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Chapter 4

The ins and outs of long-term unemployment

Efforts to reduce the duration of unemployment spells should be a key element in strategies to reduce overall unemployment. There is some evidence that the long-term unemployed are relatively more likely to become very-long-term unemployed in some countries, while they are more likely to exit the labour force in others. In European countries, the shares of prime-aged males in long-term unemployment and in potentially-avoidable disability and early retirement appear to be similar.

A special analysis of longitudinal data for European countries is used here to examine the role of recurrent unemployment and explore alternative measures of long-term unemployment. Conventional measures understate the extent of long-term unemployment insofar as many short-term unemployed will go on to accumulate 12 months or more of unemployment before their spell ends. Multiple spells of unemployment are common, but in many of the countries considered secondary spells of unemployment do not add many unemployment-months to the total experienced over a four-year period.

A second section examines issues of timing in the design of active labour market policies. Should interventions intensify as the duration of unemployment spells increases, or should policy concentrate on preventing long-term unemployment before it arises? Are “profiling” procedures, for the early identification of individuals who need intensive assistance, effective? Do the minimum contribution and maximum benefit periods in unemployment insurance systems encourage cycling between benefits and short-term employment? When programmes are targeted on the long-term unemployed, how do the authorities define long-term unemployment? Can very-long-term unemployment or cycling between benefits and labour market programmes be reduced by creating permanent jobs for the most disadvantaged unemployed? References to national practices and experiences in this chapter illustrate and to some extent answer these questions.

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Introduction

A high proportion of long-term unemployment in total unemployment indicates that the burden of unemployment is concentrated on a relatively small number of people, who often are at risk of permanent detachment from the labour market. To the extent that the long-term unemployed are partially detached from the labour market, unemployment becomes a poor indicator of effective labour supply, and macroeconomic adjustment mechanisms – such as downward pressure on wages and inflation when unemployment is high – will then not operate effectively to bring unemployment down. The rise in unemployment seen in Europe in recent decades does not seem to be due primarily to an increase in the numbers of people entering unemployment, for example after losing a job, but rather to increased difficulties in finding work once unemployed.¹ Such observations suggest that efforts to reduce the duration of unemployment spells should be a key element in strategies to reduce unemployment.

On average about 30% of unemployed people in OECD countries were long-term unemployed (*i.e.* had been unemployed for 12 months or more) in 2000. In ten countries, the proportions were over 40%. These are high proportions by historical standards, especially after a long period of expansion. Moreover, this chapter documents that in EU countries a large proportion of people who are classified as short-term unemployed in conventional statistics nevertheless experience 12 months of unemployment in total over a two- to four-year period. There is also concern that figures would be higher still if hidden unemployment among those classified as “early retired”, “permanently disabled” or simply “out of the labour market” were taken into account.

The first main section of this chapter reviews the progress made in reducing long-term unemployment during the recent expansion. It compares long-term unemployment with specific inactive statuses, including permanent disablement and early retirement, and a broad concept of “long-term joblessness”. A special analysis of average life satisfaction data shows that the long-term unemployed report very similar life satisfaction to the short-term unemployed, while transitions from unemployment into inactivity increase life satisfaction. Longitudinal data for unemployment month by month over a 48-month period are used to explore alternative measures of the concentration of unemployment among individuals, the duration of unemployment spells, repeat unemployment, and relationships between individual labour market history and later labour market outcomes.

The second main section of the chapter focuses on issues of timing that arise in the design of active labour market policy and unemployment benefits. This section includes information from special surveys of how Member countries currently use profiling techniques and how the duration of unemployment spells is defined administratively for purposes of targeting labour market programmes on the long-term unemployed.

Main findings

- In cross-country comparison, the incidence of long-term unemployment – the proportion of all people unemployed who have been unemployed for a year or more – is positively correlated with the overall unemployment rate. Repeat unemployment – a situation where unemployed people have often experienced other spells of

unemployment in recent years – may be seen as the second proximate cause of high unemployment: it appears to be particularly common in a few countries where unemployment is mainly short-term and yet the overall unemployment rate remains relatively high.

- Even among prime-age males, in European countries slightly more people are inactive than unemployed. The numbers in “potentially-avoidable” disability and early retirement are similar to numbers in long-term unemployment on average, but there is much variation across countries. The pattern of cross-country variation is partly consistent with the hypothesis of substitution between disability, early retirement and long-term unemployment statuses.
- An analysis here of longitudinal data for eleven European countries over a four-year period in the mid-1990s shows that although many individuals experienced only short-term and non-repeated unemployment, these individuals accounted for only a relatively small proportion of total months of unemployment. Among those who were short-term unemployed at a given point in time (December 1995) according to the conventional definition of duration, about 40% went on to experience 12 or more months of unemployment by the time that their current spell had finished. About half of the remainder accumulated 12 months of unemployment in total, when months spent in other spells of unemployment were also taken into account. So in the end, on average, five out of six people who were unemployed in December 1995 in this sample experienced 12 months of unemployment over a four-year period.
- Very-long-term (four-year) spells of unemployment are relatively rare in many of the countries. The availability of very long-term unemployment benefits uninterrupted by participation in labour market programmes in some countries could explain some of the main cross-country patterns seen for older workers, but not for youth because very-long-term youth unemployment is common in several countries of Southern Europe where they typically do not receive benefits.
- Some studies using cross-sectional data have found slightly higher life satisfaction among the long-term unemployed than among the short-term unemployed. However, a longitudinal analysis reported here finds no evidence that life satisfaction among the long-term unemployed is higher than it was among the same individuals a year earlier. This suggests that the cross-section finding may well arise through sample selection, in the sense that those who suffer most severely from unemployment tend to leave that state more rapidly.
- Labour market policies can attempt to influence the incidence of long-term unemployed through “prevention” or “cure”. The emphasis to be given to each approach in an optimal strategy depends on a number of considerations: the degree to which the experience of unemployment in itself reduces the rate of exit from unemployment (state dependence); the importance of individual differences affecting the rate of entry to long-term unemployment (heterogeneity and sorting); the characteristics of the long-term unemployed (*e.g.* poor productivity or poor motivation); the phenomenon of “lock-in” when short-term unemployed people participate in long-term labour market programmes; and the behavioural response of beneficiaries to reductions in the replacement rate or programme participation requirements.
- The 1990s saw attempts at improving on some of the above trade-offs through “profiling”, which targets assistance on those short-term unemployed who are most at

risk of long-term unemployment, and strategies such as individual action plans which make it possible to combine obligations with an individualised treatment of problems.

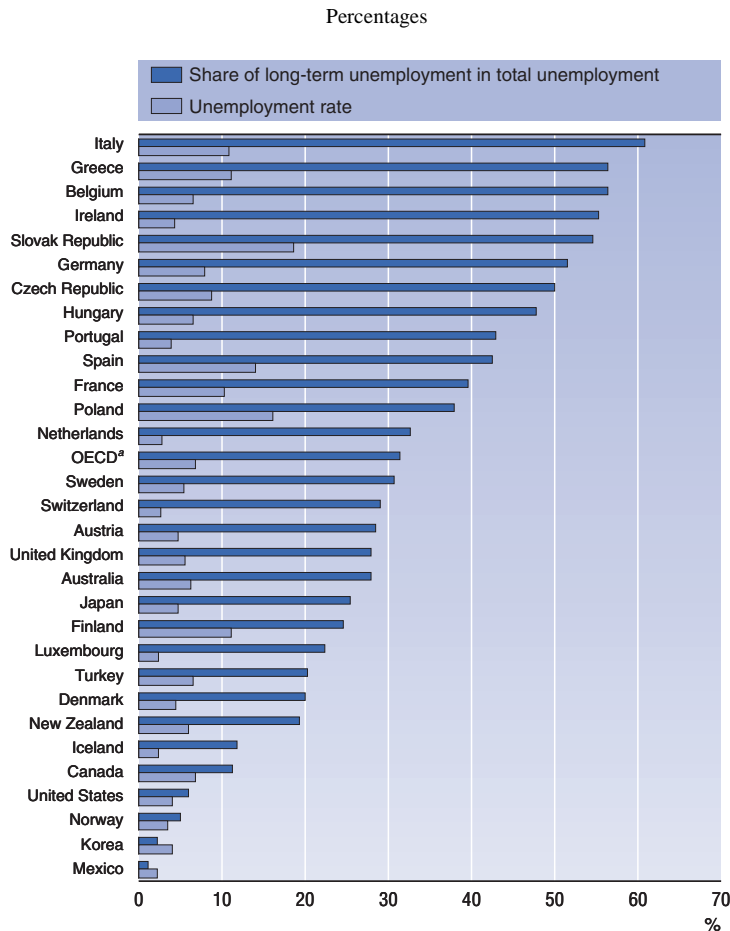
- Benefit systems create some incentives for repeat unemployment, particularly but not solely when benefit entitlements are limited in duration and can be regained after a relatively short time back in work. Seasonal work and temporary layoffs with rehiring by the same employer are often involved in repeat unemployment. Detailed rules within the UI system can be used to limit the benefit coverage of such entries to unemployment, when unemployment no longer has the character of unpredictable risk.
- European longitudinal data suggest that the short-term unemployed with a substantial history of earlier unemployment are as much at risk of additional months of unemployment as are the long-term unemployed. In many cases, national practices allow people whose spell of unemployment has recently been briefly interrupted to be treated as equivalent to the long-term unemployed, in determining eligibility for labour market programmes. However, these practices are very varied and merit further research and reflection on the principles to be followed.
- Various “carousel effects” – mechanisms that generate repeated movements in and out of unemployment – have become important at particular times and in particular countries. If UI entitlement arises automatically after the end of temporary contracts, a carousel effect can arise because UI claims are no longer restricted to situations where the firm has an objective economic reason for layoffs. To avoid this, it may be desirable to tighten UI entitlement rules applying to workers holding temporary jobs, or to restrict or tax the use of temporary contracts in situations where there is no objective need for them.
- Two other sources of “carousel effects” are the use of labour market programmes to renew entitlement to UI benefit, and the creation by local authorities of temporary jobs that qualify social assistance beneficiaries for UI benefits. Although cycling between open unemployment and programme participation could be stopped simply by making one or the other state permanent, this may not in itself be a better outcome. Repeated cycling should be interpreted as a form of long-term unemployment, calling for interventions that depend on the considerations listed above.

1. Analysis

A. The extent of long-term unemployment

According to the conventional definition of the long-term unemployed as those who have been continuously unemployed for at least one year, long-term unemployment represented around 30% of total unemployment in OECD countries in 2000. This proportion varies widely from country to country. In 2000, it was over 50% in Italy, Greece, Belgium, Ireland, the Slovak Republic and Germany, but under 20% in New Zealand, Iceland, Canada, the United States, Norway, Korea and Mexico (Chart 4.1). As pointed out by Karr (1997), these percentages are much lower than the percentages of individuals in the current stock of unemployed whose current spell will last for over a year in total.² At the same time, they are higher than the percentage of all entries to unemployment that represent the start of a long-term spell.

Chart 4.1. Long-term unemployment and unemployment rate, 2000



a) OECD: unweighted average of the countries shown.

Source: OECD database on labour force and unemployment duration.

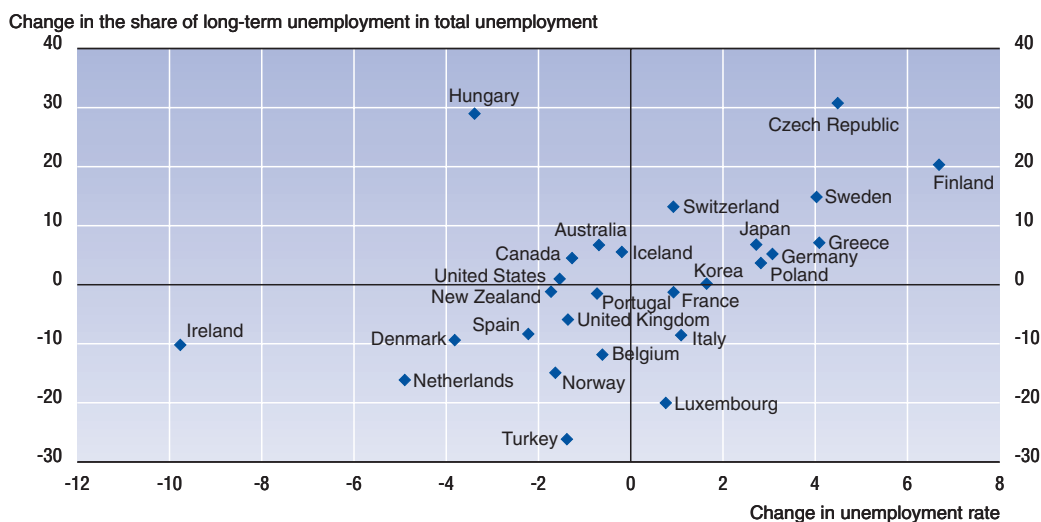
Changes in the incidence of long-term unemployment (*i.e.* long-term unemployment as a percentage of total unemployment) over the 1990s³ were positively correlated across countries with changes in total unemployment (Chart 4.2). Ireland and Hungary were the two main outliers on this scatter diagram, experiencing changes in long-term unemployment that were less favourable than could be expected given the change in total unemployment. Although there was almost no fall in the average incidence of long-term unemployment during the 1990s, the average incidence in the 1990s was somewhat lower than in the 1980s. Related to this, rates of transition from short-term into long-term unemployment have tended to fall since the 1980s (Chart 4.3).

B. Long-term unemployment and long-term joblessness

There has always been concern that unemployment statistics fail to record significant numbers of people who want to work but are excluded from the standard international definition of unemployment, which generally requires an act of job search within

Chart 4.2. **Changes in long-term unemployment and unemployment rate, 1990-2000**

In percentage points

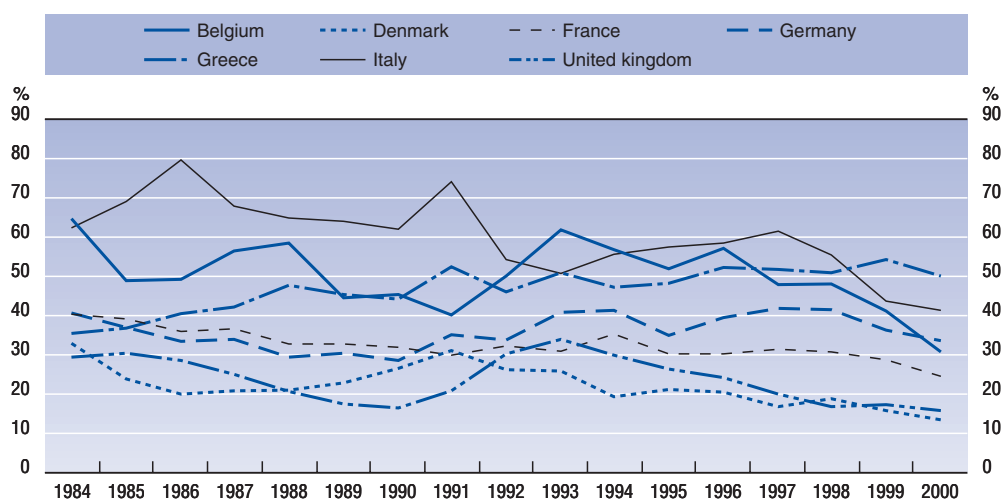


Source: OECD database on labour force and unemployment duration.

the last four weeks. Among the categories not counted as unemployed are those who are not looking for work because they believe no work is available for them (the so-called “discouraged workers”). One possible broader statistical concept is “long-term joblessness”. In this sub-section, the long-term jobless are defined as working-age people who

Chart 4.3. **Transition into long-term unemployment,^a 1984-2000**

Population aged 15 to 64
Percentages



a) The average probability of passing from unemployment of under one year to long-term unemployment. This is measured as the ratio of persons unemployed for 12 to 23 months in the year in question to persons who had been unemployed for less than 12 months the year beforehand, in per cent.

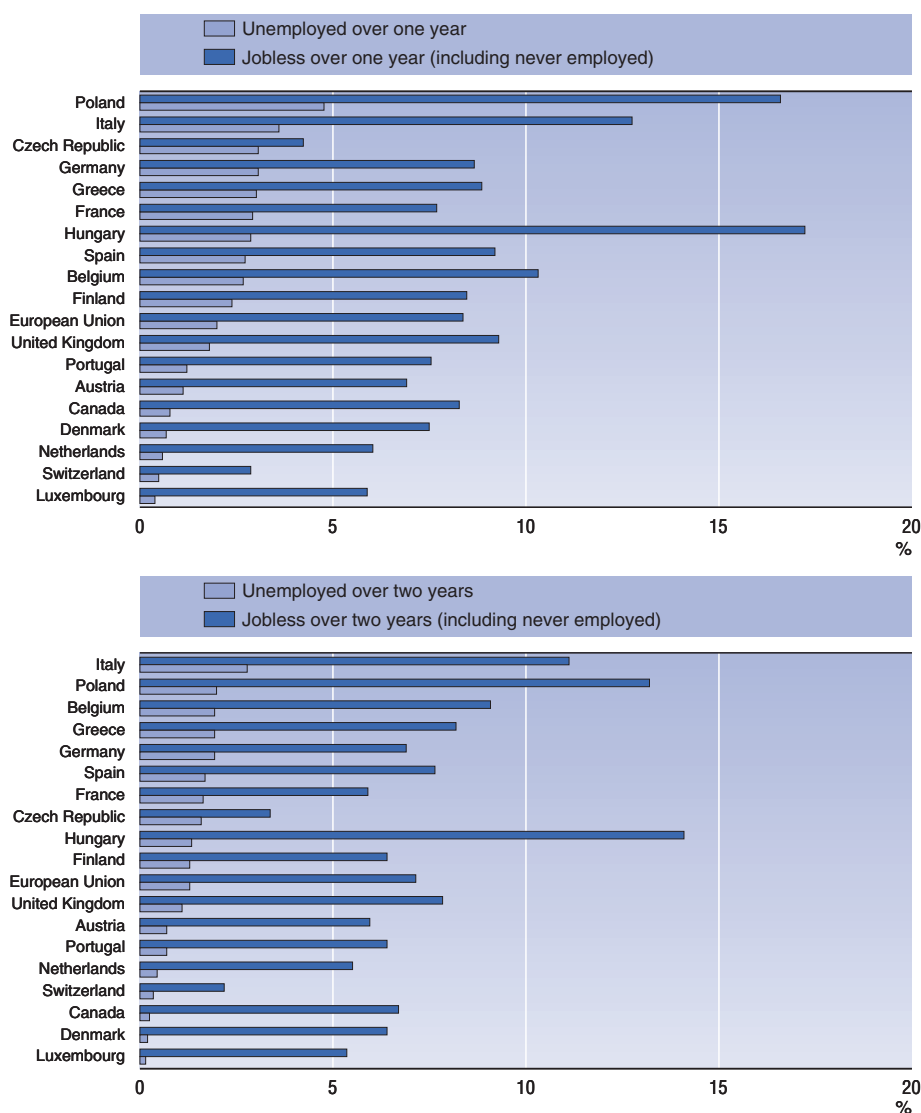
Source: OECD calculations using data supplied by Eurostat from the European Union Labour Force Survey.

were not in employment at the time of the interview and have not worked within the last one or two years. Naturally, since many of the “jobless” have not recently sought work, statistics for “joblessness” reflect a variety of factors and not only difficulty in finding work.

Comparisons between long-term unemployment and long-term joblessness are perhaps most telling for men aged 25-54, who are generally expected to be in employment unless there are special circumstances, such as disablement or extended education. Chart 4.4 shows that long-term joblessness, of one and two years’ duration, is a considerably higher

Chart 4.4. Long-term unemployment compared with long-term joblessness, 2000

Percentage of men aged 25 to 54



Source: As for Table 4.2, and for Canada advice from national authorities based on the Public Microdata file of the 2000 Labour Force Survey.

proportion of the male population aged 25-54 than is long-term unemployment of corresponding durations. While there is a positive correlation between the joblessness and unemployment measures, it is by no means close.

Figures for a wider range of population groups are provided in Table 4.1, which relates to the European Union as a whole. Men aged 25-54 have the lowest rates of joblessness as would be expected. They also have the lowest rate of persons unemployed for at least two years. At ages 55 to 59, male non-employment is almost as high as at ages 20 to 24 – when a quarter of the population is in education but not in the labour force (see Chapter 1). About 15% of women aged 55 to 59 report that they have never worked and a further 35% have not worked in the last two years.

Information on joblessness can also be used to show the proportion of the long-term unemployed who have no work experience in the last two years and, hence, might be expected to find it particularly difficult to enter or re-enter employment (Chart 4.5). In Austria, Belgium, Canada,⁴ Germany and the United Kingdom, the figures are around two-thirds, or higher. The long-term unemployed are the least likely to have been jobless for two years or more in Denmark, Norway and Sweden, but this may not indicate easier access to unsubsidised jobs. The jobs recorded in these data are not necessarily in the open labour market and in these Nordic countries the long-term unemployed often enter a labour market programme of a job-creation nature before they have been out of work for two years.

Table 4.2 compares the numbers of long-term unemployed with the numbers in various “non-active” states, defined by Eurostat in the “Main Labour Status” variable of the EU Labour Force Survey. The figures are only very roughly comparable internationally (see Annex 4.A). Restricting attention to men aged 25 to 54, and on average for the countries for which the data are available, the long-term unemployed population is smaller than the numbers saying that they are permanently disabled (an average of 2.5% as against 3% of the population). In Nordic countries, the Netherlands and the United Kingdom, disability is two or more times as common as long-term unemployment. In this age group, the proportion saying that they have retired is relatively small, but is still over half of the proportion that is in long-term unemployment. The international variation

Table 4.1. **Long-term unemployment and joblessness,^a European Union, 2000**

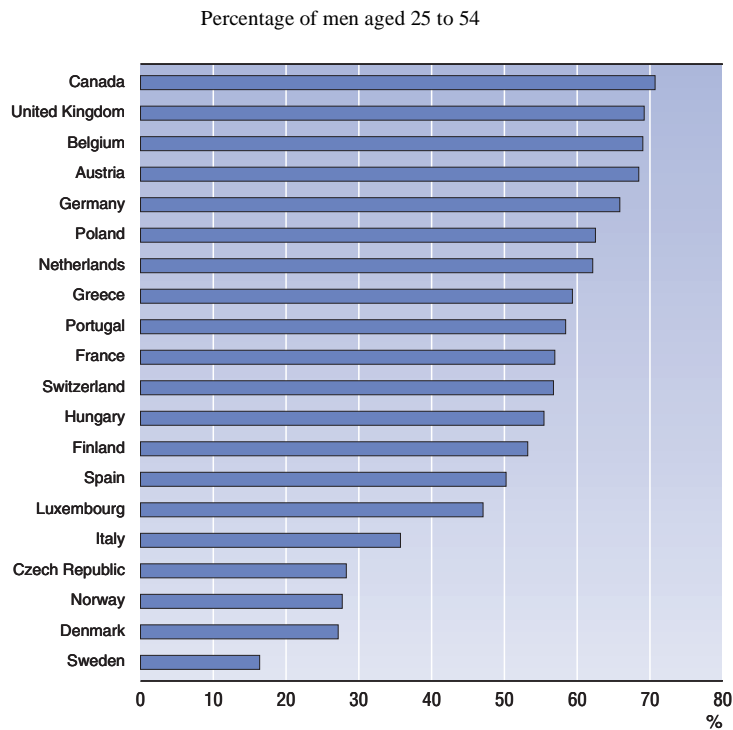
As a percentage of the total population in the age groups shown

	Not employed			Unemployed		
	Total	Of which:		Total	Of which:	
		Have not worked over the past year	Have not worked over the past two years		Unemployed for at least one year	Unemployed for at least two years
Men						
20-24	39.4	31.1	29.3	10.1	3.4	1.9
25-54	12.9	9.0	7.6	5.6	2.6	1.6
55-59	36.6	29.9	24.7	5.6	3.6	2.4
Women						
20-24	48.9	40.6	38.0	10.0	3.7	2.0
25-54	34.3	29.2	26.9	6.4	3.1	2.1
55-59	59.4	53.9	50.3	4.0	2.5	1.8

a) Joblessness is defined as the absence of employment during the periods shown.

Source: OECD calculations based on data supplied by Eurostat from the European Union Labour Force Survey.

Chart 4.5. **Proportions of long-term unemployed who have been without employment for two years or more, 2000**



Source: OECD calculations based on data supplied by Eurostat from the European Union Labour Force Survey, and for Canada advice from national authorities based on the Public Microdata file of the 2000 Labour Force Survey.

suggests that effective policies might be able to limit early retirement to 0.5% and disability to 2%, for this population. On this assumption, potentially-avoidable early retirement and disability are less frequent than unemployment, but about as frequent as long-term unemployment.

C. Repeat spells of unemployment and alternative measures of long-term unemployment

Recurrent unemployment spells and high rates of re-entry to unemployment among individuals who have found work can result in chronic unemployment even among individuals who never become long-term unemployed. In countries such as Canada and Finland where total unemployment is much higher than would be expected on the basis of the long-term unemployment figures (see Chart 4.1), the short-term unemployment that makes up the bulk of total unemployment arises mostly in repeat spells (see below). There is not always a clear definitional distinction between recurrent unemployment and long-term unemployment: a person who is sick for a short time in the middle of a 23-month spell of unemployment in principle may never have become long-term unemployed, but few data sources reliably record such breaks in the unemployment spell. This section will look in detail at alternative measures of unemployment duration, including some which take repeat spells into account.

Table 4.2. Long-term unemployment and Main Labour Status categories, 2000

Percentages of men aged 25 to 54

	Main Labour Status ^a							Labour force status
	Carries out a job or profession	Unemployed	Pupil, student, further training, unpaid work experience	In retirement or early retirement or has given up business	Permanently disabled	Fulfilling domestic tasks	Other inactive person	Long-term unemployed
Austria	89.2	5.1	2.0	2.7	0.3	0.3	0.5	1.1
Belgium	86.7	5.2	0.9	1.5	3.8	0.3	1.5	2.7
Czech Republic	90.0	5.5	0.6	0.2	3.3	0.1	0.2	3.1
Denmark	86.3	4.4	3.6	0.4	4.8	0.2	0.3	0.7
Finland	83.3	8.1	2.8	0.3	5.0	0.1	0.4	2.4
France	87.5	8.1	0.8	0.6	2.1	0.1	0.8	2.9
Greece	87.6	7.0	0.8	1.8	2.0	0.0	0.8	3.0
Hungary	78.5	9.3	0.6	5.8	3.8	0.3	1.7	2.9
Iceland	95.2	0.7	2.0	0.0	1.5	0.0	0.6	0.1 ^b
Ireland	87.7	6.6	1.1	0.6	3.1	0.6	0.5	3.2 ^b
Italy	84.2	8.4	2.9	2.7	1.2	0.0	0.7	3.6
Luxembourg	92.8	0.8	1.6	1.2	1.8	0.3	1.7	0.4
Netherlands	90.5	1.6	2.0	0.1	3.3	0.8	1.8	0.6
Norway	89.3	3.4	1.5	0.2	5.0	0.1	0.6	0.5
Poland	77.5	10.8	0.5	1.3	6.8	0.2	2.8	4.8
Portugal	89.6	4.4	1.1	2.2	1.1	0.0	1.6	1.2
Slovak Republic	79.2	15.3	0.4	4.8	0.0	0.2	0.2	8.5
Sweden	83.8	5.9	4.4	0.1	3.5	0.0	2.3	1.5
Switzerland	95.2	1.5	1.1	1.2	..	0.2	0.7	0.5
United Kingdom ^b	87.1	5.0	0.7	0.2	4.8	1.0	1.1	2.0
Unweighted average	86.6	6.1	1.6	1.4	3.0	0.2	1.0	2.5

a) For definitions of the Main Labour Status categories, see Annex 4.A.

b) 1999 instead of 2000.

Source: OECD calculations based on data supplied by Eurostat from the European Union Labour Force Survey, 2000; and for Switzerland data supplied by the Swiss Federal Statistical Office on the basis of the Swiss Labour Force Survey, 2000.

National studies of repeat spells of unemployment

National studies have used various types of statistics to document the significance of recurrent unemployment. Some of the findings are:

- In Canada, only 20% of unemployment insurance (UI) claims initiated in 1989 were new claimants: the remaining 80% were made by people who had at least one other claim since mid-1971. A “standard” male with one claim had a 61% chance of claiming again within the next five years, and after a second claim had a 69% chance of claiming again within the next five years (Corak, 1993).⁵
- Repeated circling between open unemployment and labour market measures became a characteristic feature of the Finnish labour market in the 1990s. Of 485 000 people who were unemployed or in measures in 1996, and who had become unemployed for the first time more than two years earlier, 395 000 (*i.e.* 81%) had been in unsubsidised employment for less than 25% of the previous two years (based on advice from national authorities).
- In France, in a sample of individuals with a low level of education, individuals who had experienced unemployment or inactivity one to four years after leaving school were 1.6 times more likely to experience unemployment in later years than those who had not experienced unemployment or inactivity in the same year. For those who experienced unemployment or inactivity three to six years after leaving school,

this ratio increased to 3.6. For those who took more than 17 months to find their first job, the risk of experiencing repeat unemployment several years later was at least twice the average. Allaire *et al.* (2000) conclude that although unemployment shortly after leaving school is largely a chance phenomenon, unemployment at the end of the period more often indicates social exclusion and it can partly be predicted from the length of the early spells of unemployment.

- In Italy, over 50% of individuals who claimed ordinary unemployment benefit with reduced requirements (based on a minimum of 78 days of work in the year) claimed the same benefit one year later, and 25% claimed it five years later (1990-1998 data, reported in MLPS, 2000).
- In New Zealand, among individuals who became unemployed in 1993, the “most fortunate” quarter typically experienced only one spell and a total of nine weeks’ unemployment over the period 1988 to 1997. The “least fortunate” quarter of these individuals typically experienced three spells and almost two and a half years of unemployment. About half of male exits from unemployment were followed by the start of another spell within a year (Gobbi and Rea, 2000).
- In Norway, in the period 1991 to 2000, 1.14 million people – over half the labour force at a given point in time – were unemployed at least once. Over this period, 4% of the labour force had been unemployed more than 10 times and 3% for more than three years, in total (based on advice from national authorities).
- In Swedish data for 1982 to 1992, about 60% of individuals who received UI in one year also received it the next. Nearly 50% of all individuals with UI in a given year were at some point in a spell of at least four consecutive years with UI receipt (Ackum Agell *et al.*, 1995).
- In the United Kingdom, 49% of all individuals who experienced claimant unemployment at some time over the five years 1992 to 1996 had more than one spell. In February 1995, 36% of the current stock of claimants had been claiming continuously during the past year, but half of the remainder had claimed for more than one year in total over the past two years. From 1990 onwards, the rate of re-entry to unemployment within a year of the end of an unemployment spell was very close to 50% irrespective of the duration of the preceding spell (Teasdale, 1998).⁶
- In US data for five states from 1979 to 1984, 60% of individuals who had claimed UI had claimed it only once. However, 70% of all benefit-years were accounted for by repeat users, and 42% were accounted for by individuals with a claim in at least three out of five possible years (Meyer and Rosenbaum, 1996).

Individuals who experience many spells of unemployment are often found to have a low average spell length,⁷ but this appears to be partly a statistical artefact arising in data sets relating to a fixed time period (*e.g.* in data which cover only two years, by construction, no multiple spells of long-term unemployment will be observed). OECD (1985, Chapter 6) remarked, in relation to Canadian data, that “When multiple spells are examined over an even longer period (*i.e.* longer than two years), the negative relationship between number and average length of spells all but disappears”. Thus in cross-section across individuals, rates of entry to unemployment while not-unemployed are not necessarily correlated with rates of exit from unemployment while unemployed. This does not preclude high levels of correlation through time for a given individual such that, for example, some individuals are continuously at high risk of entering unemployment, others are continuously at high risk that any spell experienced will be lengthy, and others again face neither, or both, risks.

Repeat unemployment is in fact much more common than it would be if unemployment struck members of the workforce at random. One factor explaining this is seasonal unemployment. Gray and Sweetman (2001), using Canadian data for 1992 to 1997, distinguished a number of patterns among 1996 Employment Insurance (EI) users:

- *Relatively new entrant* users (probably too young to have claimed every year) were 11% of female and 13% of male users.
- *Classic displaced* users with just one claim (in 1996) were 14% of female and 10% of male users.
- *Twice-unlucky* users with claims in two years were 19% of female and 14% of male users.
- *Strictly seasonal* and *mostly seasonal* users, who claimed EI at least four out of the six years within an 8-week window, were 17% of female and 15% of male users.
- *Frequent and mostly frequent, but non-seasonal* users who claimed EI in at least four of the six years, but for whom no pattern of seasonality was discerned, were 15% of female and 22% of male users.
- *Other frequent* users who claimed in three of the six years were 20% of users.
- *Perpetual users* who had a claim active in over 90% of the six-year period (this can occur when during claim periods, enough time is spent in employment to qualify for another claim immediately) were 4% of the female and 6% of the male users.

These findings suggest that users with a strictly seasonal pattern are a minority within the total of frequent users: frequent but irregular use of EI is more common. By contrast CEIC (2000), using different definitions, estimates that by 1999/2000 (following a sharp fall in non-seasonal frequent claims after 1995/96), 80% of all frequent claims were seasonal.

Temporary layoffs by employers are another cause of repeat (in some cases also seasonal) unemployment experiences. Corak (1995) reports for Canada that over 40% of claimants who made at least five claims within a 14-year period supported their claims with employment from three or fewer different employers. Meyer and Rosenbaum (1996) similarly report for the United States that over 80% of all individuals with UI claims in three or more out of five years had been laid off by only one or two employers, and thus must have been recalled at least once. Temporary layoff unemployment can be defined as unemployment in spells which ended with the unemployed person being rehired by the same employer. On this basis, temporary layoffs have been estimated to account for 45% of terminations of UI spells and 38% of UI weeks paid in Canada (late 1980s data in Corak, 1995), 32% of all terminations of unemployment spells and 20% of total unemployment in Austria (late 1980s data), 50% of all unemployment spells and 20% of total unemployment in Denmark (1981 to 1990 data), and 68% of unemployment spells and 30% of total unemployment in manufacturing in the United States (1965 to 1976 data, with some similar figures cited for 1979-80) (sources cited by Jensen and Svarer, 2001). In Germany, recalls accounted for about 17% of jobs started by benefit recipients and 11% of benefits were paid to workers who were later recalled (1980 to 1990 data) (Mavromaras and Rudolph, 1998). In Norway, recall unemployment accounted for 32% of unemployment spells and 13% of total unemployment (1989 to 1998 data) (Roed and Nordberg, 2001). In Sweden, 45% of a sample of unemployed people who found work returned to a previous employer, and an estimated 10% of the unemployment stock consists of people on temporary layoff (data from a small survey, relating to 1995 and 1996) (Jansson, 2002).

Apart from seasonal unemployment and temporary layoffs – factors that are related to industry, occupation and employer behaviour – tendencies for unemployment experi-

ences to be repeated could be due to heterogeneity in individual characteristics or to state dependence, *i.e.* so-called “scarring” whereby a first unlucky experience of unemployment increases the probability of further spells. Pedersen (1994) notes that low levels of educational achievement are a very important influence on the amount of unemployment experienced over a nine-year period by Danish youths: this is an example of an explanation in terms of (observed) heterogeneity. Winter-Ebmer and Zweimuller (1992) find, using a probit model for the probability of repeat unemployment after an unemployment spell in Austria in 1986, that the number of short-term (up to six-month) unemployment spells in the three preceding years is the most significant explanatory variable and the duration of the 1986 unemployment episode (which enters with a positive coefficient) is the second most significant. They conclude that (even after allowing for seasonal work patterns, which are also important) the most prominent factor in explaining repeat unemployment is past unemployment history, and they attribute this to state dependence effects.⁸

Repeat spells and alternative measures of long-term unemployment in the European Community Household Panel

Longitudinal data allow detailed analysis of unemployment durations, repeat spells of unemployment and transitions between different labour market states. Tables 4.3 to 4.8 here present various statistics – inspired by statistics used in the national studies cited above – from the European Community Household Panel (ECHP) (including data from German and UK national surveys, as described in Box 4.1). ECHP data suffer from strong “seam effects”, *i.e.* the tendency in survey-based longitudinal data for changes in reported status to occur between the last month covered by one interview and the first month covered by the next interview. In the ECHP, as described in Annex 4.B, interviewees report their status month by month for the preceding calendar year and in half the countries the majority of all long-term spells of unemployment (those lasting 12 months or more) are reported to finish in December and/or commence in January. Tabulations here use a sample that has been adjusted by putting higher weights on the records that report changes in status in other months of the year. In the reweighted sample, the incidence of long-term unemployment is on average close to that reported in the EU Labour Force Survey. However, some fairly large discrepancies arise for individual countries and it would be useful, wherever possible, to calculate the statistics in Tables 4.3 to 4.8 using alternative data sets.

International comparisons of “long-term unemployment” according to different definitions

Table 4.3, Panel A, shows the proportion of all individuals who were unemployed at a given point in time – December 1995 – who experienced 12 months or more of unemployment as measured over alternative reference periods. On average, 46% of unemployed people had already been unemployed for 12 or more months within their current spell of unemployment: this is the conventional measure of the incidence of long-term unemployment. However about 40% of those with less than 12 months of unemployment went on to have a completed spell duration of 12 months or more: on this basis, nearly 70% were long-term unemployed. Counting also unemployment that occurred in other spells, nearly three out of four unemployed people had experienced 12 or more months of unemployment in total over the two preceding years (1994 and 1995) and five out of six experienced 12 or more months of unemployment in total over the four years (1994 to 1997). The impact of using a longer reference period varies greatly between countries. Persons who were in a spell of less than 12 months (completed duration) in December 1995 nevertheless accumulated 12 months of unemployment over the four-year

Table 4.3. **The incidence of long-term unemployment and the mean duration of unemployment spells measured over four alternative reference periods, 1994-97**

A. Percentage of all persons unemployed in December 1995 who experienced at least 12 months of unemployment as measured by:

	Uncompleted duration of the current spell	Completed duration of the current spell	Total unemployment in the last 24 months	Total unemployment in the four years, 1994-97
Austria	23.0	47.3	55.2	68.0
Belgium	67.4	82.2	87.2	91.6
Denmark	47.1	67.1	68.8	78.6
France	45.8	75.7	84.1	90.9
Germany	47.0	75.7	77.6	86.6
Greece	32.2	43.1	63.5	79.9
Ireland	67.4	81.3	84.1	90.2
Italy	54.2	71.4	80.8	88.4
Portugal	36.8	67.4	69.3	76.0
Spain	40.5	62.2	75.2	85.8
United Kingdom	39.5	71.6	69.0	77.5
ECHP^a	45.5	67.7	74.1	83.0

B. Average months of unemployment experienced by persons unemployed in December 1995 as measured by:

	Uncompleted duration of the current spell	Completed duration of the current spell	Total unemployment in the last 24 months	Total unemployment in the four years, 1994-97
Austria	7.4	17.0	9.5	20.0
Belgium	16.6	34.2	17.6	35.8
Denmark	12.0	24.4	14.3	27.0
France	12.1	25.0	14.9	29.4
Germany	12.5	25.5	14.0	27.7
Greece	8.6	17.2	12.9	23.8
Ireland	16.8	32.9	18.5	35.0
Italy	14.1	27.7	16.8	32.1
Portugal	10.5	21.1	12.2	22.9
Spain	11.5	22.2	15.1	27.9
United Kingdom	10.6	22.4	13.1	25.5
ECHP^a	12.1	24.5	14.4	27.9

ECHP: European Community Household Panel.

a) Unweighted average of countries shown.

Source: ECHP, waves 2 to 5.

period in two-thirds of the cases in France, Greece, and Spain, whereas in the United Kingdom this occurred in only one-fifth of the cases.

How much unemployment is “missed” if labour market policies focus only on individuals who are currently unemployed, with the aim of bringing the current spell of unemployment to an end but without attention to the risk of later return to unemployment? According to Table 4.3, on average only one-eighth of the unemployment-months experienced within the four-year window either side of December 1995 occurred outside the completed current spell of unemployment. This proportion is necessarily low where the average duration of current spells is already very long: it is higher in Austria, France, Greece and Spain.

Repeat spells as a form of long-term unemployment

Table 4.4 reports the number of unemployment spells experienced by individuals who were unemployed for at least 12 months in total over the four years 1994 to 1997 (these individuals appeared in the last column of Table 4.3 if they were unemployed in December 1995). In 10 of the 11 countries, only a minority of these “long-term

Table 4.4. **Single and multiple spells leading to long-term unemployment in 1994-97, by gender and age**Percentage of the long-term unemployed population^{a, b}

Number of observations	At least one single spell of 12 months or more	No spell of 12 months or more			Number of observations	At least one single spell of 12 months or more	No spell of 12 months or more				
		2 spells	3 spells	4 spells or more			2 spells	3 spells	4 spells or more		
Both sexes aged 15-64					Both sexes aged 15-24						
Austria	227	41.2	25.5	16.9	16.4	Austria	36	(49.4)	–	–	–
Belgium	454	59.5	22.9	6.9	10.7	Belgium	88	54.8	(24.7)	(8.8)	–
Denmark	337	30.8	34.8	17.3	17.1	Denmark	47	(33.0)	(24.6)	–	–
France	898	28.0	29.9	21.1	21.0	France	211	21.5	23.3	21.6	33.6
Germany	1 031	41.4	37.1	13.3	8.2	Germany	129	51.4	34.9	(7.8)	–
Greece	842	29.5	23.3	14.1	33.2	Greece	332	33.7	27.4	16.5	22.4
Ireland	456	41.5	36.6	12.6	9.3	Ireland	126	34.8	30.5	(24.8)	(9.9)
Italy	1 953	35.8	31.2	17.5	15.5	Italy	856	46.4	30.2	14.1	9.3
Portugal	707	43.0	31.7	14.5	10.8	Portugal	226	27.5	35.2	(23.9)	(13.4)
Spain	2 057	22.0	29.7	22.9	25.3	Spain	640	19.6	29.5	28.9	22.0
United Kingdom	388	30.1	37.3	21.1	11.5	United Kingdom	104	(25.1)	31.0	(29.1)	(14.8)
Men aged 15-64					Both sexes aged 25-54						
Austria	113	38.5	(24.1)	(19.9)	(17.6)	Austria	160	35.5	24.5	(17.5)	22.4
Belgium	144	59.7	18.6	(6.6)	(15.1)	Belgium	323	59.3	21.8	(7.2)	(11.7)
Denmark	112	34.6	32.7	(11.8)	(20.9)	Denmark	234	29.1	36.8	17.1	16.9
France	370	24.5	29.7	23.7	22.0	France	614	28.0	30.4	22.6	19.0
Germany	453	39.1	34.5	14.5	12.0	Germany	705	36.4	36.0	16.3	11.3
Greece	325	33.9	19.9	12.0	34.2	Greece	479	27.1	21.3	12.0	39.6
Ireland	346	43.8	36.6	11.7	8.0	Ireland	286	44.9	38.1	8.9	(8.1)
Italy	1 016	32.7	33.3	20.6	13.4	Italy	1 028	28.7	31.6	20.2	19.5
Portugal	288	41.7	39.0	(8.9)	(10.4)	Portugal	384	48.2	28.8	11.7	11.3
Spain	1 054	23.1	28.5	22.7	25.8	Spain	1 246	20.2	30.6	21.9	27.4
United Kingdom	251	28.3	34.8	23.8	13.1	United Kingdom	236	30.5	38.1	19.0	12.4
Women aged 15-64					Both sexes aged 55-64						
Austria	114	44.6	27.4	(13.1)	(14.9)	Austria	31	(59.3)	(29.0)	–	–
Belgium	310	59.4	25.2	(7.1)	(8.3)	Belgium	43	(71.0)	(29.0)
Denmark	225	27.9	36.5	21.4	(14.1)	Denmark	56	(38.6)	(31.1)	–	–
France	528	30.7	30.0	19.1	20.2	France	73	46.3	44.2	–	–
Germany	578	43.8	39.8	12.1	(4.3)	Germany	197	51.0	41.4	(7.3)	–
Greece	517	25.7	26.1	15.8	32.4	Greece	31	(24.8)	–	–	–
Ireland	110	32.9	36.4	(16.3)	(14.5)	Ireland	44	(32.8)	(42.0)	–	–
Italy	937	40.5	28.1	12.8	18.6	Italy	69	(21.6)	(38.6)	–	–
Portugal	419	43.9	26.6	18.4	11.0	Portugal	97	50.5	39.6	–	–
Spain	1 003	20.4	31.5	23.3	24.7	Spain	171	51.9	20.7	(12.8)	(14.6)
United Kingdom	137	33.5	42.0	(15.8)	(8.6)	United Kingdom	48	(37.0)	(44.5)	–	–

.. Data not available.

– Estimates not reported due to fewer than 10 observations.

(Estimates based on less than 30 observations).

a) Population with at least 12 months of unemployment in the 48 months, 1994 to 1997.

b) The age ranges refer to age in 1995. Because individuals aged over 64 are dropped from the survey, the 55-64 group includes only those aged 55-61 in 1995 (*i.e.* 58-64 in 1998).

Source: European Community Household Panel, waves 2 to 5.

unemployed” had any one spell that lasted 12 continuous months (although truncation of spell duration at the beginning and end of the observation window contributes to this result). Experiencing this type of “long-term unemployment” only through repeat spells was common in Denmark, France, Greece, Spain and the United Kingdom. Youths do not have more multiple spells than prime-age workers and older workers have relatively few multiple spells, but these observations need to be seen in the light of the fact that youths and older workers often spent only part of these four years in the labour force.

The distribution of total months of unemployment

Table 4.5 shows the distribution of individuals with any unemployment by total months unemployed over the four years 1994-97. The top decile of this distribution (which represents about 2% of the total population) in Ireland and Italy, and the top two deciles (about 4% of the population) in Belgium experienced close to 48 months of unemployment. In all other countries the 90th percentile is below 38 months, indicating that continuous spells as long as four years are rare. In some countries (*e.g.* Spain and Portugal) UI benefit exhaustion would tend to produce this result. In others (Denmark and Germany) it may arise because some participation in labour market programmes would be obligatory for individuals who would otherwise be entitled to four or more years of benefit.

On average, 39% of 15-24 year-olds, 22% of 25-54 year-olds, and only 10% of 55-64 year-olds experienced unemployment at some time over the four years. Long spells are more common for women than men in Belgium (where UI benefit is in some cases indefinitely compatible with spousal earnings), and more common for men than women in the United Kingdom and Ireland (where long-term benefits are means-tested, and incompatible with spousal earnings or benefit income). Also, some cases of four years in almost-uninterrupted unemployment arise among older workers in contrast to prime-aged workers in France (where indefinite-duration assistance benefits are more generous for older workers) and Spain (where indefinite-duration assistance benefits are only available to older workers). These differences suggest that benefit availability influences very-long-term unemployment, even in data which are not in principle based on benefit reciprocity status.⁹ However looking across countries at the statistics for youths, an inverse relationship appears – Greece, Italy and Spain are among the four countries with the highest incidence of very-long-term youth unemployment, yet benefits are not generally available to unemployed youths in these countries.¹⁰

Calculations based on Table 4.5 suggest that nearly half of all months of unemployment over four years are experienced by 5% of the population (mainly the individuals in the top two deciles). This can be compared with the situation for any given month where (since about 7% of the population are unemployed) half of the unemployment is experienced by about 3.5% of the population. Thus unemployment over four years is less concentrated than it is in a given month, but the difference is not very great. Comparing this table with Table 4.3, it is seen that on average less than half of the individuals with any unemployment over the four-year period experienced 12 or more months of unemployment, whereas five-sixths of the individuals who were unemployed in December 1995 experienced 12 or more months of unemployment. This is because relatively few of the individuals who experienced only a few months of unemployment are included in the latter sample.

Risk of re-entering unemployment

Table 4.6 shows that about 40% of exits from unemployment were followed by re-entry to unemployment within a year. In Germany and Italy, re-entries to unemployment are more frequent when the previous spell was short, possibly indicating an important

Table 4.5. Distribution of individuals^a by total months of unemployment, 1994-97, by gender and age

Percentile break points in the distribution

	Number of observations	Percentile break points									Unemployment/population ratio ^b		Number of observations	Percentile break points									Unemployment/population ratio ^b
		10%	20%	30%	40%	50%	60%	70%	80%	90%				10%	20%	30%	40%	50%	60%	70%	80%	90%	
Both sexes aged 15-64												Both sexes aged 15-24											
Austria	641	1.0	2.1	3.2	4.6	6.7	8.5	11.6	15.6	21.9	16.5	Austria	169	0.7	1.5	2.6	4.0	6.0	7.7	9.5	12.9	17.4	25.6
Belgium	730	1.4	2.8	5.3	8.3	13.1	19.0	29.5	44.7	47.4	21.7	Belgium	182	1.0	1.7	2.7	4.4	7.1	9.3	14.7	18.5	29.5	41.5
Denmark	764	1.2	2.4	3.6	5.3	7.5	10.2	14.3	20.4	32.2	30.1	Denmark	155	0.5	1.2	2.1	2.5	2.9	4.5	6.0	10.7	24.7	41.7
France	1 664	1.8	3.4	6.0	9.0	12.3	16.4	21.6	28.7	37.5	21.4	France	510	1.2	2.4	4.0	5.6	9.5	12.4	17.0	22.6	29.5	39.6
Germany	2 009	1.2	2.6	4.8	7.8	10.6	14.6	19.8	26.3	32.8	21.8	Germany	391	0.5	1.0	2.0	3.4	5.0	7.8	10.7	16.3	28.2	33.7
Greece	1 307	2.7	4.4	6.3	8.7	11.3	15.2	20.0	23.8	33.7	19.5	Greece	481	2.4	4.3	7.8	9.7	14.3	19.2	23.1	28.5	35.7	40.8
Ireland	857	1.7	3.4	5.4	8.4	11.5	19.5	29.2	41.7	47.3	22.9	Ireland	302	1.2	1.9	3.3	4.6	6.2	10.9	15.8	25.4	38.1	39.5
Italy	2 688	2.5	4.4	6.8	9.4	14.0	19.7	27.8	34.8	44.8	21.9	Italy	1 160	2.3	4.1	5.6	8.3	12.6	18.3	28.4	37.0	47.0	52.2
Portugal	1 215	1.5	3.0	4.6	6.0	8.7	11.4	15.8	20.8	27.9	19.9	Portugal	439	1.3	2.5	4.2	5.7	8.2	10.3	12.5	16.8	20.7	31.0
Spain	2 991	2.5	5.1	7.3	10.0	14.0	18.0	23.7	29.6	37.3	35.4	Spain	948	2.3	3.8	6.1	8.5	11.3	16.0	20.9	30.4	39.0	46.5
United Kingdom	1 124	1.1	2.1	3.1	4.9	7.3	9.7	12.4	18.8	29.8	17.9	United Kingdom	318	1.1	2.0	3.0	4.7	6.9	8.8	11.9	15.9	26.7	33.6
Men aged 15-64												Both sexes aged 25-54											
Austria	345	1.1	2.1	3.2	4.4	6.7	8.8	12.3	15.8	25.4	17.9	Austria	418	1.2	2.2	3.3	4.5	6.7	8.4	11.4	15.6	23.8	16.6
Belgium	278	1.2	2.4	3.7	5.9	8.2	13.1	22.1	35.1	47.4	20.0	Belgium	496	1.7	3.8	7.0	11.1	16.0	24.7	35.9	47.0	47.5	21.2
Denmark	317	1.0	2.4	3.8	5.2	7.2	9.8	13.3	20.2	38.4	26.8	Denmark	528	1.5	3.0	4.1	6.3	8.1	11.0	15.2	20.9	34.4	30.2
France	763	1.6	3.0	4.9	8.1	10.6	14.4	20.1	28.1	36.3	21.0	France	1 052	2.2	4.1	7.4	9.8	13.3	17.5	22.4	29.7	37.4	20.3
Germany	1 022	0.8	2.2	3.9	6.7	9.6	13.5	19.9	25.8	32.5	23.7	Germany	1 347	1.4	2.8	5.2	8.3	10.9	14.7	20.1	26.1	32.9	21.5
Greece	589	2.4	3.7	5.2	7.0	9.6	12.7	17.2	22.1	29.6	19.9	Greece	761	2.9	4.5	6.0	8.5	10.5	13.8	17.7	22.4	32.0	18.8
Ireland	560	2.3	4.5	8.1	12.2	20.6	29.5	39.4	47.1	47.5	30.6	Ireland	494	2.4	4.7	7.4	9.9	14.6	24.6	36.7	47.0	47.5	21.2
Italy	1 408	2.5	4.8	7.5	10.5	16.9	22.8	31.0	39.0	47.0	24.7	Italy	1 436	2.5	5.0	7.8	10.1	14.9	20.7	27.9	33.5	44.2	18.6
Portugal	568	1.2	2.6	3.8	5.4	6.7	9.6	13.0	19.0	26.7	20.5	Portugal	654	1.5	3.1	4.7	5.9	8.7	11.6	15.9	22.7	28.9	19.1
Spain	1 605	2.4	4.9	7.2	10.2	14.0	17.7	23.2	30.2	37.4	40.5	Spain	1 808	2.6	5.3	7.8	10.7	15.1	19.4	24.2	29.3	36.4	37.5
United Kingdom	622	1.2	2.2	3.5	5.4	8.2	11.2	15.4	24.1	35.3	22.0	United Kingdom	694	1.0	2.0	3.0	4.8	6.8	9.5	12.3	19.0	30.2	16.0
Women aged 15-64												Both sexes aged 55-64											
Austria	296	1.0	2.1	3.3	4.7	6.7	8.3	11.1	14.5	18.8	15.1	Austria	54	2.2	3.7	5.4	11.1	13.8	15.5	18.2	21.7	29.8	6.4
Belgium	452	1.5	4.0	7.5	12.5	17.4	27.3	37.5	45.7	47.5	23.3	Belgium	52	1.8	5.6	22.1	23.8	43.9	47.2	47.4	47.6	47.8	7.9
Denmark	447	1.4	2.4	3.6	5.4	7.7	10.6	15.2	20.5	29.5	33.6	Denmark	81	3.3	5.9	8.3	9.9	12.3	15.2	17.6	23.7	35.9	18.6
France	901	2.0	4.1	7.7	10.6	14.1	18.4	22.8	29.1	38.3	21.7	France	102	1.7	5.1	8.7	15.3	21.7	28.5	34.9	42.0	47.3	8.9
Germany	987	1.7	3.5	5.9	8.7	11.9	15.3	19.6	26.6	33.3	19.9	Germany	271	3.9	6.2	10.9	13.9	17.1	23.3	27.2	31.1	39.7	16.0
Greece	718	3.3	5.5	7.9	9.7	13.4	17.5	21.9	28.0	38.9	19.1	Greece	65	2.2	3.2	4.5	5.5	6.6	9.7	16.3	23.1	27.7	5.0
Ireland	297	1.2	2.1	3.6	5.1	6.3	8.7	11.2	16.5	29.3	15.5	Ireland	61	2.8	7.0	12.3	16.8	23.8	31.3	34.7	45.5	47.4	9.2
Italy	1 280	2.4	4.2	5.9	8.4	11.2	16.6	22.3	29.3	43.1	19.1	Italy	92	3.6	5.1	6.2	8.2	11.6	13.5	19.4	23.4	32.7	3.4
Portugal	647	1.8	3.6	5.2	8.2	10.5	14.0	18.5	22.8	28.9	19.3	Portugal	122	2.6	3.9	7.7	11.3	18.0	23.2	27.3	34.2	43.0	9.4
Spain	1 386	2.7	5.3	7.3	9.7	13.9	18.6	24.0	28.6	37.2	30.0	Spain	235	3.9	5.6	8.0	10.2	13.7	17.6	22.6	31.3	47.3	13.4
United Kingdom	502	0.9	1.9	2.7	4.3	6.2	8.6	10.7	13.0	20.2	14.4	United Kingdom	112	1.6	2.6	4.1	7.8	9.7	11.6	14.5	21.6	32.6	12.9

a) The distribution includes only individuals with non-zero months.

b) Percentage of the population having non-zero months of unemployment in the four years 1994 to 1997.

Source: European Community Household Panel, waves 2 to 5.

Table 4.6. Exits from unemployment followed by re-entry to unemployment within a year

Percentage returning to unemployment within a year following an exit^a

	Exits following an unemployment spell of duration of:						All exits	
	Less than 6 months		6 to 11 months		12 months or more			
	Number of observations	%	Number of observations	%	Number of observations	%	Number of observations	%
Austria	81	45.5	14	(40.9)	16	(47.7)	111	45.1
Belgium	33	52.8	8	–	18	(45.5)	59	48.6
Denmark	44	30.3	15	(29.1)	24	(26.0)	83	29.0
France	137	48.6	41	40.2	70	41.4	248	45.0
Germany	84	41.1	36	40.6	55	32.0	175	37.6
Greece	82	49.2	77	62.7	47	41.8	206	52.2
Ireland	43	34.3	18	(27.1)	31	53.1	92	38.6
Italy	119	52.1	60	52.4	82	36.1	261	47.8
Portugal	46	19.8	27	(39.3)	35	19.6	108	23.5
Spain	206	53.8	118	53.5	105	45.5	429	51.6
United Kingdom	55	32.8	25	(29.9)	30	30.4	110	31.5
ECHP average^b	930	41.9	439	41.2	513	38.1	1 882	41.0

ECHP: European Community Household Panel.

– Estimates not reported due to fewer than 10 observations.

(Estimates based on less than 30 observations).

a) Exits from unemployment between January 1995 and December 1996 only: in case of multiple spells only the exit closest to December 1996 has been taken into account.

b) Unweighted average of countries shown.

Source: ECHP, waves 2 to 5.

high-turnover (*e.g.* seasonal) component in unemployment. In Ireland re-entry rates are higher following long spells of unemployment, suggesting that exits from long-term unemployment are quite often only brief interruptions of the unemployment spell.

Future prospects for long-term unemployed people

People who were unemployed throughout 1995 spent on average slightly over half of the next two years in unemployment, a third in employment and slightly below a sixth out of the labour market (Table 4.7). This table shows a trade-off between inactivity and very-long-term unemployment: the three countries with the highest rates of continuing unemployment, Belgium, Ireland and Italy, which are also the countries where the top decile of the distribution experienced four years of uninterrupted unemployment (see Table 4.5), have among the lowest rates of transition to labour market inactivity. The apparent trade-off suggests that despite efforts at the international harmonisation of statistics, national idiosyncrasies (no doubt reflecting substantive factors, *e.g.* ease of access to different types of income support) in the classification of people who have only tenuous links with the labour market remain very important.

A transition to inactivity, rather than employment, is much more frequent for older workers. Re-entries to employment by older long-term unemployed workers appear to be extremely rare in some countries, although the small sample sizes involved in this case should be kept in mind.

Predicting future unemployment

Table 4.8 shows that labour market outcomes over the two following years are better for individuals who are short-term unemployed with less than 6 months of other recent

Table 4.7. Labour market status in 1996 and 1997 following long-term unemployment, by gender and age

People who were long-term unemployed in December 1995^a

Average months per year in each status in 1996 and 1997				Average months per year in each status in 1996 and 1997					
Number of observations	Average duration of unemployment (months)	Average duration of employment (months)	Average duration out of labour force (months)	Number of observations	Average duration of unemployment (months)	Average duration of employment (months)	Average duration out of labour force (months)		
								Both sexes aged 15-64	
Both sexes aged 15-64				Both sexes aged 15-24					
Austria	67	6.4	2.7	3.0	Austria	5	–	–	–
Belgium	268	9.1	1.8	1.1	Belgium	29	(9.0)	(1.8)	(1.2)
Denmark	180	5.4	4.4	2.1	Denmark	22	(7.5)	(4.1)	(0.4)
France	488	6.0	4.3	1.7	France	79	5.7	5.5	0.8
Germany	497	5.2	3.5	3.1	Germany	52	3.9	4.8	2.5
Greece	354	6.1	4.9	0.8	Greece	152	6.5	4.5	1.0
Ireland	268	8.1	3.2	0.6	Ireland	68	6.0	4.3	1.7
Italy	891	7.4	4.2	0.4	Italy	384	8.4	3.2	0.4
Portugal	272	4.6	6.0	1.5	Portugal	71	3.2	8.3	0.6
Spain	855	6.0	5.2	0.8	Spain	261	6.6	4.8	0.5
United Kingdom	228	5.2	4.2	2.6	United Kingdom	62	5.4	4.8	1.8
Men aged 15-64				Both sexes aged 25-54					
Austria	33	7.1	2.0	2.9	Austria	46	6.7	3.4	1.9
Belgium	80	9.4	1.9	0.7	Belgium	211	9.0	2.1	0.9
Denmark	62	6.6	4.2	1.2	Denmark	121	5.5	5.1	1.4
France	190	6.7	4.0	1.4	France	357	5.9	4.6	1.5
Germany	214	5.5	3.2	3.2	Germany	347	5.4	4.3	2.0
Greece	127	5.8	5.4	0.6	Greece	189	5.7	5.3	0.8
Ireland	217	8.6	3.1	0.3	Ireland	181	8.8	2.9	0.3
Italy	521	7.6	4.1	0.2	Italy	479	6.8	4.9	0.3
Portugal	114	3.9	5.9	2.2	Portugal	156	4.8	6.5	0.7
Spain	495	6.2	5.2	0.6	Spain	525	5.7	5.5	0.8
United Kingdom	165	5.7	4.3	2.0	United Kingdom	136	5.1	4.5	2.4
Women aged 15-64				Both sexes aged 55-64					
Austria	34	5.5	3.5	3.0	Austria	16	(4.9)	(0.1)	(7.0)
Belgium	188	8.9	1.8	1.2	Belgium	28	(9.6)	(0.0)	(2.4)
Denmark	118	4.5	4.6	2.9	Denmark	37	3.7	0.8	7.5
France	298	5.5	4.6	1.9	France	52	7.3	0.4	4.3
Germany	283	4.9	3.8	2.9	Germany	98	5.0	1.5	5.5
Greece	227	6.3	4.7	1.0	Greece	13	(9.0)	(2.8)	(0.2)
Ireland	51	5.7	4.1	2.2	Ireland	19	(8.1)	(3.4)	(0.6)
Italy	370	6.9	4.4	0.7	Italy	28	(4.7)	(5.9)	(1.3)
Portugal	158	5.0	6.0	1.0	Portugal	45	5.9	0.6	5.6
Spain	360	5.6	5.2	1.2	Spain	69	6.6	2.8	2.6
United Kingdom	63	3.5	4.0	4.5	United Kingdom	30	5.3	1.9	4.8

– Estimates not reported due to fewer than 10 observations.

(Estimates based on less than 30 observations).

a) Equivalently people who were unemployed in every month of 1995.

Source: European Community Household Panel, waves 2 to 5.

Table 4.8. Labour market status in 1996 and 1997 following short-term unemployment, by previous experience of unemployment

People who were unemployed in December 1995

	Short-term unemployed in December 1995 ^a									Long-term unemployed in December 1995		
	Unemployment in the 12 months preceding the current spell ^b											
	None			1-5 months			6-11 months					
	Average months per year in each status in 1996 and 1997 ^c											
	Number of observations	Unemployed	Employed	Number of observations	Unemployed	Employed	Number of observations	Unemployed	Employed	Number of observations	Unemployed	Employed
Austria	68	3.8	6.2	39	5.0	6.7	8	–	–	67	6.4	2.7
Belgium	44	5.7	5.4	18	(6.9)	(4.8)	14	(8.6)	(3.3)	268	9.1	1.8
Denmark	65	4.2	6.8	31	3.6	6.9	16	(7.3)	(4.1)	180	5.4	4.4
France	163	7.1	4.0	74	5.4	5.7	55	6.3	4.8	488	6.0	4.3
Germany	203	7.1	3.6	48	4.5	5.7	27	(7.4)	(3.5)	497	5.2	3.5
Greece	78	3.6	5.5	109	4.2	7.0	83	5.3	5.4	354	6.1	4.9
Ireland	72	4.8	6.8	29	(4.8)	(6.6)	16	(8.5)	(3.4)	268	8.1	3.2
Italy	127	6.4	3.7	77	5.3	5.8	79	5.8	5.7	891	7.4	4.2
Portugal	114	4.5	5.6	37	4.8	6.7	30	3.7	7.1	272	4.6	6.0
Spain	176	4.9	4.8	131	5.2	5.8	153	6.6	4.6	855	6.0	5.2
United Kingdom	107	4.7	5.1	31	4.7	6.4	22	6.5	5.1	228	5.2	4.2
ECHP^d	1 217	5.2	5.2	624	4.9	6.2	503	6.6	4.7	4 368	6.3	4.0

ECHP: European Community Household Panel.

– Estimates not reported due to fewer than 10 observations.

(Estimates based on less than 30 observations).

a) Individuals whose current spell of unemployment started after January 1995.

b) For example, if the current spell began in March 1995, a person who was unemployed for 4 months in total from March 1994 to February 1995 appears in the “1-5 months” category.

c) Equivalently, half the total number of months spent unemployed and employed in the 24 months January 1996 to December 1997.

d) Unweighted average of countries shown.

Source: ECHP, waves 2 to 5.

Box 4.1. **The change in life satisfaction of the unemployed in a number of different countries**

The link between personal well-being and unemployment has been explored over many years, from the Great Depression of the 1930s to the present day (Machin and Manning, 1999). The universal finding of both cross-sectional and panel data is that unemployment tends to be associated with a marked reduction in psychological well-being. However, it is less clear whether, in addition, psychological well-being varies with the duration of unemployment. Some studies using cross-sectional data, such as Clark and Oswald (1994), have found that unemployment duration has a small positive effect on well-being, conditional on being unemployed. This result might be explained by “habituation” – unemployed people might learn to live with unemployment over time. However, there is another possible explanation. Those who are most badly affected by unemployment have the greatest incentive to find a job. Unless such unemployed people also tend to have greater difficulty in finding work, this should tend to change the composition of the unemployed pool towards people less affected by unemployment, as the duration of unemployment increases. This is sometimes called a “sample selection” effect.

In order to explore the effect of unemployment duration on psychological well-being, cross-sectional data are therefore not enough. It is necessary to use longitudinal data as well. Existing longitudinal studies have produced mixed findings. Winkelmann and Winkelmann (1998) find no statistically significant evidence for a decline in reported satisfaction “with life as a whole” as the duration of unemployment increases.

This box summarises the main results of a study to explore the relative influence of “habituation” and “sample selection” effects using national longitudinal surveys for Germany (German Socio-Economic Panel, GSOEP) and the United Kingdom (the British Household Panel Survey, BHPS), and cross-country panel data from the European Community Household Panel (ECHP – see Annex 4.B). Results from a straightforward cross-sectional analysis are rather varied but in some countries they suggest that the life satisfaction of the long-duration unemployed is higher than that of the shorter duration unemployed, especially for women. However, this does not take account of changes in the composition of the unemployment pool as the duration of unemployment lengthens.

Using longitudinal data, it is possible to look at the change in life satisfaction of individuals who stay unemployed from one wave of the survey to the next. Table 4.9 presents the simple means of the change in life satisfaction according to labour market status at wave $t-1$ and wave t . Changes in life satisfaction of those who remain unemployed were not statistically different from zero in the BHPS and GSOEP data. There is some evidence that life satisfaction fell for those who remained unemployed in the ECHP data, but in this case life satisfaction also fell for those who remained employed. Panel data regressions (not shown), with dummies for unemployment of less than one year, one to two years, and two years or more, suggest that unemployment has a strongly depressing effect on life satisfaction, but that this effect is not strongly, or systematically, dependent upon the length of the unemployment spell. The cross-section finding that life satisfaction of the unemployed rises slightly with unemployment duration may therefore be caused not by habituation but by sample selection.

Many of the long-term unemployed leave the labour force, rather than continuing in unemployment. Table 4.9 shows that unemployed people who leave the labour force experience, on average, an increase in life satisfaction although this is less than the increase in satisfaction associated with entry to employment.

Box 4.1. **The change in life satisfaction of the unemployed in a number of different countries** (*cont.*)

Table 4.9. **Changes in life satisfaction related to changes in labour force status**

Units of satisfaction as measured in the surveys

Labour force status in the previous year	Current labour force status		
	Employed	Unemployed	Inactive
BHPS			
Employed			
Mean	-0.008	-0.281	-0.102
Standard error	0.009	0.09	0.047
Number of observations	14 536	274	753
Unemployed			
Mean	0.388	-0.121	0.219
Standard error	0.069	0.082	0.107
Number of observations	376	339	224
Inactive			
Mean	0.048	-0.22	-0.041
Standard error	0.043	0.098	0.02
Number of observations	883	214	4 618
GSOEP			
Employed			
Mean	-0.063	-0.763	-0.161
Standard error	0.068	0.054	0.034
Number of observations	60 363	1 909	3 279
Unemployed			
Mean	0.903	0.013	0.224
Standard error	0.065	0.05	0.067
Number of observations	1 419	2 151	981
Inactive			
Mean	0.034	-0.336	-0.076
Standard error	0.031	0.086	0.012
Number of observations	3 908	749	22 213
ECHP			
Employed			
Mean	-0.0446	-1.271	-0.138
Standard error	0.0033	0.029	0.019
Number of observations	133 999	4 322	7 885
Unemployed			
Mean	1.379	-0.041	0.521
Standard error	0.025	0.018	0.026
Number of observations	5 837	7 573	4 799
Inactive			
Mean	0.211	-0.741	0.004
Standard error	0.019	0.026	0.006
Number of observations	7 504	4 950	64 000

BHPS: British Household Panel Survey.

GSOEP: German Socio-Economic Panel.

ECHP: European Community Household Panel.

Source: Calculations by the OECD and by Andrew Clark.

experience of unemployment than for those who are currently long-term unemployed. However, for those who are short-term unemployed yet were unemployed for half or more of the year just before their current unemployment spell, unemployment outcomes are just as bad as they are for the long-term unemployed. These results suggest the short-term unemployed with a substantial recent history of unemployment are in important respects just as disadvantaged as the long-term unemployed. However the two groups are not iden-

tical: the former group has, as can be calculated from the data in Table 4.8, much lower rates of withdrawal from the labour market.

2. Active labour market policies and long-term unemployment

This section focuses on active labour market policies and the Public Employment Service (PES), including unemployment benefits. These policies are mainly relevant for people who are registered unemployed or have UI or assistance benefits, who in some countries are only a minority of the unemployed.¹¹ Policies in other areas such as aggregate demand management, fostering entrepreneurship, taxation, wage determination mechanisms, employment security, and education and training will not be studied: these policies can affect long-term unemployment, but analysis of their impact needs to use many further indicators. Rather than attempting to look at all aspects of PES policies this section focuses on some issues of *timing*, notably the emphasis to be placed on the strategies of “prevention” rather than “cure” of long-term unemployment, and policies towards repeat unemployment.

A. Background

Recent OECD publications on active labour market policies and the PES have argued for the following policy stance (OECD, 2001a):

- *High-quality job matching and related employment services, with effective use of information technology*: these further empower clients who are able to search effectively themselves.
- *“Interventions” in the unemployment spell, designed to ensure continued effective job search*: these can include regular short interviews, intensive interviews, individual action plans, reporting and review of job-search efforts, referrals to vacant jobs by the PES and short job-search training courses. These interventions should bring the jobseeker into regular contact with vacant jobs and correct ineffective job search strategies. They may lead directly to a job, and also they help to maintain the jobseeker’s focus on the objective of finding work, and implement the requirement to be available for work as a condition for receiving benefits.
- *Labour market programmes*: these are to tackle problems such as individual skill deficits, lack of work experience and information barriers in the labour market. When benefit disincentives are part of the problem, linking receipt of benefits to programme participation has a “motivation” effect, encouraging some jobseekers to take up market work instead.

None of these approaches is a panacea. Few labour market programmes have a large and robust impact on job finding, and the most successful programmes are often those which are difficult to expand: for example, temporary wage subsidies for private sector employment are relatively successful for the people who are hired, but if they are expanded too far, high rates of displacement and churning arise. Programme participation requirements can have a large “motivation” effect for some groups of unemployed, but there is still a risk that, for others, programme participation becomes a means of requalifying for another spell of UI benefits, or a way of life. It is important to monitor impacts, and only use each policy approach to the extent that it effectively promotes entry to unsubsidised work.

Management, institutional and legal factors determine to a large extent whether effective services and interventions are implemented. Some significant factors are:

- *Information*: the PES needs to know the history and current status of unemployed people and of its own contacts with them, and have nationwide information on placements, etc., on a consistent definitional basis to assess whether one approach or another is being successful.
- *Management control mechanisms*: effective management, whether through traditional line-management approaches, performance-rating and management-by-objectives, or financial incentive mechanisms within the PES, is needed to ensure that a strong focus on placement into unsubsidised work is maintained, down to the level of the individual employment counsellor and unemployed person.
- *The legal definition of “suitable work”*: for example, benefit legislation which stipulates that an unemployed person is not required to move or to change occupation to find work can allow long-term unemployment to persist unnecessarily. However, stricter legislation has no impact if it is not applied (OECD, 2000, Chapter 4).

A high level of success with these and other policies towards unemployment should be seen as a precondition for policies that have the broader objective of raising employment rates. Otherwise the latter policies (*e.g.* restricting access to early retirement benefits, or making disability benefits conditional on the use of residual work capacity) may, by increasing number of disadvantaged jobseekers that need work, overwhelm the policies towards unemployment.

B. The scheduling of labour market policy interventions

The EU Luxembourg process set out in 1997 the principle that an offer of assistance should be made to all young persons reaching 6 months of unemployment, and to all adults reaching 12 months of unemployment. This initial targeting on the long-term unemployed was soon supplemented by a renewed emphasis on prevention, *e.g.* the EU’s Employment Guidelines for 2000 stated “The preventive approach (...) lies at the heart of the strategy. Stemming the flow into long-term unemployment is an essential prerequisite for tackling the scourge of unemployment; otherwise the skills of those becoming unemployed become obsolete, and even the will to work can fade. The preventive approach requires early intervention at the level of the individual and the aim must be an effective and rapid integration of the individual concerned into the labour market” (EC, 1999). A multi-country survey, *Preventing Unemployment in Europe: A New Framework for Labour Market Policy* (Klemmer and Wink, 2000) reflected this shift in emphasis.

Regular services of the Public Employment Service (PES)

High-quality PES self-service facilities should be available at any time in the unemployment spell. Some countries also make specialised education and training programmes available, subject to screening checks, at any time. Certain “activation” measures – such as requirements to report regularly to the employment office, keep a job-search diary, accept referrals to job vacancies, and participate in intensive interviews (albeit that often several months pass between such interviews) – are also usually applied on an ongoing basis and from the start of an unemployment spell.

Some of the types of PES interventions that typically are “ongoing” throughout the unemployment spell are intensified after a certain duration of unemployment. For exam-

ple, in the United Kingdom direct referrals to vacant jobs tend to occur under “caseload-ing” procedures (a series of regular interviews with an advisor), usually reserved for longer-term unemployed (the 1-2-1 and Jobfinder programmes provided a formal structure for targeting them on one-year and two-year unemployed). Requirements for reporting job search sometimes intensify after some months (*e.g.* in Australia after participation in job-search training, in Finland after an action plan procedure, and in the United States insofar as four job search contacts per week are required under the federal extended benefit programme¹²). At the same time, there is often a general tendency for the long-term unemployed to get less attention from PES officers because they are seen as being hard-to-place.

Individual action plans are often introduced after some months of unemployment (*e.g.* five months in Finland and a year in Belgium). However, in other countries an individual action plan must be drawn up before benefit payments start (in the United Kingdom) or within the first few weeks of unemployment (in Austria, France, New Zealand, Switzerland and Sweden) (OECD, 2001*a*, and advice from national authorities). Overall, it should be kept in mind that a number of basic services and regular interventions, with only a weak tendency for these to be intensified as the duration of unemployment increases, are an important component of an active labour market policy. And importantly, regular interventions should increase rates of exit from unemployment at all durations: this means that their impact is not neutral as between short-term and long-term unemployment, they unambiguously reduce the latter more than the former.

Targeting programmes on the long-term unemployed

Many long-term labour market programmes are offered only (or with just a few exceptions) to people who have been unemployed for a minimum period, which may be 3, 6 or 12 months or occasionally longer. This helps to limit costs. Job-creation programmes and hiring subsidies are usually restricted to the long-term unemployed, although there are some exceptions (*e.g.* sheltered employment for the disabled, and the Belgian and French youth programmes mentioned in Chapter 1). As mentioned above, training programmes are – subject to additional checks and to the availability of suitable places – more often available to unemployed people irrespective of unemployment duration: limited take-up, depending on the range and attractiveness of the training offered and the prior qualifications required, can limit the cost of providing training.

Arguments for targeting assistance

The main arguments for and against targeting employment assistance on the long-term unemployed are all related to the tendency for rates of exit from unemployment to decline with the duration of unemployment:

- If the decline in exit rates is due to “state dependence” such that the experience of unemployment directly reduces rates of jobfinding,¹³ it will be more efficient to deliver assistance early in the unemployment spell. One argument for prevention is that long-term unemployment results in the deterioration of skills, further detachment from the labour force or stigmatisation in the eyes of employers, so that early interventions are more likely to be successful. This is an argument for profiling the short-term unemployed, to determine early on which of them need intensive assistance (see below).

- If the decline in exit rates is due to heterogeneity and sorting, the implications depend on the nature of the heterogeneity. Some workers become long-term unemployed because they are using ineffective job-search strategies, and this argues for targeting interviews, assessment, and job-search training on the long-term unemployed. If the long-term unemployed are employable but poorly motivated, the “activation” measures described below may be appropriate. If underlying employability varies, the long-term unemployed will on average have low employability, which argues for targeting “social” rather than “employment” measures on them.¹⁴
- Declining rates of exit imply that the expected future duration of an unemployment spell is greater for a long-term unemployed person than for a short-term unemployed person. If one-off interventions (*e.g.* job-search training, or individual assessments which allow more accurate referral to jobs or further programmes) can achieve the same number of placements in both cases, it is more efficient to target them on the long-term unemployed.
- In the case of longer-term programmes, “lock-in” effects need to be considered. During programme participation, the employment rates of programme participants fall below those of a comparable group of non-participants. After the programme has ended this gap narrows, but it may not be decisively reversed in favour of participants.¹⁵ Such “lock-in” effects (in the case of training and job creation programmes) and “deadweight” (in the case of hiring subsidies) are greatest for more-employable participants, who have high rates of entry to employment when they do not enter a programme. This is an argument for offering slots on labour market programmes to unemployed people only after they have been unemployed for some time.¹⁶

Scheduling activation measures

“Activation” involves an element of *obligation* on the unemployed person: if entry to a labour market programme is restricted to the long-term unemployed but remains wholly voluntary for them, it is a targeted programme more than an activation measure. Nordic countries often use the term “activation” to mean only participation in a training or employment programme, although here the idea is that interventions such as job-search monitoring and the preparation of individual action plans can also be activation measures.

Arguments for targeting obligations on the long-term unemployed

Simple models of optimal unemployment benefits provide one important argument for targeting activation measures on the long-term unemployed. In these models, where individual search behaviour is an important influence on the unemployment rate but income adequacy during unemployment is also a central policy consideration, the optimal benefit schedule has a replacement rate that falls with the duration of unemployment (Fredriksson and Holmlund, 2001). The decline in benefit levels “later” increases search incentives for all unemployed workers “now”, whereas the welfare losses associated with low levels of benefit “later” affect only a limited proportion of the same unemployed workers (because many of them find work first, and never suffer from the low levels of benefit). A declining time profile of benefits thus to a certain extent maintains incentives for job search while also maintaining jobseeker utility out of work, and thus it maximises social welfare, when this is defined as the sum of all individual utilities. This result does not depend on jobseeker heterogeneity: it holds even when individual characteristics and

individual chances of finding work (conditional on job search) are the same for all individuals and invariant to the duration of unemployment (*i.e.* the long-term unemployed have searched as intensively as other unemployed, and differ from others only in terms of their bad luck). The probable empirical relevance of these mechanisms is illustrated by empirical findings that rates of job-finding increase around the time that the replacement rate declines or UI benefits expire.¹⁷

Replacement rates are usually reduced with increasing duration of unemployment, often sharply.¹⁸ Owing to the element of obligation involved, activation measures targeted on the long-term unemployed have a similar effect in motivating job search earlier in the unemployment spell. Under certain assumptions (*e.g.* if occupying jobseekers in programmes and maintaining their incomes has positive social externalities in terms of crime, homelessness and the welfare of beneficiaries' children), "workfare" requirements which reduce the utility of the long-term unemployed without reducing their incomes could be preferable to a declining schedule of replacement rates, as a means of achieving job-search incentive effects.¹⁹

Empirically, benefit eligibility conditions tend to be made stricter with the duration of unemployment²⁰ and Australia and certain European countries with long-term unemployment benefits tend to require participation in some of their main programmes after a fixed duration of unemployment. The principle of uniform timing runs contrary to policy recommendations which call for an individualised treatment of unemployment. Possible arguments for it are:

- *Horizontal equity*: all unemployed people face the same obligations.
- *Reliable implementation*: with a uniform rule, it is relatively difficult for either the unemployed person or PES staff to avoid appropriate action (*e.g.* drawing up an action plan), as may often occur when interventions are decided on a discretionary basis.
- *Clarity and administration costs*: obligations must be clearly defined if they are to be enforced, and administrative resource constraints make it difficult to do this on a case-by-case basis.
- *Motivation effects*: letting jobseekers know their new obligations (*e.g.* to participate in a programme) in advance will give them more time to find a job instead, if that is possible.²¹

Methods of implementing activation strategies

One way to individualise treatment, within a context of uniformly-defined obligations, is to give the jobseeker and employment counsellor choice across options. Thus in the UK New Deal, participants can choose between four options but there is "no fifth option" of staying on benefits. In some other countries, an action plan is drawn up before referral to a labour market programme and allowance for individual situations can be made at this point. In Sweden jobseekers and employment counsellors can even vary the timing of programme participation: limits on benefit duration have traditionally helped ensure that some option is taken up.

Since 1990, several European countries have made any further payment of UI benefits after a certain duration of unemployment conditional, in principle, on participation in a labour market programme. Denmark's policy, as first implemented in 1995, abolished the possibility of requalifying for UI through programme participation, extended the UI

benefit duration to seven years, and made the payment of the fifth, sixth and seventh years of UI benefit conditional on programme participation. In following years, as unemployment rapidly fell, the timing of the period of continuous programme participation was advanced (see AM, 2000, for details). Switzerland introduced a similar policy in its 1996 revision of UI legislation: after 7 months (12 months for older workers), UI for the remainder of the two-year UI entitlement period is conditional on participation in a labour market programme. Unemployment in Switzerland fell rapidly under this policy, although reforms of the PES (described in OECD, 2001a) contributed to this in addition to the programme participation requirement. The principle of continuous participation has not been implemented in a rigid way in either Denmark or Switzerland. Denmark aims to achieve programme participation for a minimum 75% of the time, during the “active period” of benefits. This allows for some periods of open unemployment in between programmes. In Switzerland, in practice unemployed people often entered a labour market programme some months before or after the 7-month limit,²² and in 2001 federal rules for the timing of programme participation were abandoned, leaving decisions about this to the cantons and local employment offices.²³

Sweden introduced an “activity guarantee” in 2000, with associated changes in UI legislation early in 2001. Under previous legislation, UI could be paid for 300 days (60 weeks, or 14 months) but participation in a six-month labour market programme (which often started towards the end of the UI period) generated a new period of entitlement to benefit. Following the reform, UI can be paid for 600 days (120 weeks, or 28 months), but programme participation no longer renews benefit entitlement. This implies that after 28 months, an unemployed person has to participate in programmes continuously in order to receive the programmes’ subsistence allowances (which are similar to UI benefits). According to some reports, under the terms of the activity guarantee people who have been unemployed for over two years are required to attend the local employment office every day, and after 27 months a place on a labour market programme is offered.

Profiling

“Profiling” in labour market policy is a procedure where a numerical score, calculated on the basis of multivariate information (sometimes including variables assessed by PES staff judgement), determines the referral of a jobseeker to further employment services. In current applications, profiling scores are designed to be indicators of whether the jobseeker will be hard-to-place, or is likely to suffer long-term unemployment. Profiling seeks to deliver intensive services early rather than after long-term unemployment has already occurred. While this approach is attractive, two potential issues with it are:

- It may be difficult to identify the individuals at greatest risk of long-term unemployment accurately. For example, UK research identified many factors associated with the risk of long-term unemployment including age, gender, marital status, household composition, housing tenure and local market indicators, but was not able to develop a good predictive model.²⁴ When prediction accuracy is low, intensive services will be delivered to many jobseekers who would have found work in any case, using resources which could have been conserved for helping those who actually become long-term unemployed.
- Targeting intensive assistance on the groups with the highest levels of disadvantage is not necessarily an effective use of resources. Plausibly, a programme of training

and job-search assistance which can raise the job-finding rate from 5% to 8% for a group of highly-disadvantaged unemployed people will raise it in a similar proportion, *e.g.* from 20% to 30%, for a less-disadvantaged group.²⁵ One evaluation of profiling services in the United States (Black *et al.*, 1999) found an inverse-U relationship, with the estimated impact of employment services being close to zero both for highly-employable and for highly-disadvantaged workers. Another US evaluation (Eberts, 2001) reported that profiling was able to increase total programme impact by allocating welfare recipients to the most appropriate service: some of the services available were more effective for the more-employable jobseekers.²⁶

The current pattern of use of statistical profiling techniques in OECD Member countries is summarised in Annex Table 4.C.1. Australia, the Netherlands and the United States are the main users. This is probably related to other aspects of labour market policy in these countries. In the United States, the maximum duration of UI benefits is usually six months, and programmes targeted on those who have already become long-term unemployed would not save money for insurance funds. In Australia and (starting in 2002) the Netherlands, hard-to-place workers are allocated to contracted intensive assistance services (called reintegration services in the Netherlands), which in Australia account for around half of total government spending on employment services, and profiling scores are used to determine which new jobseekers are referred to these services.

Only the United States profiles newly-unemployed workers directly on the basis of econometric models of the probability that jobseekers will enter long-term unemployment (the probability of exhausting UI benefits, in the US context). Australia incorporates some additional variables with weights decided on the basis of expert judgement, and in the Netherlands the coefficients used have no explicit basis in econometric estimates.²⁷ US forecasting models use a relatively restricted set of variables, notably education, job tenure, change in employment in the previous industry and occupation, and local unemployment rate: the use of some other variables common in econometric modelling, including age, race/ethnic group and gender, is prohibited.²⁸ In Australia not only age, gender and family status but also disability, homelessness, prison record, limited literacy and other personal factors can each contribute from 5 to 8 points to the JSCI (Jobseeker Classification Instrument) score which determines referral of an individual to Intensive Assistance. Although this greater detail should contribute to greater accuracy, some operational problems arise when a client does not declare factors of disadvantage (such as disability or literacy problems) at initial interview, and these factors are only detected when the service agency begins work with the client.²⁹ The JSCI is reapplied annually and (following recent re-estimation of the weights) twelve months of unemployment contribute at least 10 points and 10 years of unemployment contribute 26 points: 25 points in total are needed to qualify for Intensive Assistance, and the majority of long-term unemployed jobseekers now qualify.

In the United States, the services provided to workers selected by profiling procedure vary considerably from state to state. A third of states offer only minimal re-employment services (five hours or less) to workers selected by the profiling mechanism, but in about 45% of states over half the profiled claimants are required to participate in additional services as specified in their service plan (Wandner and Messenger, 1999).³⁰ In Australia and the Netherlands, intensive assistance providers typically make a further individual assessment of the jobseeker and provide a variety of further services. In no case are profiling scores alone used to determine referral to, or eligibility for, longer-term training or job-creation programmes.

Using a broader concept, a number of other countries can be said to use some form of profiling:

- Korea and New Zealand use scoring systems based on a statistical model. However in Korea the system is voluntary for the unemployed and advisory for counsellors, and in New Zealand the scores are used to classify jobseekers, but it is not clear that any specific action is based on the score alone (although those identified as hard-to-place may be given more expensive help, *e.g.* wage subsidies). The calculation of profiling scores here may help to structure the traditional activity of collecting and recording relevant information about jobseekers, after which a summary score can be calculated at no additional cost.
- In some other countries, PES staff classify unemployed workers into categories (such as “hard to place”) on the PES computer system. In Sweden PES officers judge whether a person is likely to become long-term unemployed, and refer the person to a labour market programme if this is the case.³¹ The Czech Republic mentions categories defined by legislation, Portugal mentions a code from 1 to 5 on the basis of perceived employability, and Swiss placement offices classify unemployed workers into categories of placeability: “very easy”, “easy”, “medium” and “difficult” (Gerfin and Lechner, 2001, Table A.3). Such categories function as supplementary registration information with a role similar to that of information on the person’s qualification level or previous occupation, for example. Germany immediately classifies jobseekers into two categories “immediately ready to take up a job” and “need for assistance and help”. In the latter case, a wide range of “placement characteristics”, which help determine which assistance strategy is appropriate, are often later recorded through a questionnaire.³²
- Intensive interviews or action plan procedures are often important in determining referrals to labour market programmes, as a function of individual characteristics, and in this sense also function as a form of profiling.

Thus reliance on profiling scores that are calculated on the basis of multivariate information remains fairly limited. However, profiling techniques are still under development. There seems to be scope for improving forecasting accuracy. In assessing jobseeker disadvantage, future unemployment risk including repeat spells could be used as a dependent variable. The individual’s unemployment history prior to the current unemployment spell could be used as an explanatory variable, as suggested by the analysis in Section 1.C above,³³ and variables for the person’s “contactability” and transport facilities and typical travel-to-work times from the area where the person lives also seem promising. Some progress may be made in identifying characteristics that indicate a jobseeker’s ability to benefit from particular services, rather than only identifying disadvantage. Another step that could mitigate problems of deadweight due to inaccurate forecasting is to allocate resources to profiled workers only after a holding period of month or so (OPRA Consulting Group, 1998).

C. Policy measures towards repeat unemployment

This sub-section examines a number of policy issues involved in repeat unemployment. The first two are policy issues for UI systems, the next two concern PES interventions, and the fifth concerns “carousel effects” arising from the interaction of benefit systems with private sector employment practices and/or labour market programmes.

Temporary layoff unemployment

As discussed in Section 1.C above, national data (mainly administrative) suggest that one-third of unemployed workers are on temporary layoff in the United States and Canada, and up to a fifth in some European countries. There is a risk that UI benefits will artificially subsidise the regular use of temporary layoffs. In the United States, there is an extensive literature (which will not be mentioned further here) analysing the “experience rating” of UI benefits. Some other countries attempt to limit benefit payments to temporarily-laid-off employees through administrative rules. Thus Italy’s Ordinary CIG benefit is restricted to workers affected by collective layoffs that are due to transitory causes independent of both the employer and the worker (OECD, 1996). In Norway, in 1990, the period during which a temporarily laid-off worker could be paid regular UI benefits, without having been formally dismissed or being available for other work, was restricted to 12 weeks. This limit was then raised to 26 weeks in 1993 and to 52 weeks in 1994. Rates of recall by employers, at months of unemployment duration near these time limits, were several times higher than in other months (Roed and Nordberg, 2001).³⁴

Because the PES does not refer workers with an official temporary layoff status to job vacancies, in a tight labour market employers have some incentive to declare layoffs as temporary. In a slack labour market this incentive is weak, because firms will often be able to rehire former employees even if they are not identified as temporary layoffs. Jansson (2002) suggests that the administrative distinction between temporary layoffs and other forms of unemployment was not implemented effectively in Sweden in the mid-1990s, with unemployment spells that ended through rehiring by the previous employer rarely being declared as temporary layoffs by employers or identified as recalls by the PES. In general, benefit administrations need to assess the frequency of benefit claims associated with temporary layoffs that seem to have no real insurance function, and the effectiveness of measures to limit them.

UI contribution and entitlement periods

Labour market histories with repeat movements from unemployment to employment and back to unemployment again create two problems for UI systems. When employment spells are too short to qualify for UI, economic hardship and incentives for moving short-term employment relationships into the informal economy result. At the same time, employment spells that are just long enough to qualify for benefit result in a relatively high ratio of benefits received to contributions paid, so that the UI systems subsidise patterns of intermittent work of this duration.

If moral hazard were not an issue, UI systems could provide unlimited duration coverage of involuntary unemployment from the first day of contributions (as is more or less the case for industrial injury insurance, for example). However, in practice many UI systems provide insurance only with additional restrictive conditions. Table 4.10 shows minimum qualifying periods for repeat unemployment claims (a first claim requires more contributions in Canada but fewer in Switzerland) and corresponding limits on benefit duration for 20 countries.

In eleven countries the benefit period is no longer than the contribution period: in four of these, the benefit period is only half as long or less.³⁵ In these cases it seems possible that drawing the full duration of UI benefits is sometimes regarded as an entitlement, so that PES efforts at placement prior to benefit exhaustion are relatively ineffective. In

Table 4.10. **Minimum UI contribution periods and entitlement duration^a**

Workers aged 40, not the first claim

	Minimum contribution period	Duration of benefit entitlement following minimum contributions	Benefit/contribution ratio
Austria	28 weeks	20 weeks	0.7
Belgium	468 days (78 weeks)	Indefinite	–
Canada ^b	420 hours (11 weeks)	45 weeks	4.1
Denmark	6 months or 1 year ^c	4 years	4 or 8
Finland	10 months	500 days (100 weeks)	2.3
France	4 months	4 months	1
Germany	12 months	6 months	0.5
Greece	125 days (25 weeks)	5 months	0.9
Ireland	13 weeks	390 days (65 weeks)	8.5
Italy	78 days (3 months)	78 days (3 months)	1
Japan	6 months	90 days (3 months)	0.5
Korea	6 months	90 days (3 months)	0.5
Netherlands	26 weeks	6 months	1
Norway	c.10 weeks ^d	3 years	15.6
Portugal	540 days (18 months)	18 months	1
Spain	360 days (12 months)	120 days (4 months)	0.3
Sweden	6 months	300 days (60 weeks)	2.3
Switzerland	12 months	2 years	2.0
United Kingdom	c.10 weeks ^e	182 days (6 months)	2.6
United States	2 quarters ^f	6 months	1

a) Minimum contribution periods relate to repeat spells of unemployment: in some cases contributions required for a first claim to UI are longer (except Belgium where the entitlement once opened continues indefinitely). The durations of benefit entitlement shown correspond to these minima (in some case longer durations of entitlement can be obtained for longer periods of contribution).

b) The minimum contribution and maximum entitlement periods cited apply only for repeat users in high-unemployment regions. For a first claim, a minimum of 26 weeks of insured employment are required. See <http://www14.hrdc-drhc.gc.ca/ei-ae/ratesc.htm> for a table of entitlements by region.

c) 12 months for people still within the four-year UI period to start a new UI period; 6 months for UI exhaustees.

d) The minimum earnings requirement is 1.25 time the Basic Amount and the Basic Amount is about 18% of average production worker earnings.

e) The minimum required duration of contributions depends on wages and can rise to 25 weeks for low-paid part-time work.

f) The contribution requirement is for earnings in each of two quarters: employees with low earnings (perhaps 5 to 10 weeks of full-time work) can qualify for benefit, but then receive fewer months of benefits.

Source: OECD database on benefit systems and work incentives; UNEDIC (2001); Missoc (europa.eu.int/comm/employment_social/missoc2001/index_en.htm).

such a context, a restrictive pattern of contribution requirements and benefit duration conditions will be important to contain costs and the level of insured unemployment. In Canada, benefit durations are longer than the corresponding contribution periods, but they are both under a year with the exact periods varying by region, and these arrangements appear to be associated with a relatively high incidence of recurrent unemployment (see Sub-section 1.C above) and a focus, in policy analysis and debate, on possible changes to the contribution and benefit periods (*e.g.* see HDRC, 2001).

However, in nine countries the benefit period is at least twice the contribution period and there are also countries where indefinite-duration unemployment assistance benefits have a major role. Even indefinite-duration benefits create some incentive for repeat unemployment, in the sense that work patterns where work is concentrated into relatively few weeks (with unemployment at other times) will usually maximise benefit income (for any given number of total hours worked over a given period such as a year). In these countries, active labour market policies (including non-monetary benefit eligibility requirements) tend to be the main policy instrument for containing levels of insured unemployment. Thus Norway, in terms of its benefit entitlement conditions, would appear to be at risk of high unemployment in remote and fishing regions in a similar way to Canada, and its active labour market policies – which include a geographic mobility requirement on the unemployed – probably contribute to keeping unemployment rates low.

Operational definitions of long-term unemployment

For any policy that involves timing (*e.g.* the rule that an individual action plan must be drawn up within the first few weeks of unemployment, see Sub-section 2.B), administrative rules must distinguish the continuation of a *current* unemployment spell from the start of a *new* spell. Thus, in Australia administrative rules allow a person who already has long-term beneficiary status to retain that status after employment spells of up to 25 weeks in duration. In 2000, 60% of unemployment beneficiaries had a long-term beneficiary status (this is usually the same as the registration status used for timing labour market policy interventions), but just over half of them had in fact experienced at least one fortnight in the preceding year when no benefit was paid (OECD, 2001*b*).

In most European countries, administrative statistics appear to record more short breaks in unemployment and report a lower incidence of long-term unemployment than labour force survey statistics.^{36, 37} Two problems which can arise when the “counter” of unemployment duration is set back to zero after even a short break are:

- Measures targeted on the long-term unemployed fail to reach individuals whose long unemployment spell has been only briefly interrupted.
- Policies which achieve mainly “cosmetic” reductions in the long-term unemployment statistics, by briefly interrupting unemployment spells, are incorrectly credited with an impact.

Austria has recently tackled such issues by provisionally defining, for internal use by the PES, a status called “long-term jobless”. Membership of this category arises after 12 months of registered unemployment and/or participation in official training and employment measures. An individual’s unemployment duration is not reset to zero after breaks in unemployment and/or participation that last less than two months. There were 22 210 “long-term unemployed” but 41 316 “long-term jobless” in the first half of 2000 and 12 137 “long-term unemployed” but 31 329 “long-term jobless” in the first half of 2001. Again, this shows that the number of “long-term unemployed” can be doubled when a broader concept is used.

Table 4.11 shows some definitions of entry into (or retention of) long-term unemployment status that are used by the PES in determining participation in major labour market programmes (these definitions are not necessarily those used for well-known register-based unemployment statistics³⁸). A period of employment resets the administrative unemployment duration “counter” back to zero if it lasts:

- Two weeks, or less, in Greece, (possibly) Ireland, Norway, Slovak Republic, (often) Spain, Sweden and (for purposes of compulsory referrals to the New Deal) the United Kingdom.
- Four weeks (long-term unemployed concept) or two months (long-term jobless concept) in Austria.
- Three months in Belgium, the Netherlands and New Zealand and (for the short-term unemployed) Australia, and four months in Finland.
- Six months in Australia (for the long-term unemployed), Germany and (for entitlement to hiring subsidies) Spain and (to qualify for many programmes) France.
- A year in Denmark (for adults) and (to qualify for hiring subsidies) Portugal.

Table 4.11. **Treatment of breaks in unemployment in determining active labour market policy interventions**

	General rules relating to breaks in the unemployment spell including temporary employment	Specific rules for periods of illness and programme participation
Australia	Beneficiary status is retained, with zero benefit payments, during work that lasts for up to 12 weeks. Long-term (more than 1 year) beneficiary status is restored after a break in beneficiary status that lasts up to 13 weeks.	Unemployment benefit continues to be paid during periods of temporary illness. Participation in most programmes (except subsidised employment with a private employer) is assimilated to unemployment.
Austria	The “long-term unemployed” are those who have been registered for 12 months, with breaks up to 28 days assimilated to continuing unemployment. In 2002 the “long-term jobless” category used internally by the PES was defined as people registered as unemployed and/or participating in training or activation measures for a total of 12 months with breaks of up to 62 days continuing unemployment.	For the “long term unemployed” definition, periods of illness or programme participation up to 28 days are assimilated to continuing unemployment. Longer breaks reset the counter to zero. For the “long term jobless” definition, periods of participation in training or activation measures are not counted as unemployment but they do not reset the counter to zero.
Belgium	Breaks in unemployment of less than 3 months duration, for any reason, are disregarded.	No special treatment.
Denmark	The benefit period lasts for 4 years. To start a new benefit period prior to exhaustion, 12 months of work in an ordinary job are needed. Following exhaustion, 6 months of work are needed. Adults are targeted for activation when they have received benefits for 12 months and youths when they have received benefits for 6 months out of the last 9 months.	The first six weeks of a spell of illness are counted as periods of continuing UI receipt, subsequent weeks postpone the period of rights to UI. Periods of participation on programmes are assimilated to continuing benefit receipt.
Finland	A long-term unemployed person is one who has been an unemployed jobseeker in one or several spells for at least 12 months in a period of 16 months.	Illness: not known. Subsidised employment: assimilated to regular employment: however since 1997, 10 months’ contributions have been required to qualify for a new benefit spell and subsidised employment alone is not enough to qualify for a new benefit spell.
France	A previous personalised action plan (PAP) and the count of unemployment duration within that plan are resumed, when re-entry to unemployment occurs after less than 6 months. Otherwise a new PAP is prepared. Eligibility for many employment and training programmes (CIE, SIFE, CQA, CES, CEC) arises when the person has been registered in unemployment for a total of 12 months out of the 18 months preceding admission.	The 18-month reference period is extended by any periods of illness, maternity or occupational accident. In addition, for purposes of CIE (hiring subsidy programme) it is extended by any period of training and for purposes of CQA (adult qualification contract) it is extended by any period in CES (job creation programme), so that people can move directly from one programme to the next.
Germany	Adult long-term unemployed are those who have been unemployed for a total of one year within the last five years, except that the counter is reset to zero after a period of work that lasts over six months.	Periods of illness and participation in programmes (as well as periods out of the labour market and in short-term employment) are not counted as unemployment but they do not reset the counter to zero.
Greece	The long-term unemployed are those who have been unemployed for more than 12 consecutive months.	Not specified.
Hungary	In the case of participation in the active measures the period before and after the break in the unemployment is counted.	For illness: unemployment benefit continues to be paid.
Ireland	The long-term unemployed are those who have received unemployed benefit for over 15 months. “Short breaks or employment” are normally disregarded.	Periods of illness and participation in government employment and training programmes are assimilated to unemployment.
Italy	(Except for people on the mobility list and some kinds of unemployment benefit) most employment incentives are targeted on those who have been registered unemployed for 24 months. After a fixed-term contract, for up to 12 months, the duration counter resumes: any excess over 12 months reduces the duration counter.	Not specified.

Table 4.11. Treatment of breaks in unemployment in determining active labour market policy interventions (cont.)

	General rules relating to breaks in the unemployment spell including temporary employment	Specific rules for periods of illness and programme participation
Netherlands	A new spell begins after working for a minimum of 65 days more than 12 hours a week.	Illness and participation in training and employment measures for the unemployed do not break the unemployment spell, except for a limited number of jobs that are created by municipalities for the unemployed but are otherwise regular jobs.
New Zealand	Skills training and wage subsidies are available to those who have been registered as jobseekers for at least 26 weeks. The duration count is temporarily suspended during breaks of up to 3 months: only longer breaks reset the counter to zero.	For illness, the 3-month rule applies. The duration count is also temporarily suspended during attendance at one or more Training Opportunities (TO) courses.
Norway	Programme provision is not generally conditional on any particular duration of unemployment. However the long-term unemployed are defined operationally as those who have been unemployed for more than 26 weeks. Breaks of up to 2 weeks are assimilated to continuing unemployment: longer breaks reset the counter to zero.	Breaks in unemployment due to illness or programme participation are treated the same way as other breaks.
Portugal	Adult unemployed are eligible for job creation incentives if they have been registered unemployed for a total of at least a year and have had fixed-term contract employment not exceeding 12 months, consecutively or at repeated intervals.	Not specified.
Slovak Republic	The long-term unemployed are those who have been unemployed for at least 12 consecutive months.	Periods of illness are assimilated to periods of unemployment. Any other break in unemployment resets the counter to zero.
Spain	Entitlement to subsidies for indefinite-term contracts under the employment promotion programme arises after 12 months of registration for work, disregarding periods in work that last less than six months. Entitlement to active insertion income (paid only to workers aged over 45 years) arises after 12 months of registration for work, disregarding periods in work that last less than 90 days in total.	Not specified.
Sweden	Short-term employment leads to loss of long-term unemployment status.	Periods of temporary illness, when the individual remains available for work, do not alter long-term unemployment status. Prior to 2001, participation in labour market programmes was assimilated to regular employment. Now, it no longer contributes to entitlement for a new spell of UI benefit.
United Kingdom	For many measures, spell duration refers to a continuous spell on unemployment benefit ^a (JSA), e.g. initial referrals to New Deal for Young People (NDYP) are only compulsory for people who have been unemployed continuously for 6 months. For Back to Work Bonus, the duration count can be temporarily suspended during a period in training or on maternity allowance, up to 12 weeks without benefit for another reason, and up to two years on invalidity benefits. Eligibility for Work Base Learning for Adults, as well as voluntary entry to NDYP, arises after 26 weeks unemployed, with breaks of up to 4 weeks (including those due to temporary employment) assimilated to unemployment.	Illness: JSA may be paid for up to two periods each of up to two weeks, in each 12-month period. After longer or more frequent spells of illness a new claim (involving another New Jobseeker Interview) must be made.

a) A fortnight where some days have been worked but also some benefit has been received is not counted as a break. Any work for over 16 hours per week averaged over two weeks, or which pays more than the benefit amount otherwise payable in a given week, interrupts the spell (Unemployment Unit and Youthaid, 1999).

Source: Advice from national authorities; for Belgium, EC (2001); for the United Kingdom, Unemployment Unit and Youthaid (1999, 2000).

In Italy, the nominal duration of unemployment can remain high even after losing a job that has lasted more than 12 months. One idea behind these rules may be that a “large” entitlement should be lost only after a “large” amount of employment: in Denmark, France, Italy, Portugal and Spain, the rules cited above determine access to relatively lengthy (one- to three-year) intervention regimes and hiring incentives.

Relatively short breaks in unemployment are often assimilated to periods of unemployment, so that the duration counter “keeps ticking” during the break. This is what occurs when long-term unemployment status is determined by looking at whether the unemployed person was unemployed a year earlier, subject to some maximum duration of intervening breaks. It is probably a common treatment for employment spells that last only a few days (such that some benefit was paid, or registered unemployment status was retained, in each administrative period), but it appears to also apply to employment of up to four weeks in Austria (long-term unemployed concept), three months in Belgium and three or six months (as regards specific programme) in Spain. During rather longer spells of unsubsidised employment (short of the durations, listed above, that reset the unemployment duration counter to zero), the unemployment duration counter often temporarily “stops ticking”. This applies in Denmark, Finland, France, Germany, Italy, New Zealand, Portugal and (for eligibility for at least one programme) the United Kingdom. This is the outcome if long-term unemployment is defined in terms of total benefit received within the current spell of benefit entitlement (as in Denmark) or the amount of registered unemployment in the last 16 months (as in Finland).

In some countries, although the unemployment duration counter is reset (or at least stops ticking) following a short spell of employment, it keeps ticking during sickness. This is the case in Australia, Denmark (limited to the first six weeks of sickness), Ireland, the Slovak Republic, Sweden and the United Kingdom (limited to two two-week periods per year). In France and Germany, by contrast, the duration counter stops ticking during temporary sickness. Similarly, in some countries (Australia, Denmark, and Ireland) participants in labour market programmes (except for those in subsidised employment in the private sector) are paid an unemployment benefit or similar allowance and the unemployment duration counter keeps ticking during participation. This is also the case for Austria’s long-term jobless concept. In Germany, Hungary and New Zealand, the count of unemployment duration is temporarily suspended during programme participation. By contrast, in Finland, Norway, the Slovak Republic, and probably some other countries, participation in the longer-duration programmes typically resets the unemployment duration counter to zero.

These survey results illustrate that the majority of countries do target measures for the long-term unemployed on people who are not long-term unemployed in the conventional statistical sense. National definitions, perhaps reflecting administrative convenience and *ad hoc* historical precedent, are highly erratic. Two possible guidelines for rethinking and redefining them are:

- Spells of sickness and participation in labour market programmes (if availability-for-work requirements are suspended during participation) could both temporarily “stop the clock”. Then, for example, temporary sickness will push back the timing of any right and/or duty to participate in programmes, but not by more than the duration of the sickness spell. Also, a person who enters a year-long training course early in the unemployment spell will not necessarily qualify upon exit for a hiring subsidy that is targeted on the long-term unemployed; but a person who is initially

entitled to such a hiring subsidy will be able to participate in training, without losing that entitlement.

- Sufficiently long employment spells will by definition reset the unemployment duration counter to zero. The Danish arrangement where (once the relevant duration of unemployment has cumulated) twelve months of unsubsidised employment are needed to avoid entry to the “active period”, is at first sight more logical than the UK arrangement where participation in the New Deal can be postponed for six months – perhaps repeatedly – by undertaking just a few days’ work (or indeed merely not signing on for benefit in one fortnight). Research could clarify this issue, *e.g.* it might be possible to demonstrate that even a brief recent experience of work signals better prospects of longer-term unsubsidised work.

Short-term jobs and long-term subsidies

The PES in some countries undertakes individual preselection of candidates for vacancies, uses formal referral procedures with employers reporting the outcome of job interviews and focuses on placing unemployed people into stable full-time jobs. However in some cases the PES also operates in the market for casual and interim work. In Australia, contracted Job Matching providers receive a payment for each placement achieved and a statistical evaluation here found that “those who accept any employment of more than 15 hours per week do increase their chances of moving to full-time, permanent employment” (DEWRSB, 2001). There can be a case for both approaches, keeping in mind that permanent exit from unemployment is the main ultimate objective.

Another “timing” issue concerns the duration of subsidised employment. Job creation programmes usually create jobs that last for six months to a year, typically interrupting long-term unemployment but generating repeat unemployment instead. Many countries have sheltered workshops that create a certain amount of permanent subsidised employment for the disabled, but programmes creating permanent subsidised jobs for the unemployed are very exceptional. Japan long ago created permanent jobs for workers made redundant by the closure of military bases and coal mines.³⁹ Belgium created some permanent jobs mainly in the 1980s, and the Netherlands in the 1990s (Brodsky, 2001). One “programme” offering regular working conditions that, exceptionally, seems to have been kept open for new hires for many years is the priority list (with duration of unemployment being one of the variables contributing priority points) in Italy for PES referrals of jobseekers to public sector jobs at the lowest level (OECD, 1996). Recently Denmark has introduced subsidies (paying one-third, one-half or two-thirds of wage costs) to support “flexible working arrangements” for people whose capacity for work is permanently restricted and who are not granted a disability benefit: half the hires so far have been in the private sector (SM, 2001). Permanent employment programmes with a low annual inflow determined by very strict targeting criteria probably can be sustainable, but then they will be a last-resort solution, for only a small fraction of disadvantaged jobseekers.

Restricting carousel effects

In labour market policy, mechanisms that generate repeated movements in and out of unemployment can be called “carousel effects”.

In some countries, interactions between UI and the deregulation of fixed-term contracts have probably generated such effects. When an employee who has a permanent contract leaves due to either dismissal for fault (*e.g.* bad timekeeping) or voluntary quit,

benefits are in principle not paid, or paid only subject to a sanction or deferment (OECD, 2000, Table 4.1). To enforce this provision, the PES typically does not pay benefits until it has received an employer statement concerning the nature of the separation. Typical reasons for separation are dismissal with notice and severance pay, dismissal for fault, and voluntary quit. In many countries notice and severance payments are required by law (see OECD, 1999, Chapter 2) and the PES may not accept a statement that none of these situations applied, or may accept it only in exceptional circumstances. These administrative checks on the reason for separation tend to limit separations, since employers seek to minimise dismissals with notice and severance pay, and employees seek to avoid separations that are classified as dismissal for fault or voluntary quit.

By contrast when a fixed-term contract ends, often no particular cost arises for the employer and the PES has no means of determining whether non-renewal of the contract has the character of dismissal for fault or voluntary quit. Benefit entitlements then create incentives for employers to offer fixed-term rather than permanent contracts. Italy and Sweden are examples of countries where fixed-term contracting practices and UI claims have grown hand in hand.⁴⁰ Possible measures to counter this tendency are to remove legal recognition of fixed-term contracts (ensuring that legislation for regular contracts is appropriate), to restrict fixed-term contracts to situations where “objective” reasons are present, or to tax them where “objective” reasons are absent, or to experience-rate UI.⁴¹

