate (to 4.1%). By 2009, the vacancy rate was considerably lower (2.5%) and the unemployment rate considerably higher (5.3%) than in 2007 and the Beveridge curve (see Figure 3.3) traced out by the data thereafter lies north-east of that in the 2005–07 period. In the context of this analysis, this shift signals the emergence of structural problems.

**Greece** has moved from a situation where there were approximately six unemployed persons for each vacancy in Q3 2009, to a situation where there were approximately 25 unemployed per vacancy in Q3 2011. This movement down the Beveridge curve for Greece (see Figure 3.4) with

rising unemployment and falling vacancies, points to an unfavourable shift in the direction of the ‘lack of demand’ model. In other words, rising unemployment during the current recession, and especially during 2009 and 2010, appears to be largely cyclical in nature. Thus, most of the rise in LTU is attributed to the drop of aggregate demand and labour demand. When vacancies remain low for a sustained period, job losers (as well as labour market new entrants and re-entrants) are unable to find work quickly and have a much greater risk of becoming long-term unemployed. At the same time, the apparent outward shift of the Beveridge curve in 2011 indicates some increase in structural labour market problems. Such movement is likely to be indicative of labour market mismatches, due possibly to very diverse developments by sector, inadequate skills supply and insufficient labour mobility.

Figure 3.4. Greece’s Beveridge curve

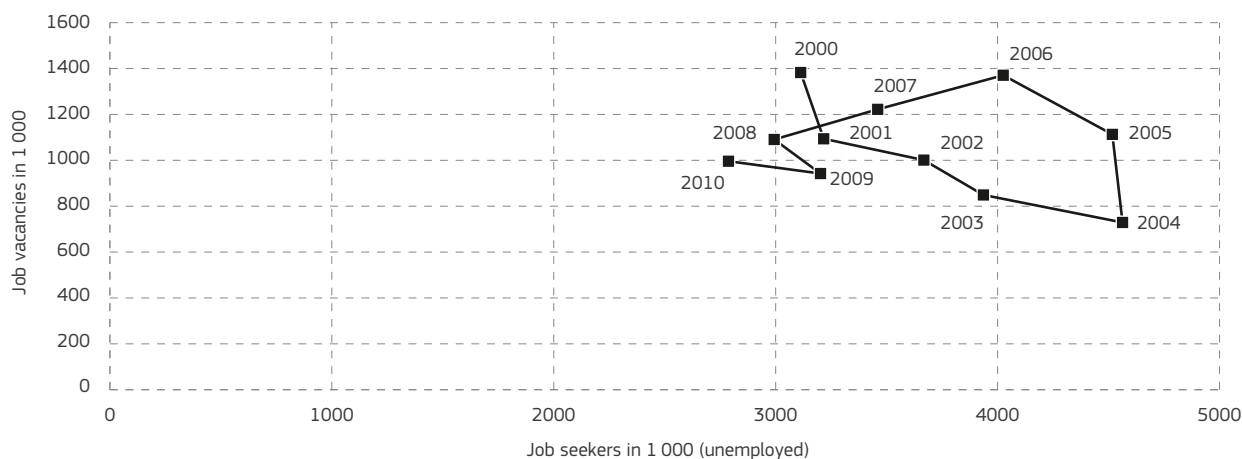


Source: Eurostat, Labour market database (data retrieved June 2012).

In other countries, including **Estonia, Latvia, Hungary, the UK and Iceland**, the Beveridge curve illustrates how unemployment is affected by the cycles of the economy. **Germany and Austria** are among the few countries in Europe where the economic crisis has not caused a persistent surge in LTU. While unemployment was affected by cyclical factors in these two countries, the

labour market was able to bounce back relatively quickly after the recent economic crisis. Over the past decade, the ratio between the number of vacancies and number of unemployed in **Germany** (see Figure 3.5) was the lowest in 2004 and improved over subsequent years. In the year 2009, however, the vacancy-unemployment ratio dropped again, but quickly recovered in 2010.

Figure 3.5. Germany's Beveridge curve, 2000–10



Source: BMAS (Federal Ministry of Labour), Eurostat, IAB, Economix Research & Consulting.

The Beveridge curve of the **Estonian** labour market shows a sharp decline in vacancies and a simultaneous growth in the number of unemployed persons from the third quarter of 2008 until the last quarter of 2009. This is a classical movement along the UV curve when a country suffers economic recession. The demand for labour decreased, because firms got into difficulties and started cutting expenses: some went bankrupt. This brought down the vacancy

rate and increased the unemployment rate. From the second quarter of 2010 the unemployment rate started to decrease with the vacancy rate slightly increasing. The movement back along the UV curve is visible in Figure 3.6. This could indicate some structural changes (increased structural unemployment), but since the shift is not large and the country has not fully recovered from the economic crisis, clear conclusions about structural factors cannot be made.

Figure 3.6 Estonia's Beveridge curve (quarterly data from Q1 2005 to Q1 2012)

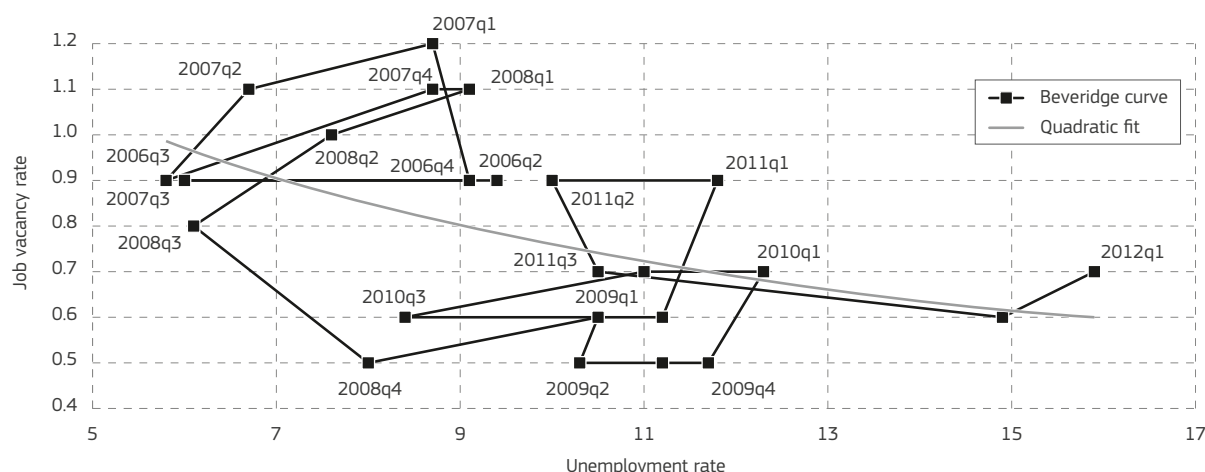


Source: Statistics Estonia.

In some countries, like **Italy**, the Beveridge curve analysis does not show a systematic pattern that can explain whether the changes in unemployment rates are mostly due to cyclical or structural factors, while in other countries (including **Lithuania, Poland, Turkey** and **Serbia**), the Beveridge curve analysis is inconclusive, mainly because the available data are considered unreliable because in some countries the number of vacancies recorded are only a fraction of all vacancies actually available in the labour market. The **Italian** Beveridge curve is depicted in the figure below, using quarterly data from the first quarter of 2005 to the first quarter of 2012. The theoretical hyperbolic shape and downward sloping curve is

evident only for a few consecutive quarters and Figure 3.7 shows a cloud of points that erratically spread around the quadratic fit. No systematic pattern is evident over time, as the quarters above and below the quadratic fit include almost in equal proportions all the considered years. The most recent years are placed on the bottom and to the right of the graph, reflecting the relatively high unemployment rates observed in the current economic downturn. Overall, the efficiency of the job matching process does not seem to have substantially changed in the whole period, even though the outwards shift of the curve in 2011 in comparison with the period 2008–09, provides an indication of decreased labour market efficiency in most recent times.

Figure 3.7. Italian Beveridge curve, Q1 2005–Q1 2012



Source: Eurostat.

In **Turkey** when plotting the Beveridge curve using 2004–10 LFS data for unemployment and vacancy rates from the Turkish Public Employment Service (ISKUR), the plot failed to produce a downward sloping curve. The reason is that Turkish Public Employment Service (ISKUR) appears some distance from having a representative coverage of the labour market. ISKUR registrants still form a fraction of the number of the unemployed indicated by the monthly LFS. **Poland** has been included in the group of countries (together with France, Italy and the UK), which are close to the average EU Beveridge curve trend, with slight increases in both the labour shortage indicator and the unemployment rate <sup>(12)</sup>. It is worth noting that

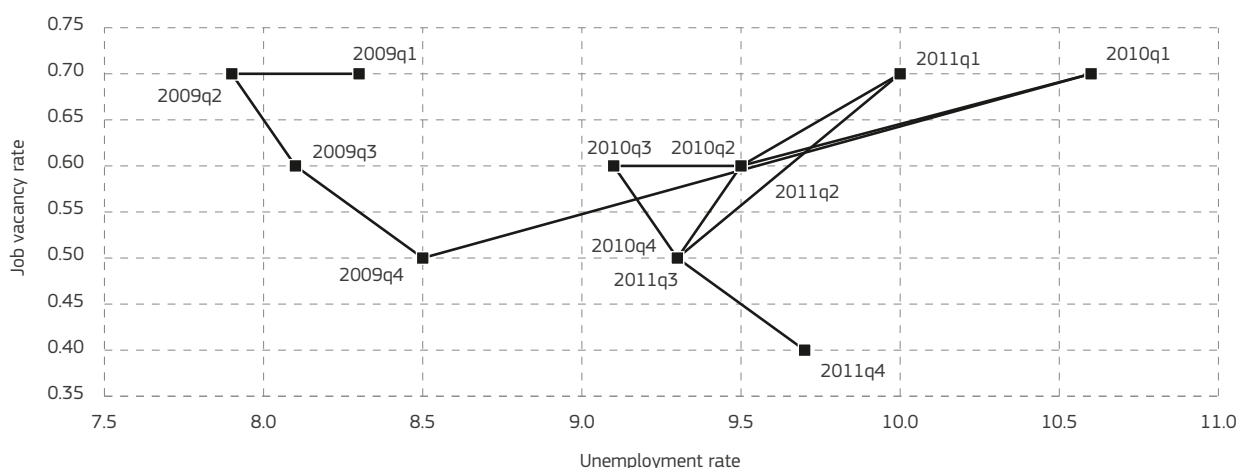
the analysis of the UV curve in Poland (see Figure 3.8), focused on the absolute numbers of job vacancies and the numbers of unemployed, may be misleading, as it is estimated that vacancies registered by the PES only constitute around 20–30% of all available job offers in the market, and especially those jobs with less favourable working conditions, for which the applicants are harder to acquire <sup>(13)</sup>. There are a number of factors in relation to the Polish labour market that can have an impact on the rate and inflow/outflow from LTU, such as the policy with respect to UB, generally weak active labour market policy, the scale of undeclared work or geographical differentiation of the labour market and connected job-skill mismatches <sup>(14)</sup>.

<sup>(12)</sup> Such as those presented in the *EU Employment and Social Situation Quarterly Review*, European Commission, March 2012.

<sup>(13)</sup> Wiśniewski, Z., Zawadzki, K. (eds.) (2010), *Active labour market policy in Poland in European context* (Aktywna polityka rynku pracy w Polsce w kontekście europejskim), Wojewódzki Urząd Pracy- Uniwersytet Mikołaja Kopernika, Toruń 2010.

<sup>(14)</sup> See for example: *Zjawisko długotrwałego bezrobocia w województwie podlaskim* [Phenomenon of long-term unemployment in Podlaskie voivodeship] (2011).

Figure 3.8. Poland Beveridge curve, Q1 2009–Q4 2011

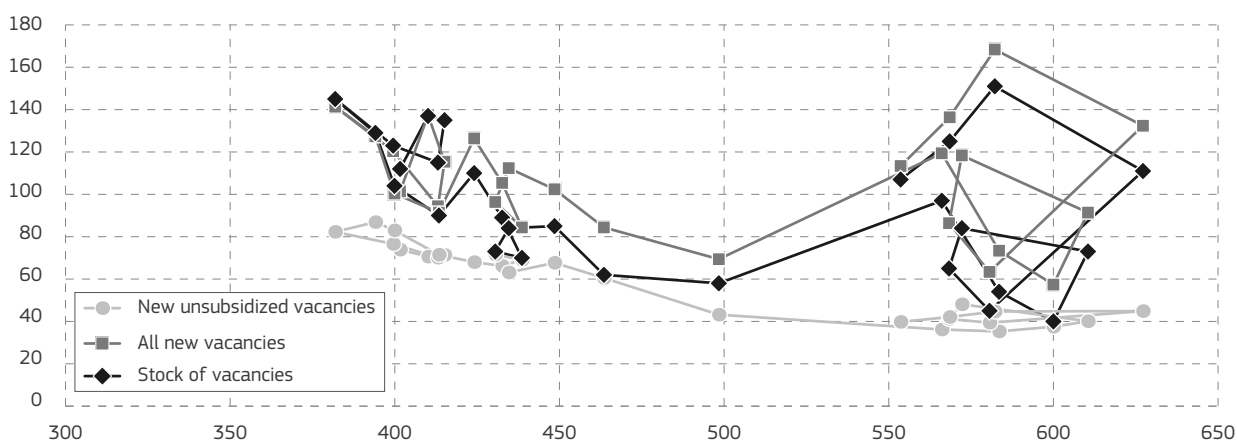


Source: Own calculations based on Eurostat LFS data.

How vacancies are measured can cause different pictures to emerge about the situation with respect to the U-V curve. Figure 3.9 for Hungary shows different versions of the so-called Beveridge curve, the relationship between the number of vacancies and registered unemployment in Hungary for the period between 2005 and 2011 on a quarterly basis (using the ILO unemployment definition would shift the curves to the left by around 100 000 <sup>(15)</sup>). The Beveridge curve for **Hungary** is marked by a key difference between the period before and after January 2009, the time the crisis hit with full force (marked by the 500 000 unemployed count). All curves (for stock

vacancies, new unsubsidised vacancies and all new vacancies) slope downward, thus indicating a negative relationship with the number of vacancies: increased unemployment is associated with fewer vacancies. In the period after the crisis, however, the relationship changes substantially. Unsubsidised vacancies remain at a low, stable level, but the number of unemployed changes by 100 000 across quarters during this period, thus this relationship breaks down entirely. The exact opposite happens if all vacancies, including subsidised ones, are considered. It is clear that subsidised jobs contributed to the total available also before 2009, but it is notable how

Figure 3.9. Hungary's Beveridge curves



Source: Data published by the National Bank of Hungary (new unsubsidised vacancies) and data published by the public employments service (all new vacancies and stock of vacancies at the closing day in each month, added up to quarters).

<sup>(15)</sup> The chart looks similar if not identical if we use ILO rather than registered unemployment on the horizontal axis. The difference is around 100 000 individuals, being lower in the summer when seasonal work absorbs much of the affected workforce and higher in winter when neither seasonal nor public work is available.



dramatically this changed thereafter. Closely tracking each other, the evolution of both the stock and flow of all new vacancies can vary substantially within the range of 40 000 to 160 000. The original idea behind the Beveridge curve relies on the jobs created in the private sector and the unemployed searching for work, thus the lowest curve matches the conceptually correct one.

### 3.2. Structural causes of LTU

This section explores the types of structural issues contributing to the existence of LTU. This section examines what countries report in terms of skills mismatches and geographical mismatches, tax and social security disincentives, high levels of employee protection and other labour demand side structural factors. Some countries, however, show no signs of increased structural problems as a result of the economic crisis, in particular, the German and Austrian labour markets. This is in contrast to other European countries, where the economic crisis had a large negative impact on employment.

#### 3.2.1. Skills mismatches

**Summary:** The mismatch between educational qualifications and the skills supplied by the education and training systems in countries and those demanded by the labour market is an issue for many of the countries covered in this review. The lack of basic skills in the workforce along with poor demand for low-skilled jobs has contributed to this mismatch in some countries. Ineffective PES are mentioned as an issue perpetuating the LTU problem. Analysis indicates that further reforms need to be implemented to address mismatches. The problem of data reliability concerning the assessment of the nature of the mismatch problem and the consequent difficulties for devising the correct solutions in some countries have been cited.

