



EUROPEAN SEMESTER THEMATIC FICHE

ACTIVE LABOUR MARKET POLICIES

1. Introduction

The primary goal of active labour market policies (ALMPs) is to increase the employment opportunities for job seekers and to match up the right jobs to the right people. In so doing, ALMPs can contribute to employment and GDP growth and reduce unemployment and benefit dependency. ALMPs help ensure that the unemployed return to employment as fast as possible and in the best possible job match, by providing them with the support they need to successfully re-enter the labour market. ALMPs are a key component of the so-called "activation strategies", encompassing the interactions between unemployment insurance/assistance systems, ALMPs and benefit conditionality.¹ In this context, participation in ALMPs such as public employment services (PES) counselling, training or active job search have become a prerequisite for (continuing) benefit receipt (mutual responsibilities approach) in basically all EU countries. This approach is generally referred to as *workfare* or *work first*.

The OECD defines active labour market policies (ALMPs) as follows: "Active labour market programmes include all social expenditure (other than education) which is aimed at the improvement of the beneficiaries' prospect of finding gainful employment or to otherwise increase their earnings capacity. This category includes spending on public employment services and administration, labour market training, special programmes for youth when in transition from school to work, labour market programmes to provide or promote employment for unemployed and other persons (excluding young and disabled persons) and special programmes for the disabled."

Unemployment and especially long-term unemployment can have serious adverse consequences for the individual, society and the economic system. The long-term unemployed find it more difficult to get hired as time goes by and face permanently lower earnings and career prospects. At national level, persistently high long-term unemployment jeopardises overall employment policy goals, lowers the ability to allocate the right jobs to the right people and undermines occupational and geographical mobility.

The long-term unemployed are becoming increasingly detached from the labour market. Gradually their skills may deteriorate, which makes them less attractive to employers, they

¹ See for example John P. Martin, "Activation and Active Labour Market Policies in OECD Countries: Stylized Facts and Evidence on Their Effectiveness", *IZA Policy Paper* No. 84, June 2014.

lose motivation, the time devoted to the job search typically declines and pulls them out of the race for jobs. This leads to further rises in unemployment and its persistence.²

Unemployed workers are more likely over time to leave the labour force and retire, enrol in disability programmes, or simply become “discouraged workers” as unemployment continues.³ If benefit coverage and income protection are inadequate this can lead to marginalisation and increased risks of poverty and social exclusion.

There can be several causes for unemployment or being inactive, such as a lack of labour demand, inadequate skills, institutional factors such as employment protection legislation (EPL), labour taxation etc. Some of these causes can be dealt with by using ALMPs, but they do not work for all the unemployed and under all circumstances. The design, coverage and targeting of ALMPs as well as the way they are implemented (by Public Employment Services or others) matter a lot in terms of their effectiveness. By now there is a large amount of evidence as to what policies work best for whom and under which circumstances. A 2012 study concludes that *“there is not one particular policy that can serve as a universal tool for improving the labour market perspectives of the unemployed”*.⁴ In fact it stresses that all ALMPs have both merits and shortcomings. In practice this means that policies will have to be tailor-made to the individual unemployed person (including detecting short-term versus the potentially long-term unemployed), which calls for effective profiling techniques.

2. Key statistical indicators

Long-term unemployment (LTU) is one of the main indicators from which the adequacy and/or success of ALMPs (and public employment services) can be judged. Since the start of the crisis in 2008, long-term unemployment rates have been increasing in all Member States, except Germany (Figure 1). Increases have been particularly strong in Greece, Spain, Croatia, Portugal, Cyprus, and Ireland, contributing to a growing divergence between Member States over this period. After six years of subdued growth and low job demand, long-term unemployment is emerging alongside youth unemployment as the main employment legacy of the crisis, with significant negative social and economic consequences for individuals and society. Long-term unemployment brings considerable challenges: As unemployment duration increases, the connection to the labour market deteriorates, with a sharp decrease in the likelihood of re-employment in stable jobs, and an increase in the risk of inactivity. The longer the unemployment period, the more support is needed to help people return to the labour market. Barriers to participation tend to accumulate, often requiring the involvement of more support services.

