



PORTRAITS OF LABOR MARKET EXCLUSION

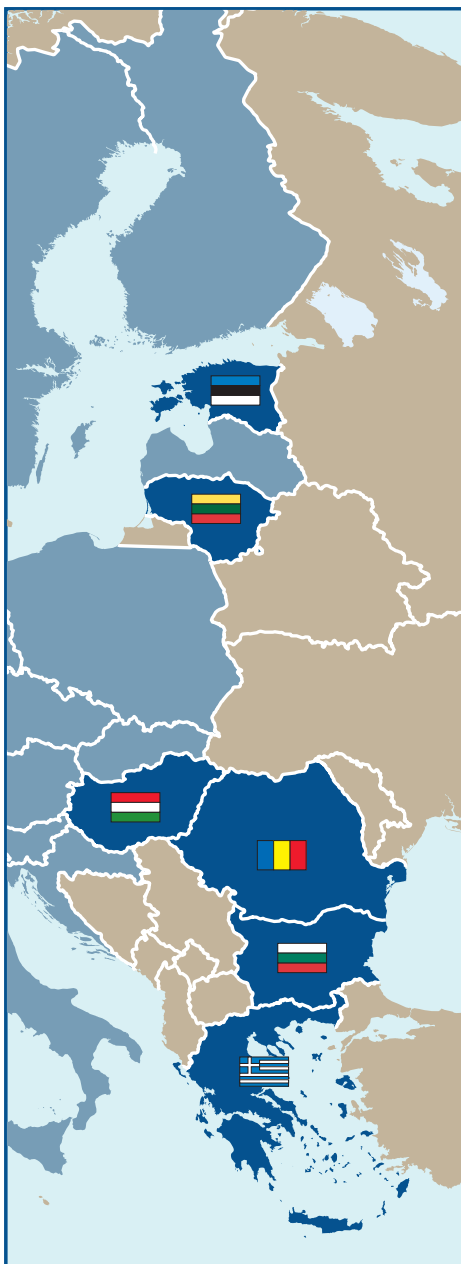
The financial crisis that hit the world in the middle of 2008 gave way to the sharpest contraction of the European economies since the Great Depression. In 2009, the economic output in the countries of the European Union shrank 4.5 percent, the largest reduction in GDP since its creation. Since then, the economies have slowly recovered, but unemployment has continued to rise, reaching 11 percent in 2013, up from 7.1 percent in 2008. Furthermore, for the European Union as a whole, long-term unemployment among 15-to-64-year-olds has increased from 37.2 percent in 2008 to 47.5 percent of total unemployment in 2013. In several countries, more than half the unemployed have been looking for a job for more than 12 months. Youth unemployment, on the other hand, has increased almost 8 percentage points since 2008, reaching 23.3 percent in 2013 in the EU-28* countries.



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Long spells of unemployment expose individuals to impoverishment. They can also lead to deterioration of skills and detachment from the labor market. Moreover, with government budgets under stress and an environment marked by demographic changes, using the labor force to its full potential is key. Knowing what the out-of-work population looks like is fundamental to a holistic approach to policymaking with respect to the inactive and the unemployed. To this end, *Portraits of Labor Market Exclusion* presents “profiles” or “portraits” of individuals who have no or limited labor-market attachment in Bulgaria, Estonia, Greece, Hungary, Lithuania, and Romania. The profiles are derived using a clustering analysis—Latent Class Analysis (see Box)—of data from the European Union Statistics on Income and Living Conditions (EU-SILC) surveys. They focus on those who defined themselves as unemployed, retired, or inactive at the time of the survey.







The overarching objective of *Portraits of Labor Market Exclusion* is to help reduce the risk of poverty and/or labor market exclusion by strengthening the evidence base for designing and targeting income support, activation, and employment support policies. The analysis takes a comprehensive view of policy making, focusing on both the labor market attachment of a country’s out-of-work population and the social assistance package and poverty profile of the same segment of the population. Through this examination of the characteristics of different subgroups, this analysis aims to contribute policy-relevant information about the social and economic risks these subgroups are facing, and on the barriers that hold back their labor market integration. In doing so, it can facilitate effective formulation and targeting of policies that seek to alleviate these barriers.

