

**MUTUAL LEARNING PROGRAMME:**

**AUTUMN 2012 SEMINAR**

**TACKLING LONG-TERM UNEMPLOYMENT– EFFECTIVE  
STRATEGIES AND TOOLS TO ADDRESS LONG-TERM  
UNEMPLOYMENT**

Brussels, 8 November 2012

Seminar Report prepared by ICF GHK

in consortium with CERGE-EI

*Date: November 2012*



*This publication is supported under the European Community Programme for Employment and Social Solidarity (2007-2013). This programme is managed by the Directorate-General for Employment, Social Affairs and Inclusion of the European Commission. It was established to financially support the implementation of the objectives of the European Union in the employment and social affairs area, as set out in the Social Agenda, and thereby contribute to the achievement of the Lisbon Strategy goals in these fields.*

*The seven-year Programme targets all stakeholders who can help shape the development of appropriate and effective employment and social legislation and policies, across the EU-27, EFTA-EEA and EU candidate and pre-candidate countries.*

*PROGRESS mission is to strengthen the EU contribution in support of Member States' commitments and efforts to create more and better jobs and to build a more cohesive society. To that effect, PROGRESS will be instrumental in:*

- providing analysis and policy advice on PROGRESS policy areas;*
- monitoring and reporting on the implementation of EU legislation and policies in*
- PROGRESS policy areas;*
- promoting policy transfer, learning and support among Member States on EU objectives and priorities; and*
- relaying the views of the stakeholders and society at large*

*For more information see:*

<http://ec.europa.eu/social/main.jsp?catId=327>

<p><i>The information contained in this publication does not necessarily reflect the position or opinion of the European Commission.</i></p>
--

## CONTENTS

1	INTRODUCTION TO THE SEMINAR.....	1
2	TRENDS IN LONG-TERM UNEMPLOYMENT IN THE EU AND MAIN MEMBER STATE POLICY APPROACHES.....	1
3	CAN ACTIVE LABOUR MARKET PROGRAMMES REDUCE LONG-TERM UNEMPLOYMENT?.....	3
4	REFORMING UNEMPLOYMENT BENEFIT SYSTEMS TO PROVIDE ADEQUATE PROTECTION WHILE MAKING WORK PAY.....	4
5	THE ROLE OF POLICY MEASURES TO TACKLE LONG-TERM UNEMPLOYMENT: VIEWS OF SOCIAL PARTNERS AND NGOS.....	5
6	THE EMPLOYMENT AND SOCIAL DIMENSION OF THE EUROPE 2020 STRATEGY: COUNTRY EXAMPLES ALMP MEASURES AND BENEFIT REFORMS TO TACKLE LONG- TERM UNEMPLOYMENT.....	5
7	CONCLUSIONS: EMPHASIS NEEDS TO BE PLACED ON INDIVIDUALISED AND WELL TARGETED MEASURES .....	8



# 1 INTRODUCTION TO THE SEMINAR

On 8 November 2012, DG Employment, Social Affairs and Inclusion (DG EMPL) of the European Commission hosted the autumn seminar of the [Mutual Learning Programme](#), focusing on policies to tackle long-term unemployment.

Long-term unemployment (LTU)<sup>1</sup> currently affects 10 million individuals in the European Union; a LTU rate of 4.1% (2011), compared with 2.8% at an EU-27 average in 2008. The financial and economic crises have impacted significantly on unemployment rates, with a delayed knock-on effect on LTU. Tackling long-term joblessness is a policy priority for the European Union, given the demonstrable short, medium and indeed long-term effects on individual's career and earnings prospects as well as their physical and mental health and well-being. Similarly, LTU has inevitable consequences in terms of lost human resource and economic growth potential and impacts on demand and welfare expenditure. Failure to effectively tackle this issue also moves Europe further away from the achievement of the EU2020 employment and poverty reduction targets. The April 2012 European Commission Communication "[Towards a Job Rich Recovery](#)" and the processes of the European semester therefore focus both on measures to stimulate economic growth, as well as employment policy measures seeking to improve the operation of Public Employment Services (PES), the effectiveness and efficiency of Active Labour Market Policies (ALMPs) and efforts to reform the benefits system to guarantee minimum standards of living while at the same time making work pay. With this brief presentation of the EU level context, Mr **Santiago Loranca** (Head of Unit European Employment Strategy, DG EMPL) officially opened the seminar, which included a series of presentations from the European Commission, keynote speakers, social partners, NGOs, Member States representatives and a closing panel debate.