Mismatches between the education and skills supplied by the education and lifelong learning system and those demanded by the labour market are an ongoing issue in many countries including **Belgium, Bulgaria, Greece, France, Luxembourg, Malta, Slovakia, Spain** and **Turkey**. This problem has manifested itself in the education to employment transition in **Turkey**, for example. The LTU rate among young people was 19% for 15–19 year olds, 24% for 20–24 year olds, and 26% for 25–34 year olds in 2009. Depending on the age group, one fifth to one

quarter of young unemployed persons are long-term unemployed. This proportion is gradually rising and becoming a structural labour market problem. The reason for this is that the young age-education level patterns in unemployment are not remedied by economic recovery and increased GDP activity, but tend to persist.

Some countries cite a lack of basic skills combined with low demand for low-skilled jobs as a key reason for supply side mismatches. A related issue is the low effectiveness of PES mentioned in some cases as a factor contributing to LTU (**Bulgaria, France** and **Italy**). In **Belgium**, the qualifications held by those unemployed do not always match the skills required on the labour market. The June 2012 report from the Higher Level Council on Employment confirms the existence of a serious mismatch between the large share of unqualified jobseekers within the total number of unemployed and the low share of low-skills jobs as a proportion of total employment. At the same time, a structural shortage of employment has led to stiff competition for jobs: in 2010, the over qualification rate for people in work in Belgium was estimated at 22 %. Two issues related to education and skills are identified in **France**; firstly, people are not being equipped with the skills needed by the labour market while in formal education. Furthermore, ‘missions locales’ tasked (in the 1980s) with the role of providing information, advice and guidance to young people have failed to address this problem. Secondly, key skills are also a significant barrier for people entering the workforce (with 15% to 20% of young people categorised as illiterate at the end of primary school). For example, between June and October of 2011, some 230 000 students left the French educational system, of which 164 600 have been ‘lost from view’ of the educational system. Employment or training solutions have been found for only 60 000 of them. It is highly likely that these young people will become long-term unemployed. The observations above are also important when considering adult employment and particularly for those unemployed or inactive: since the merger between the National Employment Agency (Agence National pour l’emploi, ANPE) and the Association for Employment in Industry and Trade (Association pour l’emploi dans l’industrie et le commerce, Assedics), the new PES is more focused on placement and not enough on support and retraining for unemployed persons (particularly in the context of the economic crisis).

The need for further reforms of the educational systems and concerns over existing reforms being counterproductive in **Bulgaria, Greece, France, Luxembourg** and **Malta**, are pinpointed as important for addressing skills mismatch.

In **Bulgaria**, a key reason for the conflict between labour demand and supply is that a flexible system for the development of basic and transferable skills among young people and adults has not yet been established. Despite the changes introduced in education and training, these reforms are lagging behind and this leads to limited professional mobility. In **Luxembourg** it is generally acknowledged that a mismatch between skills demand and supply can lead to LTU and also hampers long-term jobseekers being brought back into the labour market. National available evidence for some, especially expanding economic sectors, has identified mismatches within the ICT sector <sup>(16)</sup>. Companies have had the opportunity to use a pool of available and young skilled cross-border workers <sup>(17)</sup> which can constitute an obstacle to successful transitions from LTU into employment (due to the lack of multilingual competences and a competitive international employment market). Strong mismatches have been identified in respect to lifelong learning and training, and this led to a general reform process in 2009. However, education as a factor driving transitions into and out of LTU is not clear-cut at the moment as there are presently concerns about elements of the reform being potentially counterproductive to the aim of reducing skills shortages <sup>(18)</sup>.

In other countries, the situation is less problematic with respect to skills mismatches and they show signs of improvement. In **Croatia**, most long-term unemployment has been and continues to be structural: young people lacking work experience, older people, under-educated people and people previously working in declining economic sectors are more likely to fall into LTU (Botrić, 2009a <sup>(19)</sup>; UNDP, 2006 <sup>(20)</sup>). However, the educational structure of the unemployed is to a large extent congruent with the educational structure of the employed (Rutkowski, 2003 <sup>(21)</sup>), apart from the tertiary educated, indicating only modest vertical skills

mismatch. As suggested by LFS data, this applied through the 2000s, and is about to be further improved by the expanding number of tertiary educated people (in 2010 about 42% of the school-leaving cohort).

Problems of data reliability in assessing skills and competences present an obstacle to establishing the scope and nature of mismatches in some countries and consequently from coming up with solutions to the problem, for example, in Slovakia.

### 3.2.2. Geographical mismatches

**Summary:** The geographical mismatch between jobseekers and vacancies together with insufficient geographic mobility act as obstacles to reducing LTU in many countries. The costs of transport, housing and the availability and affordability of rental accommodation inhibit mobility into areas where employment may be found, while at the same time the collapse in the housing market makes it very difficult to leave areas of low employment as people face difficulties in selling their houses.

The different geographical locations of jobseekers and vacancies, combined with low geographical mobility, act as barriers to reducing LTU in a large number of countries including **Belgium, Bulgaria, Estonia, Greece, France, Italy, Latvia, Lithuania, Poland, Portugal, Slovakia, Sweden** and **Croatia**. In **Belgium**, there are serious concerns about a 'regional mismatch', resulting from a lack of geographical mobility. In the Brussels Region, more than half the posts in Brussels, largely requiring high levels of qualification, are filled by workers from neighbouring regions. There is, however, very little movement between Wallonia and Flanders, despite severe structural labour shortages in Flanders. Nevertheless over the last few years, there seems to have been an increase in the number of people from outside Flanders taking jobs in the region. There is very low mobility of French people in general — both in terms of geographical mobility, but also vocational/professional mobility. Moving from one job to another is not easy, even if some financial support can be proposed by the PES. On the one hand, employers are reticent to recruit people if their previous experience is not similar to that of the job proposed. On the other, those that are unemployed are reticent to move to another region even for employment. Furthermore, there is no national database of vacancies that can be accessed by unemployed persons looking for

<sup>(16)</sup> Business Federation Luxembourg (FEDIL), *Les qualifications de demain dans le domaine des technologies de l'information et de la communication*, 2012. Internet: <http://www.fedil.lu/fr/publications/publications>

<sup>(17)</sup> Paperjam, *Renforcer l'employabilité*, June 2012.

<sup>(18)</sup> Internet: [http://www.men.public.lu/actualites/2012/03/120321\\_reforme\\_prolongation\\_2013/index.html](http://www.men.public.lu/actualites/2012/03/120321_reforme_prolongation_2013/index.html)

<sup>(19)</sup> Botrić, V., 'Unemployed and long-term unemployed in Croatia: evidence from Labour Force Survey', *Revija za socijalnu politiku*, 16(1), 25–44, 2009a.

<sup>(20)</sup> UNDP, *Poverty, Unemployment and Social Assistance*, Zagreb, Croatia, 2006. Internet: <http://undp.hr/upload/file/104/52080/FILENAME/Poverty,%20Unemployment%20and%20Social%20Exclusion.pdf>

<sup>(21)</sup> Rutkowski, J., and Madžarević-Šujster, S., *Croatia — Social Impact of the Crisis and building Resilience (No. 55111-HR)*, The International Bank for Reconstruction and Development, The World Bank Office Croatia, Zagreb, 2010.

work, although the job centre Internet site (of Pôle Emploi) provides support with finding vacancies and further potential. **Poland** also has low internal mobility levels. Studies by the Polish National Bank show that the level of wage expectancy of the unemployed grows significantly — and often unrealistically — with the expected commuting time or relocation <sup>(22)</sup>. This may prevent effective transitions from LTU to employment stemming from labour mobility.

In particular, **Bulgaria, Greece, Italy, Slovakia** and **Croatia**, cite specific costs, including transport and housing costs and low rental availability, as key obstacles to internal mobility for employment. For example, in **Greece**, labour mobility has always been weak, compared to other EU Member States. Currently, labour mobility is hindered by the collapse of the housing market. People are unable to sell their houses, as they are now worth less than what they owe on their mortgages. Thus, they are unable to move to regions where labour demand is stronger and where they might find work. Besides, although there is considerable regional dispersion in unemployment rates, the regions with low unemployment rates (mostly the island regions where tourism-related activities predominate) have small populations and account for a small share of total employment. In **Italy**, the low proportion of rental housing adversely affects job matching through limited labour mobility. According to ISTAT (2010), in 2009, homes for rent represented only 18.9% of the 24.7 million total occupied housing, a percentage considerably below the EU-15 average (30%). Moreover, rental prices in major cities increased by 80% between 2000–10, against the comparatively lower 50% increase in house prices, considerably increasing the cost of workers' mobility (Banca d'Italia, 2012). In **Slovakia**, internal labour mobility is traditionally low and readiness to move or commute to available jobs is limited by costs (transportation, housing) and by the perceptions of the unemployed.

## Older people moving out of LTU, Netherlands

For the long-term unemployed, being unemployed for such a long time lowers their motivation and self-confidence and weakens their social network, thus increasing the probability of remaining

unemployed (SEOR, 2007 <sup>(23)</sup>; RWI, 2011 <sup>(24)</sup>). However, research among the older unemployed who had been seeking a job for at least six months also showed these and other factors are key success factors that contributed to finding a job (AStri, 2011) <sup>(25)</sup>.

- (i) Persistence and confidence: PES and private intermediaries such as temporary employment agencies can play an important role in maintaining or improving the self-confidence and motivation of the jobseeker.
- (ii) Good knowledge of competences and skills on the part of the jobseeker, including knowing how to present their competences to potential employers. Intermediaries can support older jobseekers to gain better insight on their valuable skills and competences.
- (iii) Networking, including keeping in touch with employers or building new networks.
- (iv) Competency with job interviews and CVs.
- (v) Making compromises: in order to improve the chance of finding a job, it is important for older unemployed to know at what stage they are willing to compromise on the kind of job being sought.
- (vi) Aims of employers: most employers who have hired older jobseekers did so because of the specific qualities of the candidate, such as relevant education and work experience, good representative skills, and sometimes also because of specific age-related qualities.
- (vii) Intermediaries emphasised that it is important for the candidate to have a positive and flexible attitude combined with having good skills and work experience.

<sup>(23)</sup> SEOR, *Effecten van 'zachte' kenmerken op de reïntegratie van de WWB, WW en AO populatie; Een literatuurstudie (The effects of 'soft' factors on the reintegration of people on welfare, unemployed, and disabled)*, SEOR, Rotterdam, 2007. Internet: [http://www.interventiesnaarwerk.nl/sites/default/files/200707\\_Effecten\\_van\\_zachte\\_kenmerken\\_SEOR.pdf](http://www.interventiesnaarwerk.nl/sites/default/files/200707_Effecten_van_zachte_kenmerken_SEOR.pdf)

<sup>(24)</sup> RWI, *Arbeidsmarktanalyse 2011 (Labour market analysis 2011)*, RWI, The Hague, 2011. Internet: [http://www.rwi.nl/CmsData/2011/Arbeidsmarktanalyse\\_2011\\_integrale\\_versie.pdf](http://www.rwi.nl/CmsData/2011/Arbeidsmarktanalyse_2011_integrale_versie.pdf)

<sup>(25)</sup> AStri, *Herintreding werkloze 55-plussers (Reintegration of unemployed aged over 55)*, Leiden: Astri, 2011. Internet: [http://www.astri.nl/media/uploads/files/RWI\\_rapport\\_Herintredende\\_55plussers5.pdf](http://www.astri.nl/media/uploads/files/RWI_rapport_Herintredende_55plussers5.pdf)

<sup>(22)</sup> Labour market in Poland, Wage and labour productivity 2010, Polish National Bank, Warsaw, 2011, p. 35.

### 3.2.3. Tax and social welfare disincentives for reducing LTU

**Summary:** It is argued that a high tax burden for low-earners combined with over-generous benefit and assistance entitlements when being out of work may act as a disincentive to take up low-paid work — the opportunity cost of moving into employment may become too high. Some countries, like Iceland, describe increases in benefit payments and duration over which they are paid as likely to cause a problem for reducing their LTU rates. Others, like Latvia and Lithuania, describe conflicting incentives in the social welfare system which work against each other in promoting job seeking behaviour among the long-term unemployed.

A high tax burden, particularly for low-wage earners, as well as various entitlements to different social benefits, may act as a disincentive to take up low-paid work. **Slovakia** offers an example of how the combination of a relatively high tax burden, particularly for low wage earners, combined with social benefit entitlements, acts as a disincentive to employment. Too high a level of benefits can sometimes make the opportunity cost of taking a job too high; if the unemployed are 'encouraged' to move into LTU as a result of generous benefit systems, this compounds the problem of 'dependence to duration'.

A number of countries are examining possible disincentives arising from benefit systems including **France, Latvia, Malta, Romania, Iceland** and **the Former Yugoslav Republic of Macedonia**. In **Iceland** both earnings-related benefits and minimum benefits have been raised in tandem with recent wage settlements in the public and private sector. The replacement ratio, which is quite high for individuals on the lowest wages, has thus remained close to unity, in some cases even above unity. This can decrease the incentive to seek work. Likewise, extending the maximum benefit period from three to four years can have detrimental effects on the willingness to seek employment. Further, in a country with a history of relatively low unemployment, not least LTU, relatively high UB and a long UB period may change the social attitude towards LTU, and make it more socially acceptable. In **Malta**, a substantial number of unemployed persons are caught in the benefit trap. The problem stems from the fact that the unemployment assistance package is comparable to the minimum wage. LTU benefits are subject to means testing in order to reduce abuse. However, 'this type of benefit remains a burden on the Maltese economy, indicating that reforms must be carried out in order to reduce

long-term dependency and to encourage recipients to enter the labour market' (Zerafa, 2007, p. 37) <sup>(26)</sup>. In **the Former Yugoslav Republic of Macedonia**, disincentives arise from the relatively high opportunity cost of accepting a job or formalising informal employment. In particular, when unemployed workers find a (formal) job they lose UB, all of the social assistance and other benefits (paid or in-kind), whereas they would need to pay social security contributions and personal income tax. Given that there is no system of partial benefits, workers are not willing to accept part-time, seasonal or temporary work. Similarly, informal workers need to give up a significant amount of their informal wage in order to formalise employment, while in return they get some social security entitlements (mainly pension and health insurance) and other benefits (e.g. employment protection). Koettl (2010) finds that the returns of gaining formal employment in the country are higher than in the EU-27 average, but lower than in some of the EU-12 Member States, for example, Slovakia, Romania and Estonia (estimated by Koettl and Weber, 2012). Returns are lower for low-wage earners (because of the minimum contributions base). However, in contradiction to this general perception, a recent study in **Belgium** published by the Belgian National Employment Office (Desmet, 2011) found that a higher level of UB equates with a greater probability of re-entering the labour market, which suggests that higher benefit does not act as a deterrent to returning to work.

In some countries like **Bulgaria, Greece** and **Latvia**, the UB system itself cannot be considered as creating disincentives to finding work: the long-term unemployed are generally not eligible for UB. In **Bulgaria**, for example, the Social Insurance Code determines the period of receipt of UB at a maximum of 12 months for persons with lengths of service over 25 years. This means that the long-term unemployed in general are not eligible for UB in Bulgaria.

In other countries, such as **Latvia** and **Lithuania**, there are conflicting incentives emanating from the benefit and social assistance system where some aspects of the system encourage the unemployed to move into employment and do not affect LTU (low UB payment levels and short duration of UB), whilst other aspects (e.g. social assistance schemes offering minimum income payment levels, extension periods of UB for certain groups) may encourage delays in job seeking activities. For example, in **Latvia**, the unemployment and social assistance system is not particularly generous and

<sup>(26)</sup> Zerafa, M. A., 'Unemployment benefits and incentives to seek employment in Malta', *Bank of Valletta Review*, No 36, 2007. Available at internet: [http://www.bov.com/filebank/documents/33-56\\_maryanne%20zerafa.pdf](http://www.bov.com/filebank/documents/33-56_maryanne%20zerafa.pdf)



hence appears unlikely as a factor in prolonging LTU. Unemployment benefits are paid for the first nine months of unemployment only and according to State Employment Agency data, only 26.6% of registered unemployed were in receipt of UB in 2011. Social assistance in the form of the guaranteed minimum income (GMI) is set at LVL 40 (EUR 56) per adult and LVL 45 (EUR 63) per child. The benefit is means-tested which means that income is subtracted from the benefit sum, including the income for participation in State Employment Agency programmes. However, entitlement to GMI also brings other benefits, such as housing benefits and free medicine. Therefore, there is a view that for some households the system provides insufficient incentives to work at the minimum wage (currently LVL 200 gross per month (EUR 287) or at some fraction of the minimum wage <sup>(27)</sup>). Actions have been taken to remove this perceived disincentive to work effect. From 1 January 2012 all recipients of social assistance have been mandated to register as unemployed with the State Employment Agency and cannot reject more than two suitable job offers. Thus far no instances of deregistration have taken place.