While Member States have some targeted programmes for the long term unemployed, most of the resources for ALMPs are directed towards those who are more employable (this is because many activation interventions are preventive and occur early during the

² See “Long-Term Unemployment: There is no Easy Fix”, <http://blogs.lse.ac.uk/politicsandpolicy/archives/37154>.

³ See A. Nichols, J. Mitchell, and S. Lindner, “Consequences of Long-Term Unemployment”, <http://www.urban.org/UploadedPDF/412887-consequences-of-long-term-unemployment.pdf>.

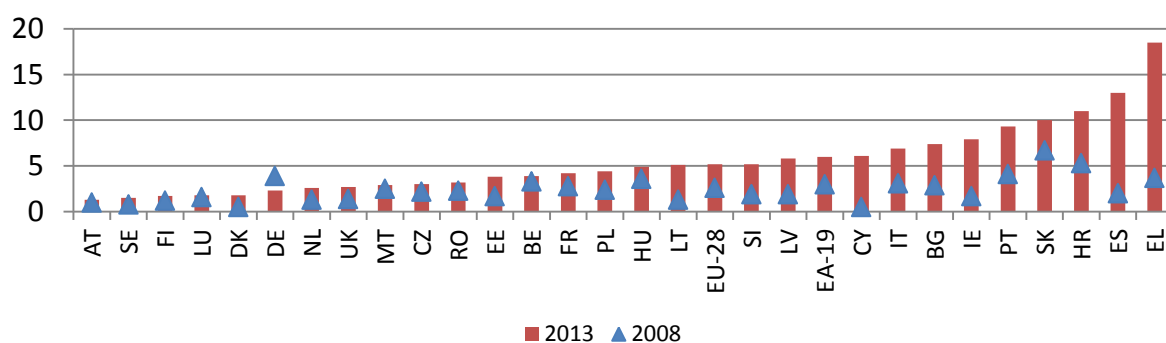
⁴ Ecorys/IZA, “Analysis of Costs and Benefits of Active Compared to Passive Measures”, 2012.

unemployment spell). In several Member States, the Public Employment Services primarily serve unemployed people who are eligible for unemployment benefits, targeting their interventions early during the unemployment spell for efficiency reasons. Overall, as the unemployed go from short-term to long- unemployment, both the coverage and the intensity of active and passive labour market interventions decrease. In many Member States, the range of ALMPs narrows *de facto* with the length of unemployment, although most of the long-term unemployed remain eligible for support.

The European Commission will launch an initiative in 2015 to promote integration and employability in the labour market. It will include, *inter alia*, a proposal for a Council recommendation on integration of the long-term unemployed, providing a framework for Member States to strengthen support, *inter alia* through cooperation between organisations providing this support. The initiative aims to provide more concrete policy guidance for the implementation of the country specific recommendations in the framework of the European Semester, and to reinforce the monitoring of national efforts.

Figure 1:

Long-term unemployment rates in % of the active population for the EU-28, EA-19 and in the Member States in 2008 and 2013



Source: Eurostat, LFS.

The main factor driving the rise in long-term unemployment since the crisis has been the inability of the labour market to accommodate workers made redundant as a result of restructuring, either due to insufficient labour demand and/or to increased mismatches between labour demand and labour supply.

The effects of the crisis have been exacerbated by institutional deficiencies, such as segmentation (where a high proportion of people on the `flexible margin` with temporary/part-time contracts lost their jobs as opposed to the `rigid core` associated with high job security and high redundancy costs), and the inadequacy of ALMPs, in particular of public employment services that in many countries have failed to properly manage a large increase in unemployment at time of protracted economic slack.