‘Portraits’ help to move the dialogue on activation from a labor market-centric view to a broader dialogue that includes social policy as a whole (Figure 1), which is an important shift. For instance, social protection programs, such as family benefits and maternity benefits, and broader social policy issues such as retirement ages, often have a great impact on who remains inactive. By creating a space for dialogue between citizens and between different public organizations (social, labor, health, childcare, etc.) who often do not coordinate their actions, the results of ‘Portraits’ supports better insights and better policies for labor market inclusion of citizens.

The total out-of-work population (among 16-to-64-year-olds) analyzed has increased in five of the six countries studied (see Figure 2). Such increases in the out-of-work population are of great concern, particularly given the rapidly aging and shrinking populations in these countries. Both increasing labor force participation rates and addressing the barriers to employment of the various groups emerge as priorities to

Portraits of Labor Market Exclusion is the result of a joint effort between the World Bank, the European Commission, and EU Member States. The current set of countries represents a pilot group for this first-time analysis. The set of countries was chosen by the European Commission, Directorate General of Employment, Social Affairs and Inclusion (EC DG EMPL) in light of recent economic and labor market developments, with advice from the World Bank team. The findings of ‘Portraits’ were generated, discussed, and validated in an interactive process between the World Bank (initial draft of reports), DG EMPL expert country desks, and Member States Governments. Joint country missions to participating Member States between January and April 2014 were an integral part of the dialogue process. The cycle of the activity closed with a results workshop in Brussels on May 26, 2014, jointly organized by the European Commission and the World Bank.

Table 1: Key Statistics of Selected Countries, 2013

Country	Flag	Population (annual average, thousands)	Inactive Population (% of population aged 15 to 64)	GDP (Millions of Euro)	GDP per capita (Euro)	GDP 2013/ GDP 2008
Bulgaria		7,242	31.6	39,940	5,500	0.98
Estonia		1,316	24.9	18,435	13,800	1.01
Greece		10,999	32.0	182,054	16,466*	0.77
Hungary		9,779	34.9	98,071	9,900	0.95
Lithuania		2,960	27.6	36,601	11,700	0.98
Romania		21,286	35.4	142,245	7,100	0.98

Source: Eurostat, except *WEO—World Economic Outlook

sustain the economic recovery and overall standards of living. Addressing such barriers requires first understanding the distinct groups that make up the out-of-work population.

The characteristics of the groups of out-of-work population vary from country to country. Based on the EU-SILC survey for 2011, Estonia, Bulgaria, and Greece have 7 groups of out-of-work individuals, while Lithuania and Romania have 8 groups, and Hungary has ten. While the size, share, and profile characteristics of these groups differ—reflecting the demographics and labor market of a particular country—it is possible to identify some common trends among the countries analyzed:

- There is an important increase in the number of **middle-aged job losers** and the **youth population neither in employment, education or training (NEET)** both in absolute and relative terms;
- The high share and number of **long-term unemployed** is another worrisome issue in all the countries analyzed. The EU-SILC data shows that across the clusters of unemployed, the share of individuals in long-term unemployment in all countries has grown;
- Labor market participation differences and access to services between **urban and rural living** contexts can be distinguished as a defining feature in some countries, where an important share of the out-of-work population lives in rural areas;

- In most of the countries studied, clusters of **early retirees** and **disabled** are identified and account for large portions of the out-of-work population;
- The high rates of **inactivity of working-age women** are clearly observed as clusters of stay-at-home mothers or inactive women are identified in all countries.

Selected Issues for Further Policy Dialogue

The current general labor market situation, along with institutional and resource limitations, make the activation and integration of many of the identified out-of-work groups a demanding challenge. Prioritization of intervention is of great importance.

Activation need and potential. As a first step for prioritization, the clusters are assessed in terms of activation need and potential. Activation need refers to a group's need for inclusion in the labor market in order to achieve income and reduce or end poverty. Activation potential, on the other hand, describes the group's ability or motivation to be included in the labor market. A high activation need could be driven by high poverty risk, whereas a high activation potential could be driven by previous work experience or a relatively good educational base. Overall, priority for action can also be supported by the size of

Box: Latent Class Analysis Methodology

The identification of latent classes relies on a number of “indicator variables” to capture different “symptoms” of an overall latent condition (in this case, joblessness). The challenge in such models is to identify a discrete number of variables that can best explain the heterogeneity of individual outcomes. In *Portraits of Labor Market Exclusion*, two or three sets of categorical variables were selected to show the extent of labor market distance and to capture some of the main factors that can affect employment on the supply side: labor supply conditions (household-level incentives to work and physical ability to work), prior work experience, and human capital.