In **Lithuania**, whilst there are encouragements within the system of USIB to remain unemployed for a longer duration, the independent impact of the USIB on the unemployment duration (especially in relation to the LTU) is quite small, compared to the impact of existing social assistance measures. Other factors which impact on LTU include the background of generally low wages in Lithuania <sup>(28)</sup>, where even a relatively low level of social assistance creates a poverty trap situation and acts to encourage unemployment (especially, LTU). In addition to relatively low social benefits <sup>(29)</sup>, unemployed people registered within the LLE may receive (irrespective of whether or not they are paid USIB) compensation for heating, compensation for hot and cold water, benefits for children, free meals at school and financial support to start the academic year. These may contribute to a situation where it is not worthwhile for unemployed recipients of social assistance (especially those with lower skills and/or raising children) to move into work, as increasing income reduces social benefits and other guarantees. Along with opportunities to engage in shadow economic activities, these possibilities encourage certain groups of individuals to evade lower paying jobs in the formal economy, rather preferring social benefits on a long-term basis. Like

Latvia, legislative measures have been introduced to eradicate work disincentives.

### 3.2.4. High levels of employee protection

**Summary:** Demand side issues also pose obstacles for resolving LTU. An important demand side factor impacting on LTU is the costs of recruitment and redundancies. As a result of high levels of employee protection, employers can find these costs prohibitive.

Employers in **Italy, Portugal, Slovakia, and Spain** are reported to find recruitment and redundancies costs and high employee protection prohibitive, in general, for creating jobs and workforce expansion. An overly high level of employment protection is especially detrimental for those groups that are not covered by this level of protection and thereby suffer from employers' labour market adjustment. As a result, it becomes more difficult for the long-term unemployed to move out of unemployment into quality jobs. In **Slovakia**, a Labour Code reform in 2011 eased recruitment and redundancies regulations (redundancy costs were cut by approximately half). The newly formed government plans several modifications to the law to increase employee protection. If the plans materialise, increased hiring and redundancy costs could further hamper the employment of disadvantaged groups. In **Italy**, according to some observers, the high LTU recorded in the past was mostly due to the Italian employment protection legislation, especially Article 18 of the Worker's Statute (Law No 300/1970). This required employers with more than 15 employees to reintegrate workers dismissed for discriminatory or unfair disciplinary reasons, but also for other reasons, including unfair economic motivations linked to productive activity or the organisation of labour <sup>(30)</sup>. For this reason, the Parliament has recently decided to reduce firms' firing costs by relaxing Article 18 and giving the arbitrator the possibility to opt for indemnity instead of reintegration, except in cases where dismissal occurred for discriminatory reasons – in these cases only reintegration is possible. During the past few years several influential analysts of the Portuguese economy have critiqued the relatively strong employment protection legislation (EPL) of salaried workers. In their assessment, the EPL was a central factor in labour market segmentation, restricting the possibilities of job losses and creation, thus contributing to a higher unemployment rate in general and at the same

<sup>(27)</sup> Anecdotal evidence suggests that in many cases people have a work agreement for about half the minimum wage, but in practice work full time.

<sup>(28)</sup> In quarter 1 of 2012 the average monthly gross wage in Lithuania was LTL 2 138 (EUR 620) and the minimum monthly gross wage was LTL 800 (EUR 232).

<sup>(29)</sup> State supported income amounts to LTL 350 (EUR 101) per family member, while the realistic minimum living standard is around LTL 900 (EUR 261).

<sup>(30)</sup> The same article provided for an additional monetary indemnity depending on the duration of labour trials and the right to compensation for the damage quantified in at least five monthly wages.

time, putting the burden of restructuring on the shoulders of employees in less advantageous work relations (fixed term, temporary agency workers, etc.). It appears obvious that in this perspective, the large gap between the different types of employment contracts constituted a serious obstacle for the integration of vulnerable groups, such as the long-term unemployed.

### 3.2.5. Employers' social security contributions, low wages, undeclared work

**Summary:** For many employers, the cost of social contributions makes hiring domestic labour expensive. As a result, there are cases where employers are offering jobs without documentation (illegal jobs) in order to avoid the costs. Low wages are also seen as a cause of shadow economy activities as workers feel that the jobs that are available do not offer sufficient remuneration.

Low wages and undeclared work are some of the factors identified as contributing to LTU in **Lithuania, Malta, Poland** and **Slovakia**. In **Slovakia**, employers frequently point to a high burden of social contributions, which increase labour costs and hinder hiring, as key factors contributing to LTU. In **Poland**, around 732 000 people undertook unregistered work in 2010, according to the Central Statistical Office, but these numbers may be underestimated. Generally, for the majority of people undertaking undeclared work, the main reason is the inability to find a job and insufficient income. Both of these reasons can also be attributable to the group of long-term unemployed. **Malta** has a high level of shadow economy activities, recently estimated at about a quarter of the country's GDP (Schneider, 2011). Such a situation contributes to LTU. Maltese employers in several sectors, especially in construction and tourism, often opt to employ foreign and local people without permits rather than legally employing unemployed persons, as the former are often paid lower wages and are also easier to fire. New legislation against the illegal employment of third country nationals seeks to combat this phenomenon through harsh penalties for employers abusing the system. In **Lithuania**, about 20% of the long-term unemployed (Gruzevskis, 2006<sup>(31)</sup>) indicated that when offered a job, they were unsatisfied with the employment conditions offered, in particular employment being offered without

documentation in compliance with legislation (i.e. they were offered illegal jobs). Survey findings also suggested that low pay was also very often indicated by the respondents as the reason for their LTU. Low wages and the spread of illegal employment, along with the shrinking number of jobs, are some of the main reasons for high LTU rates in Lithuania. Low wages do not encourage employment, as unemployed people can get social assistance and work in the shadow economy. This also explains the unwillingness of the long-term unemployed to participate in ALMP measures.

### 3.2.6. The role of economic restructuring and its contribution to LTU

**Summary:** For some countries, the changing structure of business and industry as a result of the economic crisis has led to the disappearance of many sectors for which there are now an abundance of skilled, but unemployed workers, and the emergence of new growth sectors with many vacancies that employers find hard to fill due to lack of skilled labour.

There is evidence that economic restructuring has caused skills mismatches. In some countries, like the UK, research argues that employers hoard labour during a recession and subsequently do not significantly hire much during upturns. **Denmark, Ireland, Croatia, Greece, Cyprus** and the **UK** identify structural imbalances causing LTU increases because of the downturn in the construction and manufacturing sectors, raising the issue of where new jobs will be created. For example, in **Ireland**, over 60% of long-term unemployed people are in the skilled manual/unskilled occupations, for which employment opportunities in the years ahead will be limited due to constrained economic growth and structural changes in the pattern of labour demand. The restructuring phenomenon has been a major factor in creating the accumulation of long-term unemployed people, most of whom are unskilled, or possess skills for which demand is decreasing. As for the construction sector, it is important to understand that there is no possibility that the employment levels achieved prior to its peak in 2007 can be regained in the foreseeable future. The building sector will recover and expand, albeit at a much slower and gradual pace. For manufacturing, the restructuring outcomes are less severe, but nonetheless significant. Much of the decline in recent years was attributable to indigenous enterprises, and to the less skilled part of the high-tech multinational sector which shed large numbers of workers due to the depressed global market and the relocation of plant to other

<sup>(31)</sup> Gruzevskis, B., Okuneviciute-Neveauskiene, L., Biveinyte, S., 'Problems of long-term unemployment in Lithuania and possibilities to solve them', *Scientific research report*, Institute of Labour and Social Research, 2006.

countries. Many of the latter were enterprises engaged primarily in assembly type work, an activity that is unlikely to re-emerge. To some extent most sectors have suffered from lower levels of economic activity in the **UK**, but job losses have been particularly high in sectors such as manufacturing, wholesale and retail trade, and construction. Some of this demand is likely to return (such as in construction), though the timing is likely to be medium to long-term. However, other sectors are unlikely to recover their pre-crisis levels of activity and employment. Financial services, for example, have shed considerable numbers of jobs that will not return and the same applies to retail given the additional change caused by the growth in Internet shopping. Most growth in jobs in the immediate aftermath of the recession has been in human health and social work, and education, though the prospects for these public sector dominated sectors is not good as austerity measures continue to bite. More recently other sectors have demonstrated some resilience, mostly those able to avoid the worst effects of low home demand by tapping into international markets such as those in the BRIC countries. This includes motor vehicle manufacturing, for example, which has been a recent strong performer, with the added advantage that much of the capacity is located in areas of higher than average LTU such as the West Midlands, North West and North East regions.

Together with the collapse of certain sectors, vacancies in new growth sectors remain unfilled (as reported in **Italy**, **Malta** and **Sweden**, as well as **Serbia**) because employers are unable to find the skills they are looking for in the available workforce. In **Italy**, the mismatch in education and skills supplied and demanded is a structural cause of job frictions. According to the Excelsior Survey on occupational needs, carried out by Unioncamere and the Ministry of Labour, employers claim difficulties in the recruitment process of some professional profiles, like intellectual and scientific professionals, and highly qualified technicians. The same applies to valuable skills such as 'team working' and 'autonomy'. The low availability of a highly qualified labour force is an obstacle to innovation and the adaption of the productive system to new technologies, and hence to the improvement of firms' competitive position in international markets.

Most of those registered as unemployed in **Malta** are in search of jobs requiring low qualifications or skills such as clerical, sales and elementary occupations. Whereas sales and elementary occupations are also the most demanded occupations by employers, clerical work is much less demanded. Indeed, between the first quarter of 2008 and the third quarter of 2011 there were

nearly three times as many people registering for clerical occupations as vacancies, an excess of 665 people. Besides, the number of people searching for skilled jobs and plant operators was also much higher than those available in the economy. However, technical and professional jobs are increasingly in demand by employers.

### 3.2.7. Other factors contributing to the persistence of LTU

**Summary:** Other factors, including the type of employment contract held before a worker became unemployed as well as the structural difficulties of moving from a planned to a market economy, are raised as contributing to the problem of LTU by some of the countries in focus.

Apart from the factors analysed above, other factors are also thought to be contributing to persistent LTU. These include factors such as the type of employment contract held by the worker prior to their unemployment spell as well as broader structural factors such as the legacy of communism in some central and eastern European countries. In **Slovakia**, the qualification and age structure of the long-term unemployed suggests that, among today's hard-to-place unemployed, there is still a significant group of people trained to work in sectors and occupations of the planned economy. In this group, one may also assume a strong influence of other factors (lacking essential skills and working habits, unwillingness to work, discrimination, etc.). The type of employment contract held prior to unemployment (that is, fixed term contracts) is a significant determinant of LTU risk in **Slovenia**. A study in Slovenia (ZRSZ, 2011 <sup>(32)</sup>) has suggested that the termination of fixed-term contracts is the most important reason for transition into unemployment and consequently also into LTU. The share of long-term unemployed who become long-term unemployed due to the termination of a fixed-term contract has been increasing from 2007 onwards (from 26.9% to 31.2% in 2010). The same pattern (on an even longer scale) can be observed for bankruptcies and permanent redundancies, since the share of those long-term unemployed citing this reason has been increasing from 2005 (from 21.8% to 28.2% in 2010): even so, in a time of rapid economic growth. An opposite, positive trend can be observed for first-time jobseekers: compared with 2005 (23.1%), the share of first-time jobseekers among the long-term unemployed decreased in 2010 to 13.4%.

<sup>(32)</sup> Zavod Republike Slovenije za zaposlovanje (ZRSZ) (Employment Service of Slovenia), *Dolgotrajno brezposelne osebe na ZRSZ (Long-term unemployed persons at ESS)*, 2011. Internet: [http://www.ess.gov.si/\\_files/2251/Analiza\\_DBO.pdf](http://www.ess.gov.si/_files/2251/Analiza_DBO.pdf)

## ■ 4. Policies to prevent and tackle structural unemployment and LTU

### 4.1. ALMPs

Job placement services, benefit administration and labour market programmes such as training and job creation are some of the policies adopted to help unemployed people back into work and come under the term active labour market policies (ALMPs) <sup>(33)</sup>.

The OECD has highlighted the shift of resources away from passive to active labour market measures turning the emphasis to the importance of public employment services (PES), the promotion of active job searching and the influence of benefit entitlements and administration on such activities, which are now reflected in so-called 'activation' strategies. OECD Council recommendations as far back as 1964 and 1976 focused on investment in human resource development, strategies for employment creation and improved working conditions, encouraging geographical mobility, forecasting of future occupational requirements, helping marginal groups into employment and ensuring income security during unemployment <sup>(34)</sup>.

The key features of activation strategies are to enforce work-availability and mutual obligation requirements, 'meaning that benefit recipients are expected to engage in active job search and improve their employability in exchange for receiving efficient employment services and benefit payment.' <sup>(35)</sup> OECD countries have now begun to place increased priority on the effective coordination of ALMPs with the administration of benefits and make-work-pay policies, in order to action clear activation strategies for UB recipients and other working-age people outside the labour market <sup>(36)</sup>.

A variety of ALMP measures discussed by the authors for the current Review on LTU are presented below.

#### 4.1.1. Training measures

**Summary:** Training measures are used by various countries as part of a range of ALMPs to affect the long-term unemployed and their chances of re-employment. Training measures in some countries are tailored or targeted at specific groups, for example, youth and immigrants, while others target different business sectors. Evaluations carried out on the impact of training measures appear to suggest mixed results.

Several countries highlight training measures as part of the range of policies provided to combat LTU. Some target specific groups including youth and immigrants for example, while others target different business sectors identifying skills demands in the sector (e.g. **Luxembourg**). **Bulgaria, Germany, Luxembourg, Hungary, Malta, Poland, the UK, Croatia, Turkey and Serbia** also mention training as part of the standard services provided by the public employment services for the long-term unemployed. Training measures are the most important form of ALMP in **Germany** in terms of budget and participants. Training measures have been targeted at disadvantaged groups and have played an important role in recent years. A huge 'transition system' has been created for young people who do not succeed in accessing regular vocational education and training, among whom, young people from minority backgrounds are largely over-represented. Additional measures have been implemented for immigrants, such as: language courses; specific programmes implemented in deprived areas (BIWAQ — *Bildung* [Education], *Wirtschaft* [Economy], *Arbeit im Quartier* [Work in the Neighbourhood, which is a programme that integrates the long-term unemployed and young people into work and vocational training at the urban level]); and, up-skilling people with a migrant background and jobseekers with low skills levels. In the **UK**, the Youth Contract was announced in November 2011 and includes a range of measures spread over three years to provide almost half a million new opportunities including cash subsidies to

<sup>(33)</sup> OECD Directorate for Employment, Labour and Social Affairs; Active labour market policies and activation strategies. Internet: <http://www.oecd.org/employment/employmentpoliciesanddata/activelabourmarketpoliciesandactivationstrategies.htm>

<sup>(34)</sup> Ibid.

<sup>(35)</sup> Ibid.

<sup>(36)</sup> Ibid. According to the OECD, the OECD Secretariat is currently involved in reviews of activation policies in seven participating countries. *Country reviews* on Australia, Finland, Ireland, Japan, Norway, Switzerland and the United Kingdom are being published as Social, Employment and Migration Working Papers and will be accessible [here](#) as soon as they become available — Internet: <http://www.oecd.org/els/employment/almp>



employers to recruit young people, a quarter of a million work experience places, apprenticeships, and more intensive support from Jobcentre Plus advisers. In **Luxembourg**, among the most relevant and targeted policies to combat unemployment (including LTU) are the Fit4Job initiatives <sup>(37)</sup>, which have been applied to several business sectors including finance, commerce, insurance and construction. The Fit4Job initiatives are well-targeted and immediate because they provide the flexibility of re-skilling through tailor-made training programmes adapted to sectoral skills demands. In practice, within these initiatives eligible jobseekers' competence profiles are evaluated. A new promising measure to prevent young jobseekers falling into LTU is the Job Guarantee, which encourages young jobseekers to get a job, a training scheme or apprenticeship within the first four months after registration at the National Employment Agency (ALE).