# 2 TRENDS IN LONG-TERM UNEMPLOYMENT IN THE EU AND MAIN MEMBER STATE POLICY APPROACHES

The seminar opened with presentations of some of the findings of the upcoming **2012 Employment and Social Developments in Europe Review** and the recently published [European Employment Observatory Review on Long-term Unemployment](#).

One of the chapters of the 2012 Employment and Social Developments in Europe Review, due to be released in January 2013, will provide an analysis of recent trends in LTU in the EU Member States; identify the groups most affected; review the main factors explaining trends in LTU across countries; and analyse the dynamics of LTU, using longitudinal data.

Elements of the main findings of this chapter were presented by Mr **Laurent Aujean** from DG EMPL. The data analysed show that the LTU rate increased in the EU (with around one-year lag compared to unemployment) from 3.0% in 2009 to 4.6% in 2012

---

<sup>1</sup> Defined as unemployment lasting 12 months or more.

Q2. Interestingly, the share of LTU among all unemployed in the EU had declined significantly between 2007 (42.7%) and 2009 (33.3%), due to the inflows of 'short-term unemployed', but has now returned to high levels (44.5% in 2012Q2) and applies to a much larger pool of unemployed (around 25 million compared to 17 million in 2007) . Moreover, due to the recent increase in overall unemployment, LTU is set to rise further in the future.

There are large variations between Member States, with rates of LTU ranging from 1-9%. Although LTU has increased in almost all Member States, eight countries (France, Greece, Ireland, Italy, Portugal, Poland, Spain and the UK) account for 90% of the net increase in LTU over 2008-11 (and Spain alone for 43%). Men, young people and low skilled workers are among the groups most affected by recent rises in LTU, but it is important to bear in mind that 61% of those unemployed for more than 12 months are prime age workers (aged 25-49). Similarly, although older workers are proportionally less affected, once unemployed the persistence rate of unemployment (and LTU) is the highest among this age group. Previous occupation and sector of activity can also be shown to impact on the likelihood of becoming and remaining unemployed, although it is worth noting that one fifth of LTU individuals have never previously held a job.

Although transitions rates out of LTU into employment have declined, there are large country differences (from more than 30% in the Netherlands and Sweden to around 10% in Slovakia and Greece), due notably to the countries' labour market institutions. It has also been shown that a number of factors are linked to positive transitions out of LTU. These include participation in lifelong learning (education or training) and being registered with the PES and receiving unemployment benefits. According to Mr. Aujean, while being registered with the PES seems to play a role in returning to employment, it is not sufficient to find a job. The role played by PES in setting requirements for the unemployed and establishing good accompanying measures differs significantly from one Member State to another and hence the impact of the effectiveness in helping the unemployed moving into employment.

Concerning unemployment benefits, while their duration can obviously play a role for quicker return to a job, there is not enough evidence to prove that those not receiving them have a higher rate of return to employment.

It was mentioned that although it might be difficult to measure, the correlation between perception of unemployment benefits and the return to unemployment could be linked with undeclared work. The literature does not provide a strong evidence on this issue, but in some Member States there is a general feeling that long-term unemployed individuals who no longer receive unemployment benefits have to rely on undeclared work when social benefit levels are very low. This can hamper their re-insertion in the labour market.

As well as responding (with a time lag) to the economic downturn, an analysis of the Beveridge curves of different Member States provided in the recently published European Employment Observatory (EEO) Review, also demonstrates the increasing exposure of many Member States to structural LTU. Dr **Tina Weber** (ICF GHK) underlined that this can be the result of a number of different factors. As traditional sectoral continue to decline, some countries have seen insufficient adaptations of education and training systems, despite the overall increase in education and skill levels in the EU. Similarly, levels of mobility within and between Member States remain low, leading to skill shortages in some localities and sectors even during times of high unemployment. The EEO Review also highlights the need to improve the targeting of ALMPs, as well as the effectiveness of some PES, which can be a challenge in

Member States experiencing significant reductions in funding affecting both client to advisor ratios and the availability of active measures. Particular emphasis was again placed on the need for a better evidence base for effective labour market policy making. Training and demand side measures such as wage subsidies or reductions in employer tax or social insurance contributions remain among the most commonly used measures, with benefit reforms also high on the agenda, largely in an effort to increase conditionality and work incentive effects. A number of Member States have also made adjustments to Employment Protection Legislation (EPL) to encourage employers to recruit staff.

Although the most vulnerable sectors during the crisis were those where men traditionally predominate, LTU among women have also increased slightly, as cut backs in the public services became more prominent. Before the crisis LTU affected mostly women but the crisis has had an 'equalising effect'.