The model also includes active covariates, which are used to improve the classification of individuals into each class (demographic variables like age, gender, highest educational level achieved, and degree of urbanization, for example). Once the latent classes have been defined, inactive covariates that were not included in the model can be used to characterize the individuals in each class and the households in which they live in great detail (variables that indicate household welfare conditions, such as income quintile, and variables for household demographics, such as household size, among others).

The resulting groups are then labeled according to their main distinguishing characteristics. Given that a large number of characteristics describe each group, often a few salient ones are used to name the group. In short, the labeling of groups can be considered more of an art than a science. However, the names do represent an important starting point for joined-up dialogue and a better design of social and activation policies.

Figure 1: Labor Market and Social Exclusion, Government Activities

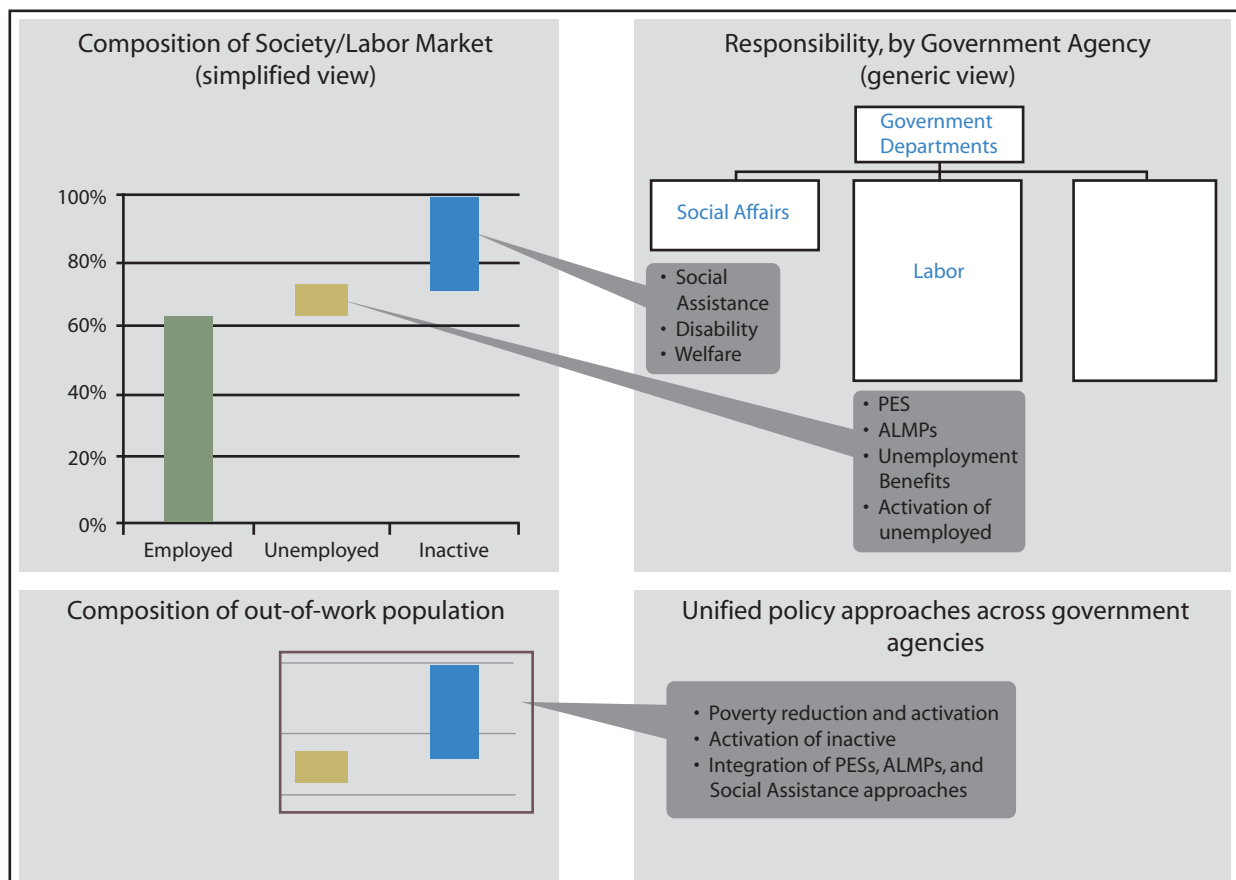
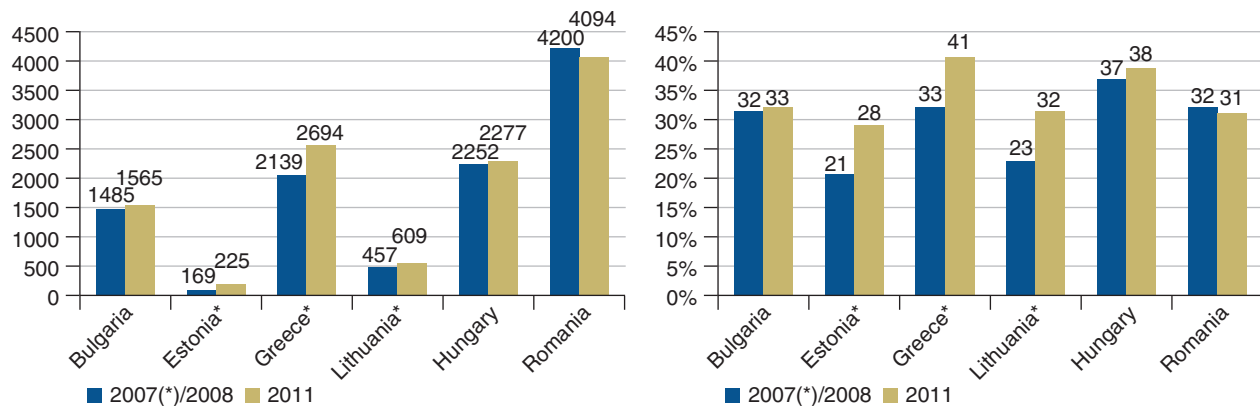