Other countries, like **Turkey**, have been unsuccessful in their attempts to introduce training initiatives for the unemployed. In Turkey, the public employment service ISKUR used ALMP measures during the crisis as social welfare transfers. Unemployed persons received daily stipends for attending training courses. Late in 2009 and 2010, the government instituted an unemployed youth training programme to train 1 million young people in five years. Local chambers of industry and commerce would suggest 'open positions' for which ALMP measures would be available leading to subsequent employment. This initiative failed, however, as Turkish provincial employers found it difficult to list any meaningful skills for ISKUR to train applicants (75 % of Turkish employment is unskilled, close to 30 % in agricultural employment and close to 50 % in low-level personal services and retail trade jobs). ISKUR officials found out that on those few blue-collar technical training programmes instituted in larger industrial cities, half of the allocated class spaces went empty despite the EUR 8.8 (20 TL) daily stipend for attending these three-month training courses. This may imply that young unemployed people would prefer similar desk jobs in their own cities. Follow-up statistics on course completion, subsequent employment, and job retention are not available.

Evaluations carried out on ALMPs discovered varying degrees of effectiveness of training measures to reduce the risk of being unemployed. For example, in **Estonia**, work-related training is the second most popular measure offered to the long-term unemployed. However, Laurantson et al. (2011) concluded that work-related training has been more beneficial to women, older people,

the lower educated and those with shorter unemployment periods. Thus, for the long-term unemployed, the effect is lower than for other groups. An evaluation of the 2009–10 ALMPs carried out in **Croatia** (Matković, Babić, and Vuga, 2011 <sup>(38)</sup>) identified that training programmes in general were not deemed to have any notable effect with respect to the risk of being unemployed or indeed long-term unemployed for participants in general, but some positive effect was discernible for those entering work without an upper secondary education or for young people, as they were slightly more likely to exit unemployment than their peers who had not participated. Similar results from O'Leary (1998) <sup>(39)</sup> and Csoba and Nagy's (2011) <sup>(40)</sup> evaluation on **Hungary's** employment policy instruments found that training measures have a mixed impact on re-employment chances.

## A plan for the most vulnerable, France

In April 2010, the state and social partners committed more than EUR 700 million for a plan Bouncing Back into Employment ('Rebond pour l'emploi') dedicated to people no longer covered by unemployment insurance. The plan proposed the implementation of 70 000 remunerated training courses, 170 000 supported contracts, or an exceptional financial support of EUR 460 provided for six months to those going into measures. One year later, 150 000 people of the 340 000 evaluated were engaged in specific measures (55 000 in remunerated training courses, 79 000 in supported contracts and 13 000 with financial aid).

In 2011 as LTU rates increased, decisions were taken by the government to introduce a job mobilisation plan dedicated to the long-term unemployed and implemented by the PES (Pôle Emploi) from March to July 2011 with three objectives: (1) organise a meeting with each long-term unemployed person inactive during 2010 and offer further support such as a training course, job or other

<sup>(38)</sup> Matković, T., Babić, Z., and Vuga, A., *Izvrješće o evaluaciji aktivnih mjera politike zapošljavanja 2009. i 2010. godine u Hrvatskoj*, Hrvatski zavod za zapošljavanje, Zagreb, 2011.

<sup>(39)</sup> O'Leary, C., *Evaluating the Effectiveness of Active Labor Programs in Hungary*, Upjohn Institute Technical Reports, Upjohn Institute for Employment Research, 1998.

<sup>(40)</sup> Csoba, J. and Nagy, Z. E., 'Impact assessment of training, wage-subsidy and public works schemes in Hungary' ('Magyarországi Képzési, Bértámogatási És Közfoglalkoztatási Programok Hatásvizsgálata'), in *Munkaerőpiaci Tükör* ed. Károly Fazekas and Gábor Kézdi. MTA KTI-OFA, 2011. Internet: <http://econ.core.hu/kiadvany/mt.html>

<sup>(37)</sup> Internet: <https://www.fit4job.lu>

specific services; (2) intensive support for 40 000 long-term unemployed people; and (3) increase the number of unemployed who access preventive measures, e.g. intensive support (60 000 unemployed). According to the PES most of these objectives were reached in September 2011.

Since the summer of 2011, no further plans have been introduced with the Presidential Elections. But the new roadmap of the PES 2012–14 will give priority to people least likely to return to work, with intensive support offered (2 000 new agents will be recruited or reoriented), and it will introduce some reforms that could deeply modify its way of working.

#### 4.1.2. Wage subsidies and employer contribution exemptions

**Summary:** Demand side labour market measures include providing employers with wage subsidies, or exemptions from the payment of insurance contributions in an effort to encourage employers to hire the long-term unemployed or groups vulnerable to LTU. Some countries' programmes are targeted specifically at the long-term unemployed, while others target specific groups of vulnerable workers (e.g. young people and older workers). From evaluation studies carried out in these countries, it would appear that wage subsidies have a positive effect on the employment prospects of the long-term unemployed.

In many countries the emphasis of ALMP measures has focused on labour demand. The intention of wage subsidies is to compensate for a person's reduced productivity for a limited period of time. Some programmes are targeted specifically at the long-term unemployed, including in countries like **Belgium, Bulgaria, Germany, Austria, Sweden** and **Iceland**. For example, in **Germany**, the 'JobPerspektive' programme is a small and targeted programme, which provides wage subsidies to employers. The programme is targeted at long-term unemployed people who have at least two employment barriers. In **Austria**, subsidies are provided to employers hiring unemployed people at risk of LTU. The amount of subsidy provided and the duration are negotiated between the employer and the local PES, according to the problems in the local and regional labour market. The average cost per subsidised person equates to around EUR 2 800 and the average running time of a subsidy is approximately 100 days. In **Sweden**, the 'Nystartjobb' programme introduced in 2007

is a subsidised form of employment for individuals that have been unemployed for more than one year (six months for young people 20–25 years old). The length of the support is proportional to the jobseeker's unemployment duration. The maximum duration of the wage subsidy is five years for jobseekers aged between 26 and 54 years old (a maximum 10 years for jobseekers older than 55 years old). In **Belgium**, there are also a number of programmes which grant employers a reduction in social security contributions, as well as a wage subsidy, when they take on the long-term unemployed. The ACTIVA plan applies to all types of work, while the ACTIVA APS plan covers security and prevention workers employed by the municipalities; the SINE programme promotes suitable employment in the social economy, and the professional transition programmes provide on-the-job training in the public and not-for-profit sectors <sup>(41)</sup>.

#### Employer incentives, Iceland

In February 2012, the Icelandic Directorate of Labour introduced a temporary change in the UB system aimed at encouraging firms to hire long-term unemployed individuals. Private and public firms and institutions willing to hire individuals registered as unemployed receive the monthly UB of the individuals in question, as well as an additional 8% employers' pension contributions. The employees receive wages according to the current wage settlements, with the firms paying the difference between the wages and UB. Firms intending to take advantage of this employment subsidy had to do so before 1 June 2012. The subsidies may in each case be paid for up to a whole year. It is hoped that up to 1 500 long-term unemployed people will be hired and that in many cases the positions will become permanent. For other individuals it is hoped that this entry into employment will be a launching pad for further endeavours in the labour market. As part of the initiative, the Directorate of Labour organised a day-long employment event where experts, counsellors and employment agencies offered their services to employers and employees alike. Around 1 000 job and training opportunities were introduced at the event.

In other countries, there are subsidies for employers to target specific groups, for example, youth and older workers in **Germany, Luxembourg, Romania** and the **UK**. This includes

<sup>(41)</sup> Details of these measures are given in Appendix 2 of the Belgium national article on LTU.

the Youth Contract in the **UK** and the 'Perspektive 50 Plus' programme aimed at older workers in **Germany**. The German federal programme has been established to promote the recruitment of older workers on a national level and among other measures, it includes wage subsidies. In **Romania**, ALMPs can be largely grouped into two main categories: active policies aimed at supporting the employment of young people; and, active policies supporting the employment of older/senior workers and of those approaching retirement. Employers hiring graduates receive a 12 month exemption from the payment of unemployment insurance contributions provided they maintain employment relations for at least three years. A 12-month differentiated subsidy, progressively linked to the level of education (and based on the same social reference indicator), is also granted to employers for each newly hired graduate. The same principles apply when dealing with senior workers. Employers hiring those unemployed above the age of 45, or having no more than three years before retirement, are entitled to a 12 month exemption from unemployment insurance contribution, as well as to a 12 month subsidy, provided that they maintain employment for a period of two years for individuals aged 45 years or more (or until statutory retirement conditions are fulfilled in the case of older workers approaching the statutory retirement age). The measures are intended to support the continuation of employment and restrict invalidity pensions for those most in need. However, in practice these policies have been limited. It would appear from a number of evaluations carried out in **Hungary**, the **Netherlands**, **Sweden** and **Croatia**, that wage subsidies have a positive effect on the employment prospects of the long-term unemployed. The evaluation in **Croatia** carried out by Matković, Babić, and Vuga, 2011 <sup>(42)</sup> identified positive effects from subsidised employment for the long-term unemployed, but that such effects declined over time. In **Hungary**, wage subsidies are explicitly targeted at the long-term unemployed in particular. O'Leary (1998) <sup>(43)</sup> and Csoba and Nagy's (2011) <sup>(44)</sup> evaluation of ALMPs found that wage subsidies had a significant positive impact. A wage subsidy called START Extra that specifically targeted long-term unemployed persons aged 50 plus was introduced in 2007

and ran until 2011. Cseres-Gergely, Földessy, and Scharle (2012) <sup>(45)</sup> used administrative data to evaluate the employment and wage impact of this programme and found that it significantly increased the likelihood of finding a job for men with secondary-vocational education. In **Sweden**, evaluation studies have shown that such programmes have positive effects, but there are however substantial crowding out effects concerning regular employment. The **Netherlands** IWI Inspectorate (2010) <sup>(46)</sup> concludes that investing in LTU in many cases leads to labour market participation. It also concludes that the effects of using reintegration instruments are positive. For instance, using wage cost subsidies for the long-term unemployed (sometimes in combination with other instruments), thereby lowering the wage costs of employers, leads to an outflow of 40% to a regular job of at least six months duration. However, the question is if this leads to sustainable labour market reintegration as the long-term unemployed find employment via temporary employment agencies. It is unknown whether people remain in employment for longer than six months.

#### 4.1.3. Job creation schemes: public works

**Summary:** Public works initiatives create direct employment for the long-term unemployed. Some countries offer public works programmes to help the long-term unemployed to get work experience, maintain their skills or re-skill as well as providing opportunities to integrate socially. They are generally targeted at the long-term unemployed. However, whether they are effective as a pathway back into the labour market for the long-term unemployed is questionable and under evaluation have been shown to have negative re-employment impacts.

These initiatives create employment directly for the long-term unemployed and in theory are intended to be a bridge between unemployment and the regular labour market <sup>(47)</sup>. They offer work experience, with participants normally undertaking

<sup>(42)</sup> Matković, T., Babić, Z., and Vuga, A., *Izvjješće o evaluaciji aktivnih mjera politike zapošljavanja 2009. i 2010. godine u Hrvatskoj*, Hrvatski zavod za zapošljavanje, Zagreb, 2011.

<sup>(43)</sup> O'Leary, C., *Evaluating the Effectiveness of Active Labour Programmes in Hungary*, Upjohn Institute Technical Reports, Upjohn Institute for Employment Research, 1998.

<sup>(44)</sup> Csoba, J. and Nagy, Z. E., 'Impact assessment of training, wage-subsidy and public works schemes in Hungary' ('Magyarországi Képzési, Bértámogatási és Közfoglalkoztatási Programok Hatásvizsgálata'), in *Munkaerőpiaci Tükör* ed. Károly Fazekas and Gábor Kézdi. MTA KTI-OFA, 2011. Internet: <http://econ.core.hu/kiadvany/mt.html>

<sup>(45)</sup> Cseres-Gergely, Zsombor, Árpád Földessy, and Ágota Scharle, *Evaluating the Impact of a Well-targeted Wage Subsidy Using Administrative Data*. Budapest, 2012.

<sup>(46)</sup> IWI, *Participatie in crisistijd (Participation in times of crisis)*, number R 10/09, November 2010. Internet: <http://www.rijksoverheid.nl/documenten-en-publicaties/rapporten/2010/11/01/participatie-in-crisistijd.html>

<sup>(47)</sup> Meager, N., Evans, C., 'The Evaluation of active labour market measures for the long-term unemployed', Institute for Employment Studies, University of Sussex, Brighton, Employment and Training Papers, No 16, ILO, 1998.

socially useful activities which are not intended to displace market activities; however, the extent to which non-displacement is actually achieved is moot <sup>(48)</sup>. A number of countries offer public works programmes to the long-term unemployed, including the **Czech Republic, Latvia, Hungary, Malta, Slovakia, and Croatia**. In **Latvia**, there are no ALMPs exclusively targeting the long-term unemployed, but the new Temporary Public Works programme (started at the beginning of 2012) and its predecessor the Workplace with Stipend (WWS) Emergency Public Works Programme (2009–11) have supported in practice the long-term unemployed; furthermore, access to the new programme will be prioritised for this group. The WWS programme aimed to create new jobs of social value, such as garbage collection, cleaning road sides, preparing firewood, building small infrastructure in national parks, helping elderly people, etc. Eligibility requires that participants should have been registered unemployed for at least six months and should no longer be eligible for UB. More than 72 000 persons benefited from the programme for an average duration of six months; 22% of all the participants were able to find a job in six months after the participation. In addition, the programme helped to retain working skills. In **Slovakia**, most existing activation programmes explicitly or implicitly target the long-term unemployed, as they are classified as a category of disadvantaged jobseekers. The share of long-term unemployed participants in ALMP programmes ranged between 10% and 99% in 2010. The highest involvement of the long-term unemployed is in municipal activation works (99% of participants are long-term unemployed), the flood control programme (65%) and the public works scheme (60%), while relatively lower participation is reported from education and training (30%), support to commuting to work (27%) and support to start self-employment (24%). Municipal activation works attract traditionally the highest numbers of long-term unemployed. The programme generates temporary activities without an employment contract, aiming primarily to support a daily work routine.

### The Community Work Scheme, Malta

The Community Work Scheme of **Malta** is one of the latest schemes and aims to deinstitutionalise the long-term unemployed who become entrapped into a life of dependency on social benefits (Malta Independent, 2009). The scheme, originally planned for the very long-term unemployed

(who have been registering for work for five years or more), is now offered to persons who have been unemployed for shorter periods of time. Participants are requested to do community work for 30 hours per week for 26 weeks while earning 75% of the minimum wage and continuing to receive social benefits. 'The community work done so far included cleaning of roads and public gardens, rubble wall building and maintenance, basic maintenance in public libraries and assistance in the organisation of cultural activities by local councils' (ETC, 2010, p. 16) <sup>(49)</sup>. The scheme is mandatory and those who fail to take part without a valid reason are struck off the unemployment register for six months, losing their UB. Thus, the scheme cracks down on people who abuse the system by registering for work as unemployed persons and doing undeclared work at the same time (*Malta Independent*, 2009). Participants reportedly found the scheme beneficial and appreciated the opportunity to improve their skills and contribute to the community. A total of 441 placements were carried out during 2011.

<sup>(49)</sup> Employment and Training Corporation (2010), *Annual Report 2010*, 2010. Available at Internet: <http://etc.gov.mt/Resources/file/Resources/Annual%20Report-2010.pdf>

Evaluations were carried out in **Hungary** and **Croatia** on public works programmes and further questions were raised about the effectiveness of the programmes in **Latvia** and **Slovakia**. An evaluation in **Croatia** of 2009–10 ALMPs (Matković, Babić, and Vuga, 2011 <sup>(50)</sup>) revealed that amongst public works participants, the chance of being unemployed later on actually increased compared to their peers, but this could be interpreted as an activation effect as well. This indicates a need for careful targeting and planning of ALMP measures. **Hungary's** employment policy instruments, including both active and passive measures, are open to the long-term unemployed and some such as wage subsidies and public works are explicitly targeted at the long-term unemployed in particular. O'Leary (1998) <sup>(51)</sup> and Csoba and Nagy (2011) <sup>(52)</sup> evaluated ALMPs and

<sup>(50)</sup> Matković, T., Babić, Z., and Vuga, A., *Izvjješće o evaluaciji aktivnih mjera politike zapošljavanja 2009. i 2010. godine u Hrvatskoj*, Hrvatski zavod za zapošljavanje, Zagreb, 2011.