### 3 CAN ACTIVE LABOUR MARKET PROGRAMMES REDUCE LONG-TERM UNEMPLOYMENT?

Following on from this overview of ALMPs and other measures used at Member States level in an effort to reduce LTU, Dr **Nicola Düll** (Economix Research and Consulting) in her keynote presentation addressed the question of the effectiveness of different labour market programmes in reducing LTU. Although effectiveness is not necessarily or directly linked to the level or expenditure on ALMP, it is nonetheless notable that ALMP spend as a share of GDP varies significantly between Member States. No strong correlation can be found between level of expenditure and unemployment rates. Some countries with previously low ALMP spend have significantly increased their investment as a result a strong rise in unemployment (e.g. Latvia, Slovenia, Hungary, Estonia), whereas others have significantly reduced investment in labour market policies despite an increase in unemployment (e.g. Bulgaria, Romania, Ireland). In terms of the effectiveness of ALMPs, evaluations often yield mixed messages. This is particularly true for training schemes which tend to provide results only in the medium term and can be effective in reducing the long-term social costs of youth unemployment. Overall, smaller scale schemes targeted at particular groups or occupations tend to be more effective. The content of training should be closely linked to the needs of the local labour market and be based on an assessment of skill needs for each unemployed individual. In countries with strong dual systems, which can be very selective at the point of entry into vocational training, pre-vocational training schemes have proved particularly effective in integrating those with lower school-leaving qualifications.

Similarly lessons apply to (wage) subsidy schemes, which tend to show high deadweight effect if they are not well targeted and small in scale. Research also indicates that subsidy schemes targeting particular groups (such as older workers) need to go hand in hand with awareness raising, as the ultimate success of integration measures is often contingent on changing employer attitudes. Furthermore, the effectiveness of such measures can be increased through individual coaching, strong follow-up and a target group focus.

In a situation of a strong economic downturn where the creation of new employment opportunities in the open market is limited, some countries have used instruments of

direct job creation (such as public works) to provide opportunities for (long-term) unemployed individuals. However, evaluations of large scale public works programmes have tended to show negative results with relatively high deadweight and limited additionality (as well as other effects such as distortion of competition). However, such schemes can have positive effects on work habits and motivation and can serve to reduce poverty. The measurement of their success therefore depends on the goals and design of such schemes. The effectiveness of direct job creation programmes can be enhanced by offering a working environment which is close to that of the regular labour market, includes periods of training and other supporting measures (e.g. to deal with other social or family problems), thus highlighting again the need for individualised approaches. The latter, together with early intervention strategies which prevent long-term unemployment are considered to be particularly effective, but their success depends on the ability of the PES to provide individualised pathways, the design of targeted, evidence-based measures, and the involvement of all relevant partners at local level.

## **4 REFORMING UNEMPLOYMENT BENEFIT SYSTEMS TO PROVIDE ADEQUATE PROTECTION WHILE MAKING WORK PAY**

Speaking from Washington via video presentation, Dr **Herwig Immervoll** (World Bank) underlined that in order to reform unemployment benefit (UB) systems to make work pay, it is firstly critical to understand current levels of provision and who is indeed eligible for UB and indeed other welfare benefits. There are significant differences between EU Member States in UB generosity, eligibility and the extent and speed at which UB entitlement tapers away over the unemployment spell. Similarly, in some countries, other safety net benefits almost play a more significant role than UB in securing minimum income levels.

There is some evidence which indicates that increasing benefit generosity has an impact on slowing down job finding for the eligible population. However, such effects are modest and the link with overall unemployment is not clearly established. Financial incentives through the benefit systems have been shown to have the clearest effect on decisions on whether or not to work at all (rather than on the hours worked). These effects are particularly strong among women and low income groups. There is a risk to limiting entitlements will sever the link to the PES (registration has been shown to have a positive impact on job finding) and undermine family incomes. Dr Immervoll supported a link between the benefit system and economic cycles (extending periods of eligibility in weak labour markets) and favoured automatic adjustments to avoid delays in response times. In-work benefits were also considered a potentially helpful instrument to reduce inequality while increasing work incentives. Such measures must be properly targeted, taking into account the type of employment accessed, the family income situation and appropriate ways of phasing out such support without undermining incentives to remain in work or to increase working hours.