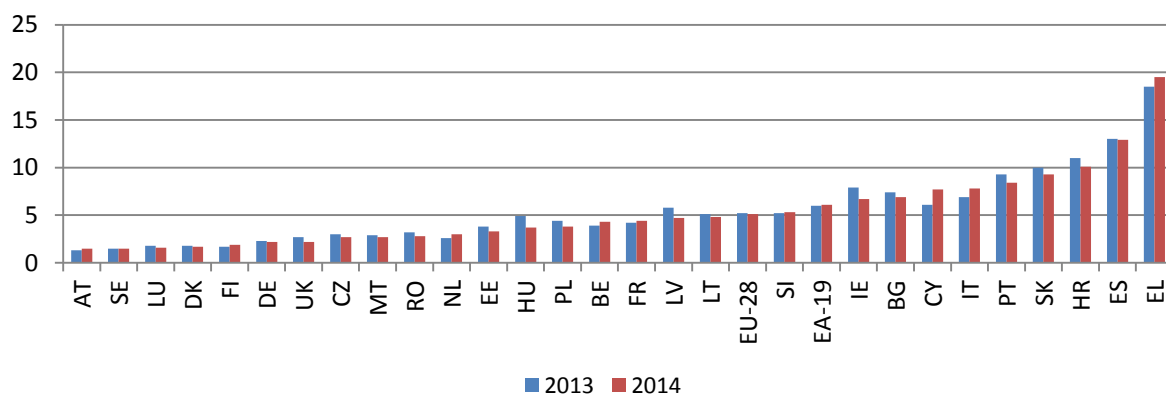
Long-term unemployment affects certain groups, such as young people and low-skilled workers, more than other groups on the labour market, and especially hits those in declining occupations and sectors. The overall state of the economy remains an important factor in determining changes in the levels and flows to and from long-term unemployment, but there are also country-specific effects with some Member States achieving high transition rates back to employment.

More recently, between 2013 and 2014, the long-term unemployment rate remained at more or less the same level in the EU-28 and EA-19 (Figure 2), with the rate further increasing in 10 Member States, including some with already comparatively high rates such as Greece, Italy and Cyprus.

In addition to the long-term unemployment rate one can also look at the share of long-term unemployment within total unemployment. In the EU-28 the incidence of long-term unemployment⁵ has gone up from 34.8% in 2008 (4th quarter) to 49.8% in 2014 (4th quarter), reflecting a decline in job finding rates because of continuously low labour demand and increasing skill mismatches, which is related to economic restructuring and the gradual deterioration of skills as unemployment spells get longer. Member States perform very differently regarding the incidence of long-term unemployment, with rates in 2014Q4 at the lower end (below 30%) in Denmark, Finland, Sweden, Luxemburg, and Austria, while they were over 55% in Bulgaria, Ireland, Greece, Croatia, Italy, Portugal, Slovenia, and Slovakia.

Figure 2:

Long-term unemployment rates in % of active population, 2013 and 2014
[the Annex provides data by sex and for older workers (50-64)]



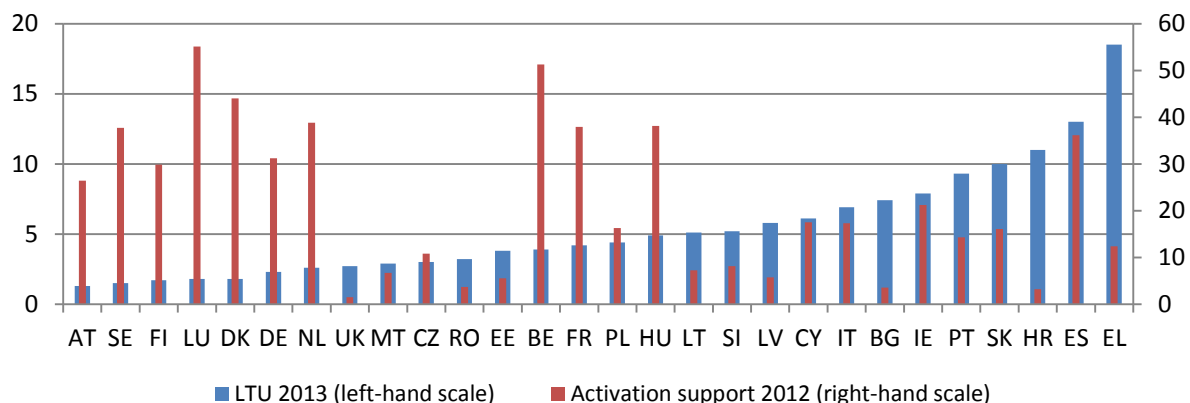
Source: Eurostat, LFS.