<sup>(51)</sup> O'Leary, Christopher, *Evaluating the Effectiveness of Active Labour Programmes in Hungary*, Upjohn Institute Technical Reports, Upjohn Institute for Employment Research, 1998.

<sup>(52)</sup> Csoba, J. and Nagy, Z. E., 'Impact assessment of training, wage-subsidy and public works schemes in Hungary' ('Magyarországi Képzési, Bértámogatási És Közfoglalkoztatási Programok Hatásvizsgálata'), in *Munkaerőpiaci Tükör* ed. Károly Fazekas and Gábor Kézdi. MTA KTI-OFA, 2011. Internet: <http://econ.core.hu/kiadvany/mt.html>

<sup>(48)</sup> Ibid.



found that while training had a mixed impact on re-employment chances and wage-subsidies had a significant positive impact, public employment on the other hand was found to have a significant negative impact on re-employment in both cases. **Latvia's** Workplace with Stipend (WWS) Emergency Public Works Programme (2009–11) also has lock-in effects; some 45% of the WWS participants took part in the measure more than once which suggests that the EUR 142 (LVL 100) net per month, i.e. 80% of the net minimum wage in 2009 (later reduced to EUR 114 [LVL 80]), represents for many an acceptable alternative to working in a normal job. In **Slovakia**, according to PES data from 2010, only 14% of participants in municipal activation works are in unsubsidised employment one year after participation (while the majority of participants are social assistance recipients participating to claim an activation allowance). Overall, the efficiency of ALMPs in terms of post-programme employment varies and tends to be relatively low for the long-term unemployed. Available studies agree that activation measures have a relatively low effect on the long-term unemployed segment, due to several factors, including the negative impact of long-lasting inactivity, lock-in effects or the reluctance of employers to hire this segment of labour.

#### 4.1.4. Prevention: early intervention approaches and profiling

**Summary:** The focus of these approaches, including the profiling of jobseekers, is on promoting access to labour market interventions very soon after a person becomes unemployed in order to prevent vulnerable jobseekers from falling into LTU. Many countries have begun profiling initiatives which will help to identify vulnerable people and tailor employment services to them.

Examples of early intervention approaches and the profiling of jobseekers are evident in **Ireland, France, Luxembourg, Austria, Finland, Iceland** and **Norway**. Among various other measures, the early intervention approach features in placement activities of the **Austrian** Public Employment Service. Counsellors try to set reintegration steps at an early stage of unemployment, including getting unemployed people into integration measures, such as training courses and job search activities, before they become long-term unemployed. Most of the ALMP policies implemented in **France** to prevent and to tackle LTU are not specific to the long-term unemployed. When individuals register

as unemployed, PES counsellors undertake an initial assessment and diagnostic. Following this diagnostic, people least likely to return to employment can access reinforced support which provides intensive support for a minimum duration of six months. Support can be delivered by the PES or by a private placement operator. In the case of private placement support, three kinds of services are implemented according to PES specifications: (1) 'Employment Trajectory' for those unemployed who faced difficulties going back into employment or for those with reduced employment opportunities that require a specific programme of retraining for a duration of six months; (2) 'support to people who have lost their job after economic redundancies' with a duration of one year; and (3) 'Atout cadres' dedicated to executives and particularly long-term unemployed executives or those aged over 50 years (at maximum risk of LTU). It is important to note that assessments for intensive support are designed to accelerate a return to employment and decrease the risk of continued unemployment or LTU.

Shortly after the crisis in **Iceland**, a working group was set up to analyse the methods at hand to activate unemployed young people and the education opportunities open to them, and make suggestions for improvements. In January 2010 The Directorate of Labour subsequently introduced a special programme intended to alleviate youth unemployment. The programme Youth to Action (Ungt folk til athafna) aimed at activating all individuals aged 16–24 within six months of registering as unemployed in order to avoid the negative consequences that inactivity can have on the life and health of the unemployed. The programme was later extended to also include individuals aged 25–29. The experience gained from Youth to Action was then transferred to a second programme called Courage (Þekking og reynsla), which targeted the long-term unemployed. The aim was to activate those that had been unemployed for three months or longer and encourage them to take part in the many labour market measures available. Half of those 7 500 individuals aged 30–70 years old that took part in the Courage programme found a permanent position or entered school/university. A recent report by the Institute of Public Policy Research (2012) in the **UK** has described the growth of LTU as the 'hidden crisis' of slow economic recovery, pointing to the adverse impact that it can have on the health and well-being of those affected. The report simultaneously called for the setting up of a job guarantee scheme targeted at the long-term unemployed, offering at least six months of work that the unemployed person would have to take or lose benefits.

## Youth guarantees to prevent the spread of LTU among youth in Norway, Finland and Luxembourg

Preventing (long-term) youth unemployment is a top concern in several EU countries. In **Finland**, the activation of young people is an explicit objective of ALMPs. The Youth Guarantee aims to provide an educational, work practice, youth workshop, or workplace for young people under 25, and for new graduates aged under 30. The Youth Guarantee includes an educational guarantee, targeted to young people leaving basic education and consisting of increasing places in educational organisations; a youth guarantee for young people as PES customers (for example, the Sanssi-card or chance card is a salary subsidy voucher for employers); and a youth guarantee for young people who are not participating in any active services or who need special care (using youth workshops).

In **Norway**, supporting young jobseekers is also an explicit priority (although in general, ALMPs in Norway generally do not target specific groups). A specific youth guarantee states that all registered unemployed in the age group between 16–20 years shall be offered labour market measures; their situation shall be followed up after three months in continuous unemployment.

In **Luxembourg**, in addition to pre-existing 'maintaining-in-employment contracts' for young jobseekers (evaluated in Luxembourg's 2012 NRP <sup>(53)</sup>), a new promising measure to prevent young jobseekers falling into LTU is the Job Guarantee which encourages young jobseekers to get a job, a training scheme or apprenticeship within the first four months after registration at the National Employment Agency (ALE).

<sup>(53)</sup> Internet: [http://www.odc.public.lu/publications/pnr/2012\\_NRP\\_Luxembourg\\_2020\\_april\\_2012.pdf](http://www.odc.public.lu/publications/pnr/2012_NRP_Luxembourg_2020_april_2012.pdf) (p. 15).

In **Ireland**, the government announced a cross departmental initiative in mid-2009 which formed the early stages of an activation programme, involving extensions and/or adaptations to existing measures designed to assist unemployed persons by providing opportunities for training and educational enhancement and work placement opportunities. The programme comprised a mix of actions at different levels, designed to accommodate the diverse needs of the growing numbers of unemployed and a major objective was to prevent the drift into LTU. The changes

made included interventions once individuals reached six months unemployment duration, or even earlier. One of the most recent initiatives has been the introduction of a 'profiling process' to identify persons at risk of becoming long-term unemployed. Among the existing activation programmes ('Back to Education Programmes', 'Back to Work' incentive schemes, JobBridge promoting the creation of internships for the unemployed, etc.), the Community Work Placement measure (TUS) is the only one that is specifically restricted to those unemployed for 12 months or more.

## Profiling jobseekers according to the risk of LTU in Ireland

Given the limited public resources available in **Ireland**, it is essential that activation measures are targeted at those who would benefit most from interventions, with priority given to persons at risk of LTU. The 2010 Forfas Review of Labour Market Programmes was critical of the then current practice where programme participant profiles did not adequately match the objectives or criteria associated with the measure, especially when the target groups were low skilled or distant from the labour market. In particular, the Review stated that emphasis should be on the unemployed, with adequate representation for the long-term unemployed and other disadvantaged unemployed persons.

With this objective in mind, a Probability of Exit (PEX) profiling model has been developed by the Department of Social Protection in association with the Economic and Social Research Institute. As from earlier this year, applicants now registering for benefit complete a profile questionnaire to enable a case worker to apply the model procedure and assess the applicant's PEX from unemployment during the subsequent 12 months. At this stage of the engagement the applicant is also required to sign a rights and responsibilities contract, which includes a commitment to a tailored progression plan (if this is considered appropriate).

Individuals with a high PEX rating (i.e. those with low probability of becoming long-term unemployed) will be encouraged and helped to search for work. Those with a mid-point PEX rating will be invited to participate in Group Advisory Sessions where they will be provided with guidance regarding support programmes to enable them to improve their employment prospects. However, individuals

with a low-PEX rating and those still on the register after 12 months, will receive intensive one-to-one support from an experienced adviser and may be directed to particular work experience and/or training programmes.

Specific targets have been set by the Minister for Social Protection for 2012, so that new clients signing on the unemployment register should, as a minimum, benefit from a group engagement after three months and a referral to job placement/training after a maximum of 18 months. It is intended that over 90% of Local Employment Offices will be operating the PEX Profiling System by the end of 2012.

#### 4.1.5. Problems identified with existing ALMPs or improvements needed

**Summary:** Many countries outlined problems for existing labour market policies. The issues enumerated by these countries include the need for the improvement of statistical monitoring of ALMPs concerning their effect on the long-term unemployed; the need for a more integrated approach to solving the problem of LTU; the need to increase investment in interventions to reduce the LTU problem; the need for programmes to include all vulnerable groups; and the need for economic growth.

A number of authors gave further insight concerning issues or problems with the ALMPs in their countries, including the **Czech Republic, Greece, Austria, Poland, Romania, the UK, Croatia, the Former Yugoslav Republic of Macedonia and Serbia**. There is major scope in the **Czech Republic** for improving the statistical monitoring of ALMPs (for LTU); it has been noted that policy assessment is increasingly difficult given the fragmentation of ALMPs, which are increasingly funded by ESF sources. The assessment is made even more difficult in this respect given the demise of the 'OK Prace' database systems used by District Labour Offices until the end of 2011. The Austrian article notes that in general, traditional reintegration measures, such as training or counselling, are not sufficient for the target groups of long-term unemployed people, due to many of them facing multiple disadvantages. As a result, this provides a real obstacle for employability. As such, the authors note that sustainable reintegration can only be achieved by an adequate integration pathway in the form of case management accompanied by several other measures, such as outreach work.

Another problem highlighted in **Croatia** is the possible distortions or 'artificial effects' of ALMPs in the figures for LTU. In 2009–10 the majority of participants in traineeships or self-employment schemes were long-term unemployed as well as about a third of participants in training programmes. This is one of the reasons for the decline in the number of people registered as long-term unemployed, as participants ceased to be considered unemployed during the training, traineeships or public work (which is regulated as a fixed-term contract on minimal wage) only to reappear later with their unemployment counter reset. While this is beneficial from the standpoint of social integration and material well-being, it is disputable whether such a turnaround is effective labour market policy.

Some countries identify the need for greater investment and spending on ALMPs to reduce LTU. Spending cuts are evident in many countries due to the economic crisis and consequent austerity measures. Active labour market policy measures (and activation efforts in the **Former Yugoslav Republic of Macedonia**) are still moderate in outcomes. In 2011, government spending was around 0.1% of GDP on ALMPs, whereas about 2.6% of the unemployed were involved in some type of active programme. Expenditures for employment services in 2011 were at 0.05% of GDP, though employment services are not viewed nationally as an active programme. **Romania** has always devoted meagre budgets to labour market interventions. Its highest allocation for active policies was at 0.11% of GDP at the beginning of the 2000s, subsequently dropping to 0.08% in 2007 and 0.03% in 2010, on the back of austerity policies.

Gaps in current policies noted by the **UK** and **Serbia** include the absence of measures covering all vulnerable groups. In the new programmes launched in the **UK**, the author points to the gaps in current policy including the need for the introduction of a job guarantee scheme. The author also feels that new policies, e.g. the Youth Contract, do not take into account the other characteristics of groups affected by LTU e.g. single parents, ex-offenders<sup>(54)</sup>, the disabled and older workers. A similar recommendation for ALMPs in **Serbia** is that they should be more oriented towards deeply vulnerable groups, since they are at the brink of labour market exclusion. These groups are naturally more exposed to LTU as well, which is especially the case for people with disabilities, older workers (especially those who lost their jobs because of privatisation and

<sup>(54)</sup> The DWP estimates that almost one third of JSA claimants have a criminal record and two years after release from prison are still on benefits and therefore form a significant part of total LTU.

restructuring), Roma, refugees and internally displaced persons, persons without education, and rural dwellers in underdeveloped regions.

The most poignant synopsis of what ails policy efforts to tackle problems of LTU is the Greek synopsis — despite the numerous programmes in place to deal with the problem, if there is no growth and consequent demand for labour, then there is no point. As the author notes, currently Greece has numerous programmes that aim to help the unemployed and the long-term unemployed, including job-search assistance, counselling, employment subsidies, aid for self-employment and training. Yet the scale of the unemployment problem is such that the potential impact of these measures on the unemployment rate during the next two years is bound to be limited. This is primarily because these measures do not address the single most important factor behind today's persistently high unemployment rates — weak demand for goods and services.

#### 4.2. Policies to reduce skills shortages or anticipate skill needs or re-skilling the long-term unemployed

**Summary:** Many countries recognise the need for forecasting skills needs in order to address the problem of unemployment. For many of these countries, no formal strategies are in place to carry out forecasting, yet it seems like the process of anticipating skills needs is under development or going on in a non-systematic way. For many more countries, policies have been put in place to deal with skill shortages in an effort to respond to employers' needs and reduce LTU. Specific sectors have also been targeted, like the health sector in Finland.

According to Cedefop, skill supply and demand forecasts provide information about future labour market trends using skills as the key parameter <sup>(55)</sup>. The forecasts aim to help different labour market actors including employees, employers, students and parents, social partners, and policymakers alike, to make informed decisions and take appropriate action concerning the labour market. The forecasts act as an early warning mechanism to improve the interaction between all types and levels of education and training systems and the labour market, and also as a way to avoid potential skill imbalances <sup>(56)</sup>. In 2010, Cedefop received a

mandate to forecast trends in skill supply and demand for Europe every two years — this mandate emanated from the Council conclusions on 'New skills for new jobs: the way forward.' Within the Europe 2020 strategy, a flagship initiative called Agenda for New Skills and Jobs requires the European Commission to produce 'an EU Skills Panorama to improve transparency for jobseekers, workers, companies and/or public institutions' <sup>(57)</sup>. Cedefop's skill supply and demand forecasts will be a key building block of the EU Skills Panorama. Cedefop uses harmonised data and a single methodology to produce results which can be compared across countries and aggregated to provide a general picture of labour market trends and skills development in the EU. However, Cedefop does not intend to supplant skills anticipation and forecasting initiatives taking place at the national level <sup>(58)</sup>.

According to the European Commission, many Member States use bodies, like observatories, to develop their labour market intelligence on current and future skills needs, which helps to bring various labour market actors and education and training providers together <sup>(59)</sup>. This information also helps to structure qualification standards and fine-tune training systems to labour market needs. However, the European Commission believes that there is scope to develop the current forward-looking labour market tools at Member State, regional, sectoral and EU level, and to disseminate their results in order to better address skills shortages <sup>(60)</sup>.

Many countries recognise the importance of forecasting skills needs. However, while for many, there is no formal strategy in place to carry out this activity for others, skills forecasting is in the process of being developed or may be going on in a non-systematic way. For example, in **the Former Yugoslav Republic of Macedonia** there is no systematic monitoring and/or assessment of labour demand and forecasting of future skills needs of employers. Information about skills needs and skills shortages in the country is scarce, and incomplete, limiting the possibility to undertake corrective measures. Among the available information is an annual employers' survey called Skill Needs Analysis (SNA), which provides information about short-term recruitment

<sup>(55)</sup> <http://www.cedefop.europa.eu/EN/about-cedefop/projects/forecasting-skill-demand-and-supply/forecasting-skill-demand-and-supply.aspx>

<sup>(56)</sup> Ibid.

<sup>(57)</sup> European Commission, Communication from the Commission to the European Parliament, the Council, The European Economic and Social Committee and the Committee of the Regions: An Agenda for New Skills and Jobs: A European contribution towards full employment, Strasbourg, 23.11.2010, COM(2010) 682 final. Internet: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0682:FIN:EN:PDF>

<sup>(58)</sup> Ibid.

<sup>(59)</sup> Ibid.

<sup>(60)</sup> Ibid.