## 5 THE ROLE OF POLICY MEASURES TO TACKLE LONG-TERM UNEMPLOYMENT: VIEWS OF SOCIAL PARTNERS AND NGOS

LTU and the associated loss of human capital is also of particular concern to employers. According to **Rebekah Smith** (BUSINESSEUROPE), economic growth and structural labour market reforms are key to addressing the challenges of unemployment. BUSINESSEUROPE considers that countries which have implemented labour market reforms to create more flexible labour market have fared better in weathering the impact of, or exiting from the crisis. Of similar importance are incentives in the welfare system to exit from benefit dependency. In-work benefits can be helpful in achieving this, but at the same time, the tax wedge on labour must also be reduced. This is a recommendations employers share with the EU's Employment Package agreed in April. There is also agreement regarding priorities to improve the effectiveness of PES, and the use of European Structural Funds to support transitions. BUSINESSEUROPE also sees the continuing relevance of the implementation of a flexicurity approach, which it considers has taken a back seat among the list of priorities of the European Commission. The commitment of the European social partners to address the issue of LTU was demonstrated by the 2010 joint agreement on inclusive labour market, which is currently being implemented. Negotiations are also under way on a Framework of Actions on Youth Employment and social partners will carry out a renewed in-depth analysis of the labour market situation in the EU in 2013.

For the independent NGOs organised in the European Anti-Poverty Network (EAPN), the question of addressing LTU goes beyond that of labour market integration at all cost (or indeed into any job). **Amana Ferro** (EAPN) emphasised the importance of considering the quality of the job, as low quality, low wage employment undermines human dignity and does not provide an effective pathway out of poverty. As a result of the crisis and associated austerity measures in many countries, excessive emphasis is being placed on getting individuals of the unemployment register, with insufficient attention being paid to the quality and effectiveness of measures and the quality and sustainability of employment. According to the EAPN low quality, low age, unstable employment simply acts as a revolving door and discourages individuals from seeking work if no stepping stone effect is in evidence. EAPN therefore recommends a more holistic approach, with individualised assistance for job seekers and greater attention paid to developing skills for emerging sectors.

## 6 THE EMPLOYMENT AND SOCIAL DIMENSION OF THE EUROPE 2020 STRATEGY: COUNTRY EXAMPLES ALMP MEASURES AND BENEFIT REFORMS TO TACKLE LONG-TERM UNEMPLOYMENT

**Lindsey Lewis** (DWP) presented the UK's ambitious benefit reform, which sees to create a more transparent system in which work incentives are more apparent. The Universal Credit will create a new single system of means-tested support for working-age people who are in or out of work. Support for housing costs, children and childcare costs will all be integrated in the new benefit. It will also provide additions for disabled

people and carers. Under the current system of a myriad of different in and out of work benefits and allowances, it can be difficult for individuals to calculate how much better off one would be in work. By removing the distinction between in-work and out-of-work support, Universal Credit removes the need to claim different benefits. It is hoped that this will reduce the risks associated with moves into employment that exist in the current system.

The system aims to ensure that work always pays as Universal Credit is withdrawn at a single taper rate of 65% as income from employment increases. Certain earnings disregards will also be in place to support family incomes and to allow individuals who wish to work limited hours (for example because of family commitments). Special allowances will be made for the payment of childcare costs and significant associated investment is being made in childcare provision.

Unlike many current benefits, which are paid every two weeks, Universal Credit will be paid monthly, and assistance will be provided to certain families to help them budget. The new system will be phased in over five years. A pilot scheme is being launched in April 2013 for new claims and natural migrations from a small subset of the unemployed caseload in the North West of England. From October 2013 Universal Credit is expected to be introduced more widely, with transition complete by 2017. The UK government expects that the introduction Universal Credit will lift 900,000 individuals out of poverty, including more than 350,000 children and around 550,000 working-age adults.

The evaluation results of a benefits (and ALMP) reform carried out in Germany between 2002-2005 (the so-called Hartz Reforms) were presented by **Sebastian Jobelius** (BMAS). The goals of these reforms were essentially fourfold: to increase the willingness among unemployed individuals to take up a new job (e.g. to travel further for work, to accept a lower skilled job); to make work pay without distorting the wage structure; to create more flexible forms of contractual arrangements to stimulate job creation; and to enhance activation measures to speed up transition rates out of unemployment.

A recent evaluation of the impact of the Hartz reforms (to be published in due course) has shown that the reforms have succeeded in encouraging unemployed individuals to accept lower skilled employment and less favourable working times. There has been a small increase in willingness to increase intra-regional mobility, but this remains limited. At the same time, there has been no impact on the reservation wage. Some negative impacts were noted in relation to sanctions imposed, particularly for young unemployed individuals.