Figure 2: Out-of-Work Population (in Thousands) and Share of Total Working-Age Population, 2007(*)/2008 and 2011



Source: Work Bank staff analysis 2014

the group. Table 2 shows the clusters with high and medium priority for action.

Nature of the social condition. The relative severity of barriers to be overcome for labor market integration, on the other hand, can be used as an orientation for activation approaches. By mapping the respective barriers for labor market integration faced by the prioritized groups, it is possible to discern the respective types of activation that could be undertaken for each group. In Figure 3, the clusters identified and prioritized for Hungary are shown as an example. On the vertical axis, the clusters are mapped in terms of labor market barriers—determined by education, skills, experience, among others—while the vertical axis graphs the social barriers—such as access to childcare, gender, or disability—faced by the groups.







Example: Hungary. For instance, the largest cluster in Hungary—*disabled with previous work experience*—is considered of medium priority given that their potential reinsertion into the labor market will most probably have to be achieved via a mandatory reassessment of their disability status, which can be a protracted process. The prioritization as well as the assessment of the social and labor barriers is guided by the description of the cluster that goes beyond a simple tabulation of labor market exclusion. For example, this cluster, which represented almost one-fifth of our sample of Hungary’s out-of-work in 2011, reports its economic status as disabled, and most of them (89 percent) receive disability benefits despite the fact that only 35 percent report strong physical limitations on their ability to work. A majority (63 percent) live in rural areas. It is likely that many in this group could be work-ready: most have worked before, with 25 years

of work experience on average, and educational attainment is in the low to mid-range: 37 percent have not completed upper secondary, while 58 percent have complete upper secondary or post-secondary. The group is equal parts men and women and most (78 percent) are between 45 and 59 years of age. Just over half do not report at least one adult working in the household, and overall benefits amount to 64 percent of total gross household income. Their risk of poverty is high, with 36 percent living in the first income quintile. Given the low to mid-range educational attainment of this cluster and their years of work experience, this cluster is considered to have medium to high labor barriers. Furthermore, this group faces the highest social barriers for labor market integration: overcoming their disability status and reintegrating in mid-life. Therefore, this cluster is mapped in the upper right quadrant of the figure.