(6–12 months hence) and their skills shortages. The purpose of this survey is to detect short-term skills shortages and consequently to provide training of unemployed workers to address identified gaps. The **Czech Republic** has yet to develop both the technical tools and methodologies for skill shortage forecasting and the institutional setups and coordination mechanisms required to implement such forecasts in terms of an explicit policy measure. However, there are two quantitative skills forecasting efforts still in development. Both models have yet to be verified and implemented in practice (turned into policy action). At the time of writing this review, the MoL announced the launch of an Individual National Project on anticipation of labour market needs <sup>(61)</sup>. Labour market forecasting in the **UK** is a fragmented activity that provides general guidance on the direction of occupational change. The UK Commission for Employment and Skills (UKCES) has been the focus for this activity since 2007, funding the regular National Employer Skills Survey (NESS) <sup>(62)</sup> and the Working Futures <sup>(63)</sup> long-term occupational forecasts using quantitative methods. Other activities are focused on the individual Sector Skills Councils (SSCs) whose remit includes gathering and interpreting labour market information and assessing potential future skills matches. However, it is unlikely that this information will be directly used by jobcentre advisers in supporting long-term unemployed clients in their choice of job (or training/retraining). It is more likely that the demand for labour will be judged on the basis of short-term indicators such as the trends in past and current notified job vacancies and the range of courses on offer with education and training providers, most of which will be short duration courses. Furthermore, it would be wrong to assume that the providers have engaged in a rigorous analysis of future skills needs before deciding on what courses to offer.

Other developments are evident in countries like **Germany, Spain, Romania, Slovakia and Croatia**. For example, in **Germany**, the Federal Ministry of Labour has developed a concept to secure future skills (*Bundesministerium für Arbeit und Soziales* 2011, *Bundesagentur für Arbeit* 2011b). The Federal Ministry of Labour launched a major skills forecast project, by sector

and occupations, up to 2030. The first results will be available in early 2013. Meanwhile in **Romania** access to ESF resources has spurred a set of initiatives aimed at anticipating future skills needs. One of these has been pioneered by the National Research Institute in the field of Labour and Social Protection (INCSMPS) in the context of an ESF-funded project led by the National Centre for the Promotion of Vocational Education and Training (CNDIPT). The project has focused on the identification of the potential demand for vocational education and training (VET); it is based on an econometric model largely inspired by the Pan-European model for the forecasting of the supply and demand for skills. It disaggregates the demand for VET up to the level of occupations and in terms of the development of regions and 'judet(s)'. Another ESF-financed project has involved the development of a labour market needs anticipation instrument; this uses dynamic general equilibrium model and incorporates a macro-economic forecasting engine. It has been designed jointly by INCSMPS and the Fondazione G. Brodolini Italy in through an INCSMPS-led ESF-financed project <sup>(64)</sup>. It is intended that the two models will eventually be merged, which will give the National Labour Research Institute for the first time the full capability to anticipate future skills needs; this will provide decision-makers with further insight into the workings of the economy, emerging mismatches in the labour market, and therefore with a solid anchor for the tailoring and targeting of labour market interventions. INCSMPS has also participated actively in the Cedefop sponsored Pan-European exercise on forecasting skills demand and supply in Europe. A survey of competencies focused on health has been carried out by INCSMPS in 2011 via the ReferNet network.

Meanwhile in **Croatia**, systematic and institutionalised efforts at identifying and anticipating skill and sectoral demand started only recently, after several employer surveys over the past decade had not managed to pinpoint specific skill deficits or workforce trends. The Croatian Qualification Framework and the development of sectoral profiles and sectoral occupational standards have the potential for strengthening the linkages between education and employment, therefore improving labour market performance (in particular labour market entry) while decreasing long-term and structural unemployment. In **Spain**, there have been some recent initiatives on policies for anticipating skills needs, though there is still a great margin for improvement. The Occupational Observatory

<sup>(61)</sup> Project Ipn Překvap: <http://www.msmt.cz/strukturalni-fondy/predvidani-kvalifikacnich-potreba-trhu-prace-prekva> ap?lang=1&ref=m&source=email

<sup>(62)</sup> Until the latest survey in 2011, the NESS covered England only, with similar employer-based skills surveys carried out in all the home nations. However, the 2011 survey was the first UK-wide inquiry and further information is available at: <http://www.ukces.org.uk/publications/ukess-2011-first-findings>

<sup>(63)</sup> Working Futures is carried out every 3 years providing 10-year forecasts. More information is available at: <http://www.ukces.org.uk/ourwork/working-futures>

<sup>(64)</sup> See more on that at <http://www.flexicover.ro>

conducts short-term skill needs assessment activities, including monthly bulletins on the most demanded occupations and economic activities and prospective sectoral research (automotive sector, tourism, green energies, etc.). Additionally, the PES has been elaborating its Catalogue of **hard-to-fill** occupations since 2005. Meanwhile, the research on firms' skills needs is implemented by 37 National Reference Centres which analyse sectoral demands and provide information for training developed in the territory-based Integrated Training Centres. However, both Reference and Training Centres are not fully integrated due to the regional scope of the training policies, and, as a result, the activities of skills needs' anticipation are still poorly implemented. Moreover, although the long-term unemployed are considered a priority group, there have not been specific activities implemented at national level to address their specific needs.

In the absence of general strategies for skills forecasting, a number of countries including **Belgium, Bulgaria, Lithuania, Luxembourg, Malta, the Netherlands, Finland** and **Norway** illustrate the policies their governments have put in place to deal with skill shortages and outline policies put in place to respond to the needs of employers in an effort to reduce the numbers who are long-term unemployed. For example, In **Luxembourg**, skills mismatches related to young jobseekers have been dealt with by a focus on lifelong learning and training schemes in companies and organised by the National Employment Agency (ALE) through regional initiatives such as the Youth 4 Work networks<sup>(65)</sup>. However, while significant progress has been made in the field of lifelong learning<sup>(66)</sup> to provide training schemes enabling reintegration into jobs, the impact on LTU has not yet been evaluated. There is no evidence yet of how many young long-term jobseekers applied for company apprenticeships, but the number of contracts in the context of the new legal framework<sup>(67)</sup> (providing the young with the opportunity to be taken on as wage earner in the company) is still low. Also, in addition to available funding to co-finance measures to re-skill jobseekers, a mobilisation of actors and flexible instruments (e.g. Fit4Job) is required to bring in professional expertise. Although a general strategy of forecasting skills with instruments has not yet been established, anticipation instruments for various sectors are

available (e.g. FEDIL in the ICT sector), providing a glimpse of shortages in a vital economic sector. In **Finland**, one of the most important sectors where the demand for labour is growing is health care. A special project coordinated by the Ministry of Employment and the Economy and the Ministry of Social Affairs and Health, aims at educating personnel in the sector. More generally, ensuring the availability of skilled labour has become a significant priority of national ALMPs, with emphasis being put into addressing employers' needs and combining education and work in a more individualised way. Such skills strategies cover different age groups. Examples include the Youth (educational) Guarantee and the Noste-programme (2003–09) targeting adult low-skilled workers aged 30–59 and providing individuals over 25 with the opportunity to study full-time (in university, university of applied studies, vocational school or upper secondary school) while getting employment benefits, for a maximum duration of 24 months. In **Norway**, ALMPs include the provision of training and the prevention of youth unemployment and the general need to match jobseekers' competences with the actual needs of employers are considered as priorities, also within the context of tripartite cooperation. During the bargaining rounds in the spring 2011, the Norwegian Confederation of Trade Unions (LO) and the Confederation of Norwegian Business and Industry (NHO) agreed on a joint inquiry recommending tripartite cooperation to promote lifelong learning, prevent drop-out from secondary education, and to secure basic qualifications for adults who lack qualifications below the level of secondary education.

Policies to reduce skills shortages have not been the focus for reducing LTU in some countries like **Slovakia, Sweden** and **Turkey**. In **Sweden**, for example, other policy measures are prioritised. Currently policy measures focus on measures such as job search assistance and subsidised employment for the long-term unemployed rather than measures to address skills shortages. Evaluation of work practices and labour market training programmes by the PES show limited positive effects of training (due mainly to an increasing share of participants with poor employment prospects and possibly less efficient educational programmes). In **Turkey** the public debate is not focused on the links between LTU and skill shortages. Skills shortages are typically associated with youth unemployment rather than LTU. In **Latvia**, various forms of training (not specifically targeting the long-term unemployed) are offered by the State Employment Agency. However, such programmes are still not sufficient to meet the demand for highly qualified professionals.

<sup>(65)</sup> Internet: <http://youth4work.lu>

<sup>(66)</sup> Internet: <http://www.elli.org> (European Lifelong Learning Indicators).

<sup>(67)</sup> 'Law of 26 July 2010 modifying the law of 19 December 2008 on professional training', *Mémorial A*, Number 124, 30 July 2010.

### 4.3. Unemployment benefit systems

**Summary:** Many countries have made changes with respect to linking the receipt of UB and/or social assistance payments to participation in active job seeking activities and acceptance of job offers. Reducing or limiting eligibility has been a feature of some countries systems. The authors in some instances point to cases of benefit/unemployment traps; however, in other cases cited, the evidence is that the generosity of the system does not seem to influence outflows from unemployment. In-work benefit schemes have also been highlighted by some countries as a way of incentivising the unemployed.

In their document entitled 'The Agenda for New Skills and Jobs' (2010), the European Commission states that along with the need to improve the cost-effectiveness of ALMPs, an area in need of further attention is the conditionality of UB with participation in ALMPs<sup>(68)</sup>. The 2012 Annual Growth Survey Package also underlines the importance for countries of prioritising the implementation of active inclusion strategies encompassing labour market activation measures, as well as adequate and affordable social services to prevent marginalisation of vulnerable groups<sup>(69)</sup>. More recently, in the Employment Package published in April 2012, 'Towards a Job-Rich Recovery', the European Commission points to the importance of activation requirements which they argue should be part of a mutual responsibilities approach that maintains incentives for work whilst ensuring income, providing personalised job-search assistance and guarding against the risk of poverty<sup>(70)</sup>. However, these labour supply measures may not be enough if the pace of job creation is too slow; they should be complemented by labour demand measures such as cost-effective targeted hiring strategies<sup>(71)</sup>. According to the Commission, creating the right kinds of incentives and hiring subsidies should motivate employers to engage in net *new* recruitment and therefore creating jobs that would otherwise not be created<sup>(72)</sup>. Furthermore, positive effects can result from

targeting vulnerable groups such as young people or the long-term unemployed particularly where hiring subsidies are combined with additional efforts to help the target population<sup>(73)</sup>.

The Commission points to the need for reform of the UB systems at national level to ensure their level and coverage is easy to adjust over the business cycle<sup>(74)</sup>. By this, the Commission means offering more resources in bad times and less in good times — using benefits as automatic stabilisers promoting income insurance and stabilisation needs over job search initiatives during periods of economic downturn and vice versa during periods of economic recovery and boom. To avoid negative effects on re-employment incentives when markets begin to recover, temporary extensions of benefits and the duration of unemployment insurance need to be rolled back in Member States.

The Commission advises that the review of out-of-work and in-work benefits to improve financial incentives to take up work, should be combined with measures to promote the uptake of training and other activation schemes, but bearing in mind the need to ensure that benefits still provide poverty alleviation for those who remain out of work and vulnerable. For those most at risk of unemployment (fixed term workers, the young and self-employed), the Commission recommends that by extending UB systems coverage and reinforcing other social security entitlements like parental leave, sick leave and disability benefits; the level of UB should reflect individual work history. An important point to note is that incentivising benefit recipients to work may not lead to an outflow from LTU if the economy is not generating enough jobs to meet the supply<sup>(75)</sup>. Economic growth and job creation strategies would seem to be an essential complement to policies to increase the supply of labour.

One of the key features of the review articles with regard to UB systems seem to be changes with regard to linking the receipt of UB and/or social assistance payments to participation in active job-seeking activities, for example, participation in ALMPs, and accepting offers of work. Countries that have been pursuing this type of policy include **Belgium, Germany, Ireland, Latvia, Malta, the Netherlands, Austria and Finland**. In **Ireland**, a change of the conditionality of benefits was introduced by the extended social welfare legislation (which took effect from January 2011), providing a specific disqualification for receipt of certain benefits (or reductions in payments) when

<sup>(68)</sup> Agenda for New Skills and Jobs, op.cit.

<sup>(69)</sup> European Commission, Brussels, 23.11.2011 COM(2011) 815 final VOL. 1/5, Communication from the Commission, 'Annual Growth Survey 2012'.

<sup>(70)</sup> European Commission, Strasbourg, 18.4.2012 COM(2012) 173 final, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 'Towards a job-rich recovery'.

<sup>(71)</sup> An Agenda for New Skills and Jobs, op.cit.

<sup>(72)</sup> Towards a Job-Rich Recovery, op.cit.

<sup>(73)</sup> Ibid.

<sup>(74)</sup> Ibid.

<sup>(75)</sup> UK EEO Review Article on LTU, 2012.

a person refuses an offer of suitable employment, or to participate in an appropriate course of training, or other support programme. Prior to this, the legislation centred only on a requirement for a recipient to be seeking a job and be available for work, a provision that was applied in a somewhat benign manner. These changes represent a significant step in integrating income support and employment schemes and place a particular focus on job activation and detailed engagement with recipients. There will be a particular focus on the long-term unemployed, with a view to ensuring that a sizeable number of those currently long-term unemployed will move into employment by 2015. The objective is to reduce the average time spent on the unemployment register, currently 21 months, to less than 12 months by the end of 2015. A person receiving UB in the **Netherlands** has to accept a 'suitable' job — a job is not suitable if the earnings are less than 70% of the income of the lost job. Moreover, if it is deemed necessary in order to find a new job, an unemployed person also has to take up relevant learning opportunities. After the expiration of the entitlement to UB, the unemployed person may be entitled to a social security benefit paid by the local authorities. In this case, s/he has to accept any job available, regardless of how much it pays. This is an incentive for people not to be reliant on welfare. As social security, or welfare, is usually far less than UB payments, there are clear financial incentives to take on a job before the eligibility to UB expires. As part of the Hartz-reform in **Germany**, young people are eligible for the means tested 'Unemployment Benefit II'. This involves, inter alia, the obligation to participate in education and training, to accept public jobs, or to combat drug problems. They are required to sign an integration agreement with the PES. In addition, in Germany, the sanction mechanism for not taking up a job or a training measure is more severe for young people compared to adults. Sanction rates increased between 2007 and 2011, both for adults and young people. In 2011, the sanction rate among Unemployment Benefit II recipients was on average 12.4% for young job seekers and 5% for all job seekers. In **Belgium**, although there is in principle no time limit on the receipt of UB, the conditions relating to the need to actively seek employment and to be available for work are becoming increasingly stringent. To receive UB, jobseekers must be able to demonstrate that s/he has been actively seeking work, as part of the ACR (activating job seeking behaviour) programme <sup>(76)</sup>. The Coalition Agreement of December 2011, that entered into force as of 1 January 2011, sets out an increase in the distance within which a job must be sought from 25 km to 60 km. If the job seeker

is not deemed to be making sufficient efforts, sanctions may be applied. In addition, a reform of the unemployment system is planned from November 2012. The initial benefit granted will be higher, but it will begin to decrease earlier and will then be reduced more quickly over time. In **Finland**, full social benefits are also conditioned to the participation in ALMPs. Participation in 'rehabilitative work' (resulting from the coordination between government agencies in charge of social policy and active labour market policy), which has been used since 2001 to reduce LTU, has also been made mandatory for participants over the age of 25 since 2010; non-participation can result in a reduction of social benefits.

For a number of countries, including **Croatia, Spain and the Former Yugoslav Republic of Macedonia**, the conditionality requirements can be 'soft', providing no real incentive for people to engage in genuine job search activities. For example, in **the Former Yugoslav Republic of Macedonia**, although the unemployed are required to actively search for a job, in practice, re-registration is usually the main and sole 'activity' in the job search requirement. In **Spain**, although receipt is linked to active job search, UB is still considered as an acquired right and such benefits could lead to a decline in the job search intensity, especially during the first months. In fact, according to FEDEA (2012), unemployed workers who do not receive UB are twice as likely to find jobs in comparison to the rest of the unemployed individuals.