As Figure 3 shows, countries with the lowest long-term unemployment rates (Austria, Sweden, Finland, Luxemburg, Denmark, Germany and the Netherlands) are among those where the level of participation in ALMPs is highest. For many other Member States activation support is generally not proportional to the unemployment challenge that they face.

⁵ The incidence of long-term unemployment is calculated as the number of persons that have been unemployed for more than 12 months divided by the total number of unemployed.

Figure 3:

Activation support (LMP participants per 100 persons wanting to work) and long-term unemployment rates by Member State, 2012/2013



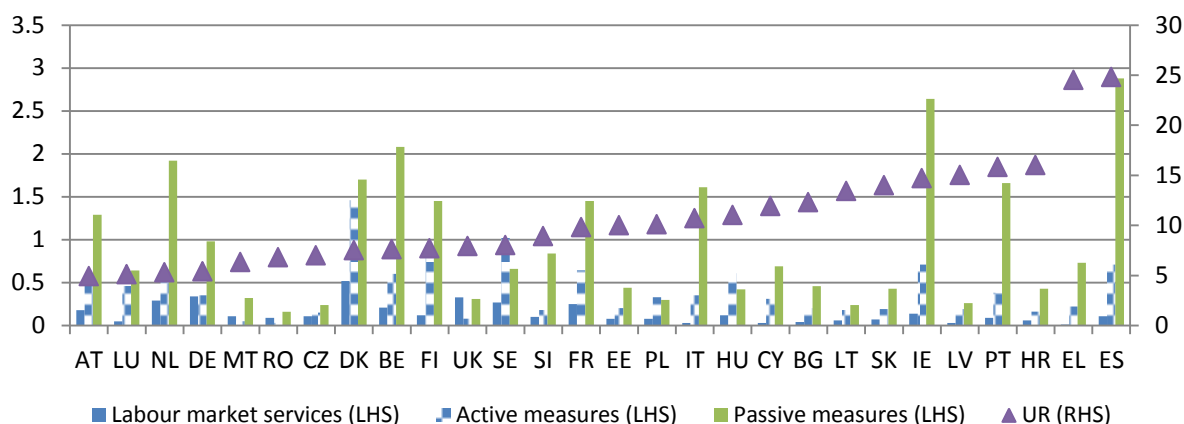
Source: Eurostat, LMP database⁶.

Higher unemployment rates are generally counteracted by a mix of passive and active labour market policies, as shown in Figure 4. Some Member States with high unemployment spend relatively small shares of their GDP on labour market services and active measures (notably Bulgaria, Slovakia, Lithuania, Latvia, Croatia and Greece). At the same time they can have comparatively high spending on passive measures such as unemployment benefits (notably in Ireland and Spain, and Portugal to a somewhat lesser extent). For these countries it may be worthwhile to shift some spending to labour market services and activation measures in order to decrease unemployment.

⁶ Data on long-term unemployment rates (as % of the active population) refer to 2013, which is one year after the latest data on participation in ALMPs, which is for 2012 (2009 for the UK, 2010 for Greece, and 2011 for Cyprus and the Czech Republic).

Figure 4:

Expenditure on labour market services, active and passive measures (% of GDP; left-hand side) and unemployment rates (right-hand side) by Member State, 2012



Note: Labour market services refer to LMP database category 1, active measures to categories 2-7 and passive measures to categories 8-9 (Out-of-work income maintenance and support, early retirement). LMP data for Greece and the UK are for 2010, for Ireland, Spain, Cyprus, Luxemburg, Malta and Poland for 2011.

Source: Eurostat, LMP database.

3. Assessment of main challenges in Member States

The nature of the challenge

In order to facilitate labour market functioning, ALMPs can play an important role leading to employment growth. The Annual Growth Survey has emphasised that Member States need to step up ALMPs and pay particular attention to maintaining or reinforcing their coverage and effectiveness.