Market-ready jobseekers. The clusters mapped near the bottom left corner have relatively lower labor market barriers and are considered “market ready.” In this category of activation type are the clusters of unemployed with work experience and/or education. Given that these clusters are still quite close to the labor market, activation measures should focus on market-based types of interventions, such as providing information on job openings and assisting in job search, application, and job-matching intermediation services that could be provided through public employment services (PESs) or private employment agencies.

Severe labor market barriers. The upper left quadrant clusters represent individuals that will require more intensified activation. Clusters whose individuals are young or have been detached from the labor market for a longer time are mapped

Table 2: Activation Priority: Overview of Inactive Clusters with High and Medium Priority for Action

Country	Flag	Share (2011)	Cluster	Activation Need	Activation Potential
BG		23%	Middle-aged unemployed	Medium	High
		15%	Single male NEETs	High	Medium
		15%	Stay-at-home young mothers	Medium	Medium
		12%	Low-educated rural long-term unemployed	High	Medium
EE		21%	Middle-aged educated disabled with previous work experience	Medium	Medium
		19%	Prime-aged low income long-term unemployed	High	High
		17%	Young inactive educated mothers with working partner	Medium	High
		13%	Prime-aged educated unemployed	High	High
		9%	Single NEETs without work experience	High	Medium
GR		23%	Stay-at-home mothers	Medium	Medium
		18%	Highly educated single NEETs	High	Medium
		18%	Middle-aged unemployed heads of households	High	High
HU		19%	Disabled with previous work experience	Medium	Medium
		14%	Prime-aged unemployed	High	Medium
		13%	Prime-aged inactive mothers with work experience	Medium	High
		12%	Prime-aged long-term unemployed	High	Medium
		4%	Unemployed youth	High	Medium
		4%	Low-educated rural inactive mothers without work experience	High	Low
LT		28%	Middle-aged poor rural long-term unemployed	High	Medium
		11%	Young educated rural unemployed	High	High
		9%	Middle-aged educated unemployed family men	High	High
		7%	Single poor rural unemployed women	High	Medium
		5%	Stay-at-home poor rural women	High	Medium
RO		19%	Low-educated rural mothers without work experience	High	Low
		15%	Inactive middle-aged wives	High	Medium
		7%	Long-term unemployed educated single youth	High	High
		5%	Working-age long-term unemployed	High	Medium
		3%	Working-age newly unemployed	Medium	High

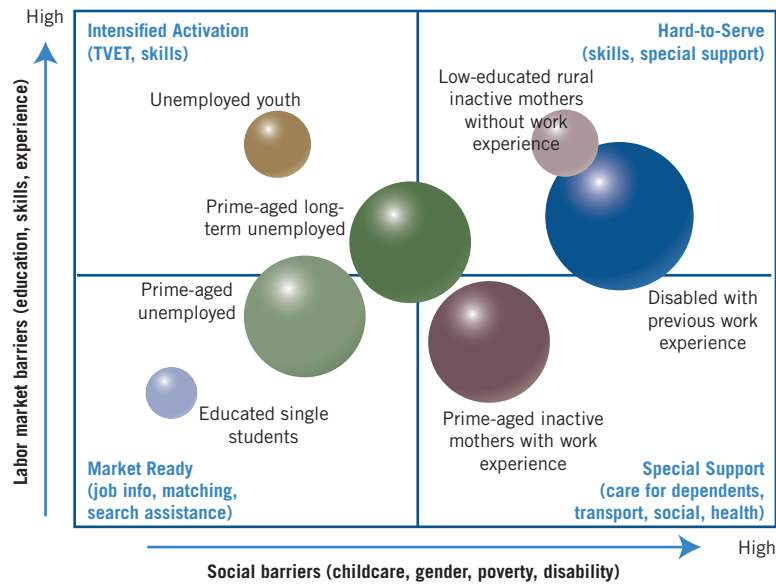
Source: World Bank staff analysis and assessment 2014

in this quadrant. Among the measures to be considered in such “intensified activation” are those that help with job market re-entry, training, and mobility. Additionally, linkage with regional economic development activities, self-employment, and entrepreneurship support could help some of these unemployed individuals attain self-sufficient lives and improve their welfare. Moreover, given the potential scarring effects of labor market detachment at an early age, special consideration should be taken to the clusters of youth. Job-start programs and larger labor market policies that encourage flexible work schedules and part-time work that would allow youth to combine work and study, help them gain the necessary experience, and facilitate full entry into the labor market. Mobility support within each country and the EU (including foreign language training) could also be considered, particularly for those with higher qualifications, considering their low level of caregiving responsibility.