Eligibility criteria for UB assistance and their impact on LTU is another important theme that comes through in the review articles. The criteria often act to limit or exclude the long-term unemployed (or sections of them) from the system. Reducing or limiting eligibility has been a feature of some countries' systems, for example, **Denmark, Malta, Portugal, Romania, Slovenia, and the Former Yugoslav Republic of Macedonia**. The Slovenian government adopted in October 2010 and introduced in January 2011, the new Labour Market Regulation Act (LMRA) which replaced the Employment and Insurance Against Unemployment Act. This was a response to the economic crisis. However, the new government, as part of austerity measures, undertook several decisions which diminished the potential positive effects of the Act for the social security of the unemployed. These decisions were to reduce: the duration of obtaining UB to 18 months (from previous 24 months for insured persons older than 55 or with more than 25 years of insurance), the amount of UB from 80% to 70% of a person's previous average wage in first three months of receiving UB, and

<sup>(76)</sup> See Appendix 3 of Belgium's Review Article on LTU.



the amount of the highest allowed UB from EUR 1 050 to around EUR 890. The argument for such measures is that the government wants to provide greater motivation for those who lost a job to be re-employed as soon as possible. This is uncertain in the Slovenian case since only one third of registered unemployed persons are entitled to UB, the rest (as well as the majority of long-term unemployed) would not be affected by such measures. Instead they will be affected by the increase in the at-risk-of-poverty rate, which is already the highest in Slovenia among all social groups. In **Romania**, the stringent conditions for benefit eligibility (12 months of full-time work during the last 24 months before claiming benefit) make it difficult for anyone not working long enough, and especially not working **full-time**, to claim benefit. Those long-term unemployed are practically excluded from any form of income support, with the exception of social assistance. Even here the stringent rules have been applied so as to restrict the access to such provisions for those having tax arrears with the local authorities <sup>(77)</sup>. NIS validated data for 2010 show that out of the 626 960 registered unemployed, only 52.5% actually cash UB; the share drops slightly below 50% for those under 25 years of age; for those aged 25 to 29 (a group which already includes many graduates) it falls to 44%. This is compared with 68% for individuals aged between 40 and 49. This reflects that the benefit system favours those with an established position on the labour market while being markedly unwelcoming for new entrants. In addition, unemployment provisions remain limited — under austerity measures imposed in the frame of the Memorandum of Understanding with the IMF, the World Bank, and the EU Commission, the government has cut the amount of UB by 15% (mid 2010) and de-coupled it from the national minimum salary (at the end of 2010). As such, amounts received, especially by young people, are as low as the equivalent of EUR 55 per month. Similarly, in **the Former Yugoslav Republic of Macedonia**, UB plays a marginal role as an income generator or safety net — only 9% of registered unemployed persons in Macedonia in 2011 were receiving UB, which is low given the large incidence of LTU and relatively low duration of UB. Hence social financial assistance acts as a second tier, non-contributory assistance strand for the unemployed, ensuring they have some income and are protected against falling into further poverty. In **Portugal**, the Labour Code was revised in May 2012. The measures aimed in the first place at cutting down certain workers' rights that exceeded the European and OECD average.

<sup>(77)</sup> The measure, judged as excessive in times of deep crisis, has been nevertheless repealed shortly after being enacted by the new social-liberal government that came into office this late of April 2012.

This implied, in particular, the reduction of the maximum duration of unemployment insurance benefits, the capping of UB and the reduction of the legal employment protection by reducing severance payments and facilitating individual dismissals.

## The new Law on Employment and Unemployment Insurance, Serbia

In **Serbia** the UB system is regulated by the Law on Employment and Unemployment Insurance, which was in its current form adopted in 2009 with a view to encourage activation of the unemployed and to protect beneficiaries from falling into the trap of LTU. A combination of incentives and restrictions has been designed with this objective in mind, despite the very low coverage of the unemployed with benefits (typically less than 10% of all unemployed at any given moment are benefit recipients). Even this modest percentage takes the majority of the overall budget for labour market measures, typically 80%–90%, while the remaining part goes to ALMPs.

The new employment law has reduced the benefit duration and replacement rates. The maximum benefit duration was limited at 12 months (down from 24 months), though exceptionally 24 months for those awaiting a pension, while the maximum replacement rate was set at 160% of minimum wage, down from 200% according to the previous law. Furthermore, after the expiration of the benefit, there is no separate programme of unemployment assistance apart from general social assistance, with its restrictive rules and modest allowances. Effectively, no person can be long-term unemployed and a benefit recipient at the same time.

One of the incentive measures is an advance lump-sum self-employment subsidy accounting for the full amount of eligible benefit. Additionally, a new stimulus measure was introduced, topping up wages of benefit recipients who find a job before the expiration of the benefit with 30% of the remaining unused benefits.

The new employment law also explicitly lists the adoption of individual employment plans (IEP) for the unemployed as among the main mediation and counselling measures of the NES, and requires its conclusion between the NES and the unemployed within 90 days of their registration. The unemployed who are assessed to be less employable are given priority in ALMPs over those who are more easily employable in the open labour market.

The authors in some instances point to cases of benefit or unemployment traps. It is generally understood that the lower the actual benefit and/or social assistance payment to the unemployed, the less likely it is to produce 'benefit traps'. Another indication of whether 'benefit traps' exist in a system is the replacement ratios. The replacement ratio for given income levels measures the proportion of out-of-work benefits received when unemployed against take home pay if in work <sup>(78)</sup>. While there is no predetermined level of replacement rate which would influence every individual's decision to work, clearly the higher the replacement rate, the lower the incentive to work — a replacement rate in excess of 70% is considered to be excessive <sup>(79)</sup>. Therefore, the lower this ratio, the less likely the system is to produce 'benefit traps'. In **Turkey**, for example, the replacement rate is half the minimum wage. While the basic levels of UB are comparatively low in the **UK**, there are supplementary sources of means-tested support that can in total pose a potential benefit trap, while, similarly, in **the Former Yugoslav Republic of Macedonia**, benefit traps and reduced job search efforts are mainly associated with the possibility to combine UB or SFA (which is of longer duration) with income from informal employment. This is made possible because of poor monitoring of activity and treatment of sanctions. Also, as discussed previously, against a situation of generally low wages e.g. in **Lithuania**, even a relatively low level of social assistance creates a trap situation and acts to encourage unemployment, especially LTU <sup>(80)</sup>. On top of relatively low social benefits, unemployed persons registered within the LLE may receive (irrespective of whether or not they are paid USIB) living cost compensations. This acts as a disincentive to employment. In order to change the existing situation, the amendments to the Law on Cash Social Assistance were adopted by the Lithuanian Parliament on 1 December 2011 (valid since 1 January 2012). The measures most likely to influence (reduce) LTU are: supplementary social benefits when in employment; a gradual reduction of social benefits to (working-age) persons who receive social benefits for 36 months or more; delegating the granting of cash social assistance to the independent functions of municipalities in pilot municipalities; and entrenchment of stricter conditions of granting cash social assistance to persons failing to comply with the duties established by the law.

In some cases, however, the evidence is that the generosity of the system does not always seem to affect outflows from unemployment; the evidence from **Belgium** and **Denmark** is important in this respect. For example, the Danish system can be defined as being relatively generous, especially for lower income groups, but it has been tightened in recent years. While the benefit level has remained rather stable, the duration of benefits has been reduced from four to two years, and the conditions for regaining the right to benefits, if they expire, have been sharpened. As part of a new tax reform, which has recently been negotiated between the government and the two opposition parties, the indexation of the benefits will furthermore be made less favourable, thus leading to a gradual decline of the rate of compensation in the future. Hence, while the basic elements of the Danish income support system for the unemployed are still intact, there is no doubt that its generosity is being reduced, leading to a debate about whether this vital element of the Danish flexicurity model is slowly being eroded. On the one hand, it is argued, based on studies of outflow from unemployment, that a shortening of the duration of benefits will reduce unemployment. On the other hand, it is observed that both the rate of unemployment and the number of long-term unemployed in 2008 reached their lowest levels for decades under a benefit system, which at the time still had a maximum duration of benefits of four years. A recent study published by the Belgian National Employment Office (Desmet, 2011) has investigated the impact of key factors on the probability of unemployed individuals finding employment. A higher level of UB equates with a greater probability of re-entering the labour market, which suggests that higher benefits do not act as a deterrent to returning to work.

In direct contrast to other countries tightening eligibility for UB during times of recession, some countries have extended UB to cover the long-term unemployed and others have specifically adapted their UB systems during the crisis aimed at the long-term unemployed. The UB system plays a vital role in the management of LTU in **Luxembourg**, for example. Benefit systems have been adapted throughout the crisis with the objective of preventing negative social effects, which is broadly in line with the recommendations of the 'Agenda for New Skills and Jobs' (COM, 2010) to offer more resources in bad times and less in good. Besides provisions for short-time working arrangements, measures were especially aimed at long-term, older or young unemployed persons. Specific and well-targeted provisions for senior jobseekers include for example: those aged 50 and over who have worked for 30 years benefit from a 12-month prolongation period, while those who have worked for 25 years are eligible for a

<sup>(78)</sup> Short Paper from the Department of Finance, Ireland, 4/12/2009. Internet: <http://www.finance.gov.ie/documents/publications/reports/2009/rnunemploy.pdf>

<sup>(79)</sup> Ibid.

<sup>(80)</sup> See section 3.2.3 in current document on Tax and Social Welfare Disincentives for Reducing LTU.



nine-month prolongation period; and jobseekers aged 45 with 20 years of work experience can apply for a six-month prolongation. Six months' prolongation is applied for older people and difficult-to-place jobseekers or jobseekers taking part in training or other relevant courses. Adaptations of UB (i.e. in short-time working arrangements, prolongations or higher benefits) have in common the requirement to take part in training or re-skilling schemes despite the fact that the quality of training schemes has not been assessed in most cases.

## Surviving the storm in Finland and Sweden

In **Finland**, a recent longitudinal study on the long-term impact of the recession of the 1990s (Myrskylä, 2010) has shown how becoming unemployed had long-lasting consequences: half of those losing their job in 1993 never returned to the labour market. Seven years after being laid-off only 48% of the group of workers considered were back in the workforce. The unemployment rate within the group declined to 12% in 15 years, mostly due the fact that a large proportion of these workers retired (26%).

During the recession that affected Finland in the 1990s, companies mostly resorted to redundancies and labour market consequences were disastrous with significant increases in unemployment and LTU rates. In contrast, the Finnish labour market has survived the recent recession rather well, despite it being extraordinarily deep in the beginning. Finnish companies resorted to temporary lay-offs (short-term working arrangements) and 'kurzarbeit' as a buffer, with people returning to full employment when the economy of the particular branch or company had recovered. As a result, increases in unemployment have been quite moderate compared to the depth of the recession and both unemployment and long-term unemployment have risen much more moderately compared to the situation observed in the 1990s. In addition, both the banking sector and public finances were in much better shape than in the 1990s to address the 2008 recession, and Finland was able to avoid most of the difficulties that many other European countries have experienced.

A similar situation has been observed in **Sweden**, where between 1990 and 1993 the unemployment rates increased from 1.5% to 8.2%. In this context, several institutional reforms were initiated to address the dramatic increase of unemployment and LTU.

Both fiscal and monetary policy became more restrictive leading to a historically low rate of inflation, significant improvements in public finances and declining public debt. A fiscal policy framework was gradually introduced to limit the budget deficit and improve the conditions for long-term fiscal policy sustainability. The number of participants in ALMPs was also increased significantly and a reorientation toward supply-oriented measures was initiated.

These early institutional and policy changes combined with the countercyclical macro-economic policy conducted by the current government largely explain why the impact of the 2008 economic downturn on employment has been limited and short-lived, compared to the crisis of the early 1990s. Due to much healthier public finances at the start of the 2008 financial crisis, the Swedish monetary and fiscal policy could take a more expansionary stance to reduce the impact of the recession on the labour market. In 2008, ALMP measures targeted towards long-term unemployed and vulnerable groups were quickly introduced. In addition, the application of the Employment Protection Law's seniority principle, **last in first out**, implied that young workers and fixed-term contracts were laid off first. There are strong reasons to believe that these groups are less prone to becoming long-term unemployed and are more geographically mobile. A significant share of young people also withdrew from the labour force by (re)entering the educational system.

Some countries, including **Belgium**, **Germany** and **Austria**, have discussed in-work benefit schemes as a way of incentivising the unemployed to take up employment. In **Germany**, a strand of the Hartz labour market reforms was concerned with increasing the incentives for 'marginal employment', by way of 'mini jobs' and 'midi jobs' (helping to increase the employment rates of women and older workers); and, since 2005, a new type of job creation scheme, called the 'one-euro-jobs' has been designed and implemented, as an in-work benefit scheme. In **Austria**, in addition, the combination wage ('Kombilohn') is another measure targeted at the long-term unemployed, which in light of the crisis was renovated and became the 'new combination wage' ('Kombilohn neu'), in 2009. Since then, in-work top-up benefits have been possible for specific groups of people who have been registered as being unemployed with the PES for more than six months. The measure provides an in-work benefit, as an incentive, for people taking up full-time posts. In **Belgium**, some financial incentives for jobseekers

are available. The ALE programme is a system which allows an unemployed person to work a certain number of hours per month while retaining his/her UB <sup>(81)</sup>.

#### 4.4. Other policies measures to reduce LTU

**Summary:** Other policy measures discussed include reforms aimed at reducing the tax on labour, reducing incentives for undeclared work, job placements, social enterprises, and restructuring job centres.

Other labour market policies worth noting that may be effective in reducing LTU are cited in **Italy, Luxembourg, Austria** and **Slovenia**. In **Italy** — a fiscal reform aimed at reducing taxes on labour, increasing the labour supply (e.g. among women and younger workers) and reducing incentives for undeclared work. If a reduction of social contributions is not viable, due to its negative impact on pension benefits (especially after the recent reform accelerating the transition to a notional-defined contribution scheme), a rearrangement of tax rules is possible. A first step is represented by the tax deductions from the IRAP Tax (a regional tax on productive activities based on firms' costs and hence penalising employment), granted to firms hiring women and younger workers, introduced by Law Decree 201/2011 <sup>(82)</sup>. This measure should however be integrated into a more thorough tax reform shifting taxation away from labour. Another policy with questionable

impact on reducing LTU is one of job placement in **Slovenia**. By the end of October 2010, there were 133 680 referrals of unemployed people to employers. In 2010, most referrals were for unemployed persons with shorter unemployment durations: 37 333 referrals were made for those waiting up to three months and 27 426 for those waiting for three to six months. The total share of referrals for short-term unemployed in 2010 was 73%, which means that the share of the long-term unemployed was only 27% of all referrals. Among the long-term unemployed, most referrals were for persons unemployed between one to two years. The number of referrals decreased with the lengthening of the unemployment period, meaning that the duration of unemployment influenced the opportunity to be referred to an employer with vacancies. Such a policy increases the danger of segregating the long-term unemployed from more employable short-term unemployed persons.

Other types of intervention policies cited by **Austria** and **Luxembourg** include the existence in **Austria** of two types of social enterprises: socioeconomic enterprises (SOB) and non-profit employment projects, each target individuals experiencing discrimination within the labour market, including the long-term unemployed. The enterprises offer employment for their target group, acting as an economic enterprise in the market and supporting their target group through socio-pedagogic assistance. The integration part is financed through public funds. In **Luxembourg** a large budget is available for job incentives for jobseekers (all categories) to set-up businesses.

<sup>(81)</sup> Provided that the person has been receiving unemployment benefit, or social welfare payments from the CPAS, for at least 2 years, or 6 months if s/he is at least 45 years old.

<sup>(82)</sup> Companies with more than nine employees benefit from a 100% social welfare cost cut for 3 years (in the following years the reduction will be equal to 10%) if they employ on a permanent basis women and people under 35 in the period January 2012–December 2016.

## ■ 5. Conclusions

'The temptation to hunker down and simply try to wait this long downturn out is high today ... But doing so would be a terrible mistake ... One reason the problems ushered in by the Great Recession are so urgent is that once too much time passes, they no longer **can** be solved. Once the character of a generation is fully formed, it cannot be unformed; once reactionary sentiments come out of the bottle, they are hard to put back in. And once large numbers of people cross the Rubicon from temporary unemployment to chronic joblessness, they, their families, and their communities can be lost for good.' <sup>(83)</sup>

The serious problem that LTU presents should not be underestimated and finding solutions to it has never been so imperative. It arises as people move out of 'temporary' unemployment (unemployed for less than a year) and into LTU (typically unemployed for more than 12 months). Don Peck, a Reuters journalist, recently wrote that this unemployment can become permanent after a while as companies ignore people who have been unemployed for a year or two and the contracted economy moves forward without them <sup>(84)</sup>. In economic terms, it is called 'hysteresis' and can be a consequence of a very long recession.