There are a wealth of evaluation studies trying to draw conclusions on the **effectiveness of ALMP**. Even though many evaluation studies face methodological shortcomings,⁷ some broad conclusions can be drawn from the existing literature:^{8 9}

- Activation and monitoring/sanctioning seem to be working well under virtually all circumstances and in particular for the short-term unemployed, while employment incentives, including hiring incentives for firms, show less favourable results, as they tend to come with relatively large deadweight losses. Moreover, there is a risk that

⁷ Methodological problems are mostly related to the counterfactual being missing which then needs to be construed by the data, e.g. by matching techniques. Random experiments do not face this problem but they are still rarely found.

⁸ A quite comprehensive evaluation of the effectiveness of ALMPs can be found in European Commission, *Employment in Europe Report*, 2006. Kluve (2006; "The Effectiveness of European Active Labour Market Policies", IZA) and Kluve et al. (2009; "Active Labour Market Policy Evaluations: A Meta Analysis", IZA) offer broad (meta-) analyses based on a large number of studies.

⁹ A more extensive overview of the effectiveness of ALMPs is provided in Annex 2.

employers replace non-subsidised workers with subsidised workers or wait until job seekers become eligible for subsidies. Most disappointing is the effectiveness of direct employment creation in the public sector, as witnessed by many studies.

- ALMPs aiming at retaining employment should be used only for very short periods of time and during severe recessions. ALMPs are more cost-effective in creating employment where they redistribute incentives to outsiders in the labour market, strengthening their attachment to the labour market. These ALMPs are particularly effective during recoveries.
- It takes time for ALMPs to take effect, although this is truer for some measures than for others. Studies based on micro data suggest that although the effects of ALMPs on job placement rates tend to be quite small in the short run, their longer term impact is generally more substantial.¹⁰ Recent studies show that ALMPs can indeed be cost-effective from a longer-term perspective (3-10 years), and some of them may even be self-financing.¹¹ The longer run cost-effectiveness is especially evidenced for training programmes, which are sometimes considered as being too expensive. Training programmes are more effective if they are tailor-made to fit existing jobs and when targeting disadvantaged outsiders.
- To reduce the risk of long-term unemployment it is important to adapt the mix of activation measures and their institutional setting to economic circumstances. The challenge is to ensure that spending on ALMPs remains effective even in an economic climate where the creation of jobs is difficult. In a constrained labour market one needs to consider the precise balance between “train first” versus “work first” approaches.
- In gross terms there is a clear-cut relation between the effectiveness of ALMPs and the business cycle. If the business cycle deteriorates, the number of unemployed people will go up, while labour demand will go down. The probability of successful moves from unemployment to work (with and without ALMPs) will then go down. In net terms things are more complicated because several effects are at play. At the same time, as labour demand varies over the business cycle, so does the risk of dependence on ALMPs.
- Finally, public employment services have a crucial role to play in re-integrating the unemployed as they are best suited to dealing with heterogeneous groups of unemployed. Sufficient staffing, adequate training (public employment services' staff needs to be well trained in qualitative aspects, such as discrimination, decent jobs, dealing with sensitive cases); integrated services (effective liaison with other state services, especially those related to education, health, housing, and other social services) and a well-built evaluation and follow-up system are all key pre-requisites for the effective functioning of the public employment services.¹²

¹⁰ "Effective Active Labour Market Policies", J. Boone & J. C. van Ours, IZA DP No. 1335, 2004.

¹¹ "Active Labour Market Programmes: Employment Gain or Fiscal Drain", A. J.G. Brown & J. Koettl, IZA DP No. 6880, 2012.