The reform of the so-called “unemployment benefit 2” (previously social assistance), together with a range of ALMPs, has supported the creation of so-called “mini” and “midi” jobs. This has meant that the number of persons who top up income with benefits on a full-year basis increased from 330 000 to 600 000. Of particular concern for policy makers is that fact that there is little evidence of a stepping stone effect among holders of mini and midi jobs. The reform also contributed to some extent to the trend (already in train beforehand) towards flexible contractual arrangements, with an increase in fixed-term and temporary agency work, as well as limited part-time work. However, there is some controversy around the so called ‘mini jobs’ and their use as a substitute for regular jobs. Some studies indicate that the main beneficiaries of the Hartz reforms have been women on part-time and marginal contracts. It is clear that such contracts

are sometimes sought to allow workers to reconcile work and private and family life. However, it is worth noting that the German government has, at the same time, significantly invested in the expansion of childcare facilities.

The evaluation of the reforms also found that matching has improved, the stock of LTU has declined and employment overall has increased. However, it remains a concern that the stock of LTU has not reduced as a result of outflows but due to reduced inflows. Addressing persistent long-term joblessness and limited transitions into stable, full-time employment therefore remain a policy priority.

A more regional approach to addressing LTU was presented by Mr **Kimmo Ruth** (Finnish Ministry of Employment and the Economy). The Finnish model to tackle unemployment is very much predicated on prevention, with reactive measures particularly focusing on health and vocational rehabilitation. The preventative approach is set within the framework of the so-called "Change security" model emphasizing early intervention in times of lay-offs. Employers are required to notify not only employees but also local economic development offices in advance of redundancies to allow planning to get under way for the retention, outplacement or reconversion of affected staff. Together with local partners, employers are required to prepare an employment action plan, with employment services offered by local PES often on company premises. Specialised Change Security Experts in the PES are trained to work with local partners and affected workers to provide individualized and targeted support to ensure rapid re-integration into the labour market. Specific sectoral and regional funds are available from central government to support the reconversion of affected sectors and localities.

It is considered that the contribution of ESF and the EGF have further improved the effectiveness of this model. However, this approach is also being tested by the impact of the economic crisis and by the fact that SME continue to lack knowledge of the support available.

Such sectoral and regional measures are going hand in hand with benefit and ALMP reforms. There are plans to cut the maximum duration of unemployment benefit payments from 500 to 400 days for unemployed individuals who accept offers of activation measures or jobs. At the same time there is a goal to increase the rate of unemployed participating in activation measures to 30%. Research of employment outcomes from ALMPs shows that the provision of start-up grants leads to the highest employment rates three months after completion of the measure (68.9%) followed by apprenticeship training (42.8%) and other labour market training (33.1%).

A reform of PES service provision is also under way, which will place greater emphasis on the local implementation of national priorities and targets. There has also been discussion around the challenge of improving the cooperation with companies and the lack of information as one of the main obstacles to achieving this. It was argued that PES should work closely with small and medium size companies by contacting them more actively and providing them with detailed information on the different services available.

## 7 CONCLUSIONS: EMPHASIS NEEDS TO BE PLACED ON INDIVIDUALISED AND WELL TARGETED MEASURES

The seminar concluded with a panel debate on lessons on the optimal design of active labour market and unemployment benefit system to promote the activation of long-term unemployed individuals. Rebekah Smith emphasised that tackling LTU is a priority for social partners and that space must be provided for social dialogue to reach viable solutions. In many countries measures have been taken by governments which have (at least partly) been supported by social partners, but strong involvement of employers' and trade union organisations is not always ensured. Amana Ferro underlined her conviction that work is not always the best solution (to exit from poverty) at all costs. Education and training be a better short term solution if it leads to more sustainable and high quality employment outcomes. However, this pre-supposes that a decent minimum living standard is ensured out of, as well as in work. It must also be recognised that work is not an option for everyone. *Quality* employment should be considered as the most effective route out of poverty for individuals who can work. Lindsey Lewis underlined that the reform of the UK benefit system goes hand in hand with the provision of support for activation for job seekers through the Work Programme and Youth Contracts. Both should be seen as part of a package to address unemployment and LTU in particular. Nicola Düll considered that it must be important to consider whether AMLPs can and do create additional employment or simply re-distribute existing employment. She considered that the latter was the case for the Hartz reforms, which mainly created (part-time) jobs for women. She again re-emphasised the need to take a longer-term view in relation to measuring the impact of some ALMP. In particular training measures sometimes only show their impact in the medium term and their effectiveness should therefore not be discounted.

In closing the seminar, Mr. **Loris Pietrantonio** (DG EMPL) recalled that although supply side measures are important in addressing LTU, demand side measures are also required. One of the main messages of the seminar was the need to individualise activation measures and to target ALMPs effectively. At the same time, the involvement of social partners is critical to find effective ways to emerge from the crisis and create employment opportunities even for those furthest from the labour market.