The effects of this type of unemployment can be catastrophic for the individuals involved. Don Peck states that communities where high, persistent unemployment is evident, devolve over time; social institutions decline, families disintegrate, and social problems begin to proliferate and when geographically concentrated, joblessness and all its attendant problems are easily passed from one generation to the next <sup>(85)</sup>. Studies show that LTU leads to growing social isolation, a distortion of family dynamics, and a slow separation from mainstream society, especially for middle aged people <sup>(86)</sup>. He continues:

'When people are idle for long periods, their skills erode and their behaviour may change making some of them unqualified even for work they once did well. Their social networks shrink, eliminating word-of-mouth recommendations. Employers perhaps suspecting personal or professional

dysfunction even where it is absent can begin to overlook them instead seeking to outbid each other for current or recently unemployed workers once demand returns. That can ultimately lead to higher inflation until [authorities] take steps to depress demand again. The economy is left with a higher 'natural' rate of unemployment, a smaller working population and lower output potential for years to come' <sup>(87)</sup>

Finding a path to full recovery is of paramount importance for all countries that have been affected as economic weakness is slowly limiting the life opportunities of many millions of people, and leaving the future bleak. According to Peck, even once the economy recovers, many long-term unemployed persons will not find work easily — governments need to begin devising exact strategies to bring the long-term unemployed back into the workforce <sup>(88)</sup>. Peck suggests one way, for example, to do that, would be the creation of aggressive wage subsidies given to employers who hire the long-term unemployed, making that employee extremely cheap for perhaps a year before the subsidy is removed; by providing a targeted and temporary incentive, long-displaced workers may be able to discard the stigma that they have developed, rebuild skills and work habits, and return to mainstream society <sup>(89)</sup>. He argues that even workers who are not retained after the subsidy is removed will emerge with a recent work history, reacquainted with the rhythms of the workplace.

Quantifying the problem in Europe is sobering. In 2011, those who were unemployed for more than one year totalled almost 10 million, and almost 20% of that total had been out of work for more than 48 months. As the LTU rate experienced steep increases, the share of LTU in overall unemployment rose — 43% of all those unemployed in the EU had been thus for one year or more, compared to 37% in 2008. Furthermore, since the crisis in Europe peaked in mid-2010, the LTU figures will show a lag; indeed, the latest Eurostat figures show no signs of alleviation of the LTU rates. The picture across Europe shows that the situation is diverse with LTU rates particularly high in southern EU countries. Overall, however, LTU has been on the rise from 2007–11 with the exception of Germany, where a continual

---

<sup>(83)</sup> How chronic joblessness affects us all, By Don Peck, 8 September 2011, Reuters. <http://blogs.reuters.com/great-debate/2011/09/08/how-chronic-joblessness-affects-us-all>

<sup>(84)</sup> Ibid.

<sup>(85)</sup> Ibid.

<sup>(86)</sup> Ibid.

---

<sup>(87)</sup> Ibid.

<sup>(88)</sup> Ibid.

<sup>(89)</sup> Ibid.

decrease in unemployment has been recorded over the period.

The relative incidence or occurrence of LTU across various groupings in society is an interesting, if not predictable, phenomenon. The **age** of the unemployed person is a good indication of the risk of that individual falling into LTU. Older workers are most affected by LTU in comparison to the rest of the active population. Reasons for this may include discrimination in recruitment procedures, the greater risks of skills obsolescence among older workers and the tendency for this age group to be over-represented in declining economic sectors. **Gender** gaps also exist in relation to the risk of becoming long-term unemployed. The recession has resulted in males being more likely to be long-term unemployed than females, particularly as a higher proportion of early school leavers entering the labour market are boys. Again, the picture across Europe is diverse, as in Greece or Belgium for example, LTU in 2011 is higher for female jobseekers across all age groups.

**Regional differences** are characteristic of the figures for LTU in Europe, also with a centre-periphery pattern emerging for many countries, reflecting the overall growth of different regions, their industrial structure and the skills composition of their population. In most Member States also, **low educational levels** are linked to high probabilities of becoming long-term unemployed. Even in countries like Austria and Germany, which show a relatively better picture in terms of unemployment during the 2007 and 2011 period, those with lower educational levels suffer more from LTU. Furthermore, it would appear that no sector was left untouched with a trend emerging in some countries also showing the deterioration of the position of highly educated people in the labour market over the period. In Sweden, while the risk of becoming long-term unemployed is higher for lower educated workers, the analysis shows that the incidence of LTU among low-skilled workers in Sweden is lower than in other Member States.

Across Europe, a similar pattern emerges with respect to the greater exposure to LTU of workers from an **immigrant or ethnic minority background**. A striking example of this is illustrated in relation to the statistics from Slovakia, where the Roma accounted for almost 20% of total unemployment and 30% of LTU and as much as 52% of the very long-term unemployed, while representing only 7–9% of the total population. The types of **job sectors** affected by LTU during the recent crisis have been manufacturing and industry, construction, information and financial activities and agriculture. In countries like the UK, the sectors most affected

were retail, financial services and public services, resulting in an increase in LTU among women. Other distinguishing features of the LTU in some countries have been revealed, including the risks of disabled workers falling into LTU mentioned by Luxembourg and in particular low-skilled disabled workers facing severe disadvantages in their search for employment. The length of service prior to becoming long-term unemployed was highlighted in Slovenia, again revealing that older workers (those with 20–30 years experience and more) are a vulnerable group.

Moving on to look at the factors driving transitions into and out of LTU, the Beveridge curve, the scatter plot of unemployment rates versus vacancy rates, is still often used to summarise the state of the labour market <sup>(90)</sup>. Many countries among those in focus present evidence that the Beveridge curve has shifted outward in recent quarters, indicating that structural problems are contributing to LTU in their labour markets. In other countries, the Beveridge curve illustrates how unemployment is affected by economic cycles. In some countries, like **Italy**, the Beveridge curve analysis does not show a systematic pattern that indicates whether the changes in unemployment rates are mostly due to cyclical or structural factors, while in other countries, the same type of analysis is inconclusive mainly because the available data are unreliable: in some countries the number of vacancies recorded are only a fraction of available vacancies. Also, how vacancies are measured can cause different pictures to emerge of the situation with respect to the U-V curve, illustrated by Hungary.

The experts examined a number of issues which they believe contribute to structural unemployment, particularly with respect to the long-term unemployed. On the supply side, these include skills mismatches and problems with the flexibility of the educational and lifelong learning systems to respond to the demands of the labour market; in some countries problems exist with respect to the effective functioning of the PES to assist the long-term unemployed in their job seeking efforts. Regional mismatches resulting from a lack of geographical mobility is a serious cause for concern in some countries. Job seeking can be a costly exercise as a result of the high costs of being mobile and thus may be prohibitive for a person who is long-term unemployed. One way of addressing the situation is illustrated in the Belgium case, where the Coalition Agreement of December 2011 sets out an increase in the

<sup>(90)</sup> Bleakley, H. and Fuhrer, J. C. 'Shifts in the Beveridge Curve, Job Matching and Labor Market Dynamics', Federal Reserve Bank of Boston, *New England Economic Review*, September 1997 — pp. 3–19. Internet: <http://www.bostonfed.org/economic/neer/neer1997/neer597a.htm>

distance within which a job must be sought from 25 km to 60 km. If the job seeker is not deemed to be making sufficient efforts, sanctions may be applied. Another set of factors discussed include the role that payment incentives have on pushing long-term unemployed persons into employment or entrenching their positions in LTU: the system of unemployment and social benefits in combination with high tax wedges on low-wage workers combine with low wages in the economy to act as a disincentive to seek employment. The experts discuss the role that overly generous UB and social assistance systems play in producing high replacement ratios, thus maintaining the status quo with respect to the levels of LTU, and which can act to capture the long-term unemployed in a state of dependence on the benefits system; contrasted against this, however, is the equally problematic situation of ungenerous UB systems which may result in further polarisation and marginalisation of the very vulnerable groups in society entrenching their position as part of the long-term unemployed labour force and forcing many into positions of poverty. Similarly, evidence from Spain suggests that the unemployed who do not receive benefits are twice as likely to return to work as those that do.

On the demand side, the problem that insurance contributions pose for employers is cited and many feel that it acts to reduce the demand for labour — or at the very least, if reduced as part of a targeted policy, would help in getting the long-term unemployed back to work. Another demand side problem is high employee protection insurance making it prohibitively expensive for employers to hire and fire workers. Finally, and in the eye of the storm, some countries have raised the problem of dissipated demand in the economy for goods and services as a result of the economic crisis and the consequent restructuring resulting in low demand for certain occupations and labour skills as well as the structural problems faced by former planned economies with respect to the stock of labour and skills.

The policies to counter structural unemployment and tackle LTU seem to be generic among the countries in focus. As part of the range of policies used to combat LTU, many countries use training measures, with some tailoring the measures to target specific groups like young people and immigrants, for example, while others target different business sectors, for instance, the Fit4Job initiatives in Luxembourg which have been applied to several business sectors including finance, commerce, insurance and construction. Evaluations carried out on the impact of training measures appear to suggest mixed results. In Estonia, for example, work-related training was more beneficial to women, older workers and lower educated and those with

shorter unemployment periods. Thus, the effect on long-term unemployed groups was limited. These types of measures are likely to work best as part of an integrated approach to tackling the problem of LTU.

In many countries the emphasis of active labour market policies has been on the labour demand side and includes wage subsidies for employers and/or exemptions from the payment of insurance contributions in an effort to encourage employers to hire the long-term unemployed or groups vulnerable to LTU. Wage subsidies are a good way of reintegrating the long-term unemployed and are designed to compensate for an employee's reduced productivity, before such subsidies are eventually removed. A good example of this intervention is the German JobPerspektive programme which targets long-term unemployed persons who are considered to have at least two employment barriers. Whilst wage subsidies tend to be temporary, in Sweden wage subsidies can last up to 10 years for older jobseekers. Reductions in social security contributions for employers are another way to entice employers to employ the long-term unemployed which is happening in Belgium as a means of tackling the problem of LTU. Wage subsidies can be targeted at specific groups like young people (UK) and older workers (Germany). Evidence from evaluation studies suggest that wage subsidies can have a positive effect on the employment prospects of the long-term unemployed. Some negative results are also mentioned, for example a Swedish evaluation study found that such programmes can have substantial crowding out effects on regular employment. An important question arises in relation to the temporary nature of the employment offered and whether or not it is an effective instrument for the reintegration of the long-term unemployed.

Turning to public works initiatives, they create direct employment for the long-term unemployed, providing them with an opportunity to maintain their skills or re-skill, while at the same time offering opportunities to integrate socially and improve their material well-being. Many countries have introduced this type of initiative to help combat the problem of LTU. However, in most of the evaluation work cited, it would appear that the participation in public works programmes as a means to reintegrate the long-term unemployed into the labour market are not effective and can have a negative impact on a person's chances for re-employment. O'Leary (1994) suggested that participation in public works schemes may even be a negative signal to employers <sup>(91)</sup>.

<sup>(91)</sup> O'Leary, C. (1993), 'An Impact Analysis of Labour Market Programmes in Hungary', ILO/Japan Project on Employment Policies for Transition in Hungary, Working Paper, in Meager & Evans (1998), op.cit.



Early intervention approaches, including profiling, have in recent years been put in place in many countries in Europe. The identification of disadvantaged jobseekers for preferential access to labour market assistance has traditionally been based on their belonging to certain groups who find it difficult to reintegrate into the labour market <sup>(92)</sup>. However, the main shortcoming of this approach was that it did not account for the individual characteristics of jobseekers and the effect of those characteristics on their employability. Since then, profiling initiatives have been put in place or are being developed in countries to establish systematic identification of jobseekers with the highest risk of falling into LTU; as a result, this enables appropriate types, levels and timing of assistance to be directed towards individuals before the adverse health and social effects of unemployment become established <sup>(93)</sup>.

Efforts in the EU-27 and candidate countries to implement skills forecasting and anticipation, and to implement policies to address skills shortages and retrain the long-term unemployed, are addressed in this Review. It shows that many countries recognise the need for forecasting skills needs in order to address the problem of unemployment. Where some sort of forecasting activities are going on, these activities are at different stages across the countries reported on. For many, no formal strategies are in place to carry out forecasting, yet it seems like the process of anticipating skills needs is in development or going on in a non-systematic way. For many more countries, policies have been put in place to deal with skill shortages in an effort to respond to employers' needs and reduce LTU. Specific sectors have been targeted, like the health sector in Finland and the IT and medical professionals

occupations in Lithuania. Policies to reduce skills shortages however have not been prioritised for reducing LTU for countries like Slovakia, Sweden and Turkey.

UB systems are an important element in any set of policies to tackle LTU. Many countries have made changes to their systems, linking the receipt of UB and/or social assistance payments to participation in active job seeking activities, including participation in ALMPs and also for some countries, linking UB to the acceptance of job offers. Discussion has also centred on the eligibility criteria for UB assistance and the impact on LTU. There is a tension emerging, on the one hand, between the need to reduce or limit eligibility, in some instances as a result of austerity measures, in order not to create disincentives for unemployed labour to go out and seek jobs; and on the other, to ensure that UB assistance is at such a level as not to increase the risk for the already vulnerable unemployed of falling (further) into poverty and thus entrenching their position in LTU even more. If as some countries have suggested, e.g. Belgium and Denmark, that the generosity of the system does not influence employment flows, but does influence the risks of falling into poverty and potentially marginalising the unemployed even further, should systems not then be as generous as possible within the context of standard parameters (i.e. replacement ratios) and within the context of how much countries can afford in the current climate? It makes sense then, to follow the Commission's recommendation to provide more resources in bad times and save for the rainy day with tighter eligibility criteria in good times <sup>(94)</sup>. Luxembourg, for example, has adapted its UB system during the crisis to focus on the long-term unemployed, prolonging benefits for vulnerable groups of workers.

<sup>(92)</sup> OECD Proceedings, The Early Identification of Jobseekers at risk of Long-term Unemployment: The Role of Profiling, 1998.

<sup>(93)</sup> Ibid.

<sup>(94)</sup> An Agenda for New Skills and Jobs, op.cit., p. 7.



European Commission

**European Employment Observatory Review – Long-Term Unemployment, 2012**

Luxembourg. Publications Office of the European Union

2012 — 50 pp. — 21 × 29.7 cm

ISBN 978-92-79-23708-9

doi:10.2767/6287

As the EU continues to try to overcome the current economic crisis, the reduction of unemployment – and in particular long-term unemployment (LTU) – is a priority for citizens and policymakers alike. This report looks at how LTU has changed at national and EU level, and tries to identify groups according to age, gender, educational level, migrant/ethnic minority status, job sector/occupation and region of residence. Structural factors (skills mismatches, insurance contribution policies etc) on the demand and supply side seeking to explain these trends are examined, before the report starts analyzing different policy options that could be used to overcome this problem.

This publication is available in electronic format in German, English and French.



## HOW TO OBTAIN EU PUBLICATIONS

### **Free publications:**

- via EU Bookshop (<http://bookshop.europa.eu>);
- at the European Union's representations or delegations. You can obtain their contact details on the Internet (<http://ec.europa.eu>) or by sending a fax to +352 2929-42758.

### **Priced publications:**

- via EU Bookshop (<http://bookshop.europa.eu>).

### **Priced subscriptions (e.g. annual series of the *Official Journal of the European Union* and reports of cases before the Court of Justice of the European Union):**

- via one of the sales agents of the Publications Office of the European Union ([http://publications.europa.eu/others/agents/index\\_en.htm](http://publications.europa.eu/others/agents/index_en.htm)).

Are you interested in the **publications** of the Directorate-General for Employment, Social Affairs and Inclusion?

If so, you can download them or take out a free subscription at  
<http://ec.europa.eu/social/publications>

You are also welcome to sign up to receive  
the European Commission's free Social Europe e-newsletter at  
<http://ec.europa.eu/social/e-newsletter>

<http://ec.europa.eu/social/>



ISBN 978-92-79-23708-9



doi:10.2767/6287