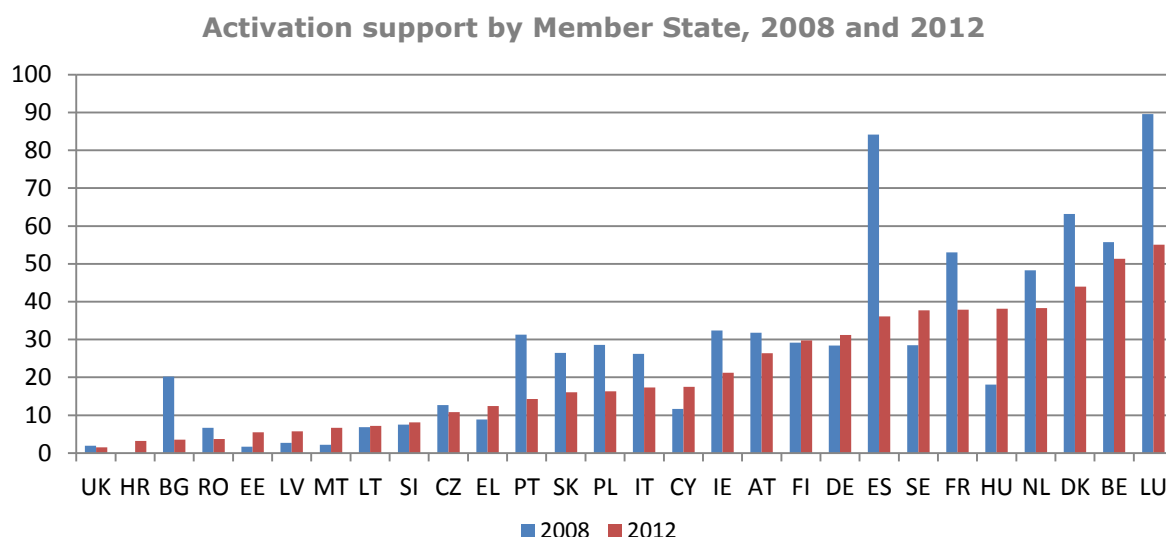
¹² EAPN: Fighting for a Social Europe Free of Poverty:

http://www.google.com/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=24&ved=0CD0QFjADOBQ&url=http%3A%2F%2Fec.europa.eu%2Fsocial%2FblobServlet%3FdocId%3D10834%26langId%3Den&ei=eRuPUt28A4nWswbtvYC4BQ&usg=AFQjCNHpFqjtC1T2-QRpxFKz_19bhshcdQ.

The size of the challenge

ALMPs in a number of Member States have not been very successful in helping jobseekers find jobs. There may be various causes for this, including too few people participating in ALMPs. Figure 5 shows that in particular the UK, Croatia, Romania, Estonia, Latvia, Lithuania, Malta, Slovenia, the Czech Republic and Greece have rather low proportions of jobseekers participating in activation measures, both in 2008 and 2012. Also, between these two years activation support decreased in 15 out of 27 Member States.

Figure 5:



Note: The series with 2012 data on activation support are for 2009 for the UK; data for Greece are for 2010; data for Cyprus and the Czech Republic are for 2011; no 2008 data for Croatia.

Source: Eurostat, LMP database.

ALMPs are increasingly diverse in nature, following a more **tailored approach to individual needs**. In addition there is a stronger focus on enforcing work availability and **mutual obligation** requirements, meaning that benefit recipients are expected to engage in monitored job search activities and improve their employability, "in exchange for" receiving benefits. In recent years, Member States have placed increased priority on the effective co-ordination of ALMPs with the administration of benefits and make-work-pay policies to implement coherent activation strategies.

Delivery of ALMPs continues to be faced with challenges in some Member States.

Public employment services need to enhance their effectiveness and efficiency to ensure jobseekers find jobs more easily and to do so at the lowest possible cost. In several Member States, public employment services could still provide more individualised and better targeted services. In some cases lower levels of government can have difficulties properly targeting ALMPs and implementing them effectively.

Monitoring and evaluation is essential for assessing and increasing effectiveness.

ALMPs are generally not monitored and assessed as a rule. Developing an evaluation culture is important, and there are different factors which can contribute to this. These include political commitment to evidence-based policy making (and accountability), legal

requirements for evaluation, scrutiny of European funding and training and education of evaluators to ensure oversight is maintained throughout the policy cycle.

4. Some horizontal issues

Growth-friendly expenditure, including reinforcing the coverage and effectiveness of public employment services and ALMPs should be given priority. In general terms, ALMPs should facilitate reallocation, and further the job prospects of the long-term unemployed – hence ALMPs increase labour supply and help contain wage pressure.

In order to improve of the effectiveness of ALMPs:

- Profiling is important for early identification;
- For those unemployed and at risk of becoming long-term unemployed, programmes need to be undertaken at an early stage;
- Training has to be well-targeted on specific groups and tailored to their needs. It is most effective if it is workplace-based;
- Hiring/wage subsidies should be well targeted and run on a small-scale and temporary basis. Employers should also feel incentivised to retain workers after the subsidy expires or combined with other ALMP measures.
- Job creation measures need to be well designed and need to incorporate training.

Annex. Statistical Indicators

Long-term unemployment rates for EU, EA and in the Member States in 2013 q4 and 2014 q4 by sex¹³

Sex:	Women		Men	
Time:	2013q4	2014q4	2013q4	2014q4
EU28	5.3	5.0	5.2	4.9
EA19	6.3	6.2	6.1	5.9
BE	4.0	3.9	4.1	5.0
BG	7.3	5.7	8.3	7.7
CZ	3.6	3.1	2.2	2.3
DK	2.1	1.2	1.2	1.6
DE	2.2	1.9	2.4	2.3
EE	2.7	2.2	4.4	3.3
IE	4.9	3.9	9.2	7.5
EL	22.6	21.7	17.3	16.9
ES	14.1	13.4	12.8	11.9
FR	4.3	4.3	4.4	4.8
HR	11.1	11.4	11.6	11.2
IT	8.0	9.4	6.9	7.1
CY	6.3	7.0	7.2	8.3
LV	4.9	4.4	5.6	5.0
LT	4.4	3.8	5.1	5.6
LU	1.6	1.4	2.1	1.7
HU	5.0	3.1	4.8	3.4
MT	3.1	2.4	3.3	2.9
NL	2.9	3.0	2.9	3.1
AT	1.3	1.4	1.4	1.6
PL	4.7	3.7	4.1	3.1
PT	8.8	8.2	9.2	8.0
RO	3.0	2.6	3.6	3.1
SI	5.5	6.0	5.4	4.8
SK	9.7	8.7	10.7	8.3
FI	1.4	1.8	2.1	2.3
SE	1.3	1.4	1.7	1.7
UK	2.1	1.5	2.9	2.3

Source: Eurostat.

¹³ Source: Eurostat [une_ltu_q].

Long-term unemployment (12 months or more) as a percentage of total unemployment, by age (%)¹⁴

Age:	15-64		50-64	
Time:	2013q4	2014q4	2013q4	2014q4
EU28	49.3	49.8	60.4	61.5
EA19	51.8	52.6	63.2	64.3
BE	47.0	52.3	64.2	71.6
BG	59.8	63.7	64.9	69.0
CZ	42.2	46.2	45.8	56.1
DK	25.0	23.5	30.9	42.5
DE	46.6	4.6	61.8	58.1
EE	40.5	42.9	44.1	50.9
IE	62.0	59.2	73.6	72.1
EL	70.4	72.9	77.6	83.9
ES	52.0	53.0	64.0	67.3
FR	42.0	42.3	57.7	57.7
HR	64.2	61.7	71.8	76.0
IT	58.3	61.1	63.6	64.4
CY	42.2	48.1	49.1	61.9
LV	46.4	45.6	56.5	48.3
LT	41.2	46.4	53.8	54.7
LU	28.8	26.2	n.a.	n.a.
HU	53.6	45.9	65.2	59.2
MT	47.2	47.5	61.7	n.a.
NL	37.7	42.0	54.0	59.9
AT	25.1	27.0	46.0	46.2
PL	44.6	41.4	53.8	47.9
PT	58.0	59.2	73.6	79.1
RO	47.5	43.2	52.2	44.8
SI	56.1	55.6	68.0	57.7
SK	72.0	67.2	79.4	73.0
FI	22.6	24.8	41.5	41.1
SE	20.5	21.1	33.6	35.8
UK	36.4	34.6	45.6	47.6

Source: Eurostat.

¹⁴ Eurostat [lfsq_upgal].