Severe non-labor market barriers. Clusters in the two right quadrants of the figure above have relatively higher social barriers and will require additional activation support. Most of the clusters of inactive women are mapped in these two quadrants, depending on years of work experience, education level, and/or poverty. In general, these groups could benefit from greater access to social and public services near their home (such as childcare) as well as from job-search assistance and professional training. Moreover, improving flexibility in work schedules—including part-time and home-based work—in order to facilitate combining work with other responsibilities would make it easier for women to hold jobs.

Incapacity and labor market participation. Finally, clusters that contain a large share of individuals who declare their work capacity to be strongly limited and clusters of low-educated, long-term unemployed are mapped to the upper right quadrant, and will require policies that address strong social and labor

Figure 3: Activation Types of Prioritized Clusters, Hungary



Source: Work Bank staff assessment 2014

market barriers. Standard PES job-search assistance and placement support, while also reassessing the labor market status of those who declare themselves disabled, could be a potential activation measure. Improving social inclusion benefits and linking them to activation could improve the welfare of those in low-educated, long-term unemployed clusters.

(Early) retirees. Even though they are not considered a priority for further activation given their low need and potential, retirees and early retirees represent a large (and growing) share of the out-of-work population, with important implications for fiscal expenditures. As with disability recipients, stemming the outflow of working-age individuals into (early) retirement may be more effective than attempting to increase the inflows from early retirement back into activity. In times of high unemployment, early retirement may become more attractive for the long-term unemployed. Policies can and should be implemented to delay early retirement, including reforms to pension systems and the promotion of skill maintenance and life-long learning, along with flexible work schedules, adaptable work environments (for example, to health requirements), and working from home.

Broader Policy Issues

In general, further policy dialogue with the authorities ought to focus on the general level and setup of resources devoted

to labor market integration and activation of the inactive and out-of-work as on the ongoing improvement of services at the national and local level.

Skills. For many out-of-work individuals, particularly youth, the older population, and those who have been out-of-work for longer periods, skill deterioration or not having the adequate set for the employer’s needs are important employability barriers. Policies should tackle this skill gap by prioritizing the development of a strong foundation of cognitive and socio-emotional skills in primary and secondary education, ensuring quality and relevance in expanding the tertiary education system, and making the training system responsive to market needs and age-sensitive to enable life-long learning. In parallel, activation services should build on previous work experience for training and work placement.

Integrated social protection and labor policies. Meanwhile, greater coordination between social protection policies and labor market measures will allow for more effective provision and better targeting of governmental programs, particularly for individuals with disabilities or greater poverty risk. In the design of social assistance and unemployment benefits, adequate protection for the poor and vulnerable needs to be combined with work-focused incentives and support for job search and activation.

Women, youth, older population members, and minorities also face additional barriers that should be considered in the

policy agenda. Lack of services, such as child or elder care, limited flexible work schedules, or adverse attitudes and social norms limit their access to jobs. Extending childcare and early childhood development offerings, as well broader labor market reforms that consider more flexible work schedules and encourage age-sensitive work environments may be relevant in bringing women, youth, and the older population closer to the labor market.

Mobility. Geographic mobility is another policy area that is relevant for many of the clusters identified. For those living in rural areas, improving regional transportation and other policies

to support mobility may prove necessary for access to more dynamic labor markets and employment matching.

Job demand remains key. Finally, while active labor market policies, activation, and job-matching support can help smooth frictions in the labor market, they will not lead to stable, sustainable employment. Demand for jobs comes from the economic activity of firms and the social sector; therefore, the integration of labor market policy with regional economic development policy is especially important. In this sense, all efforts need to be embedded into activities for economic growth and job demand creation.

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*EU 28: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom

Note: Base data for this analysis was the harmonized EU-SILC (Statistics on Income and Living Conditions) survey released by Eurostat in 2013 with a time-lag of 2 years, referring to the year 2011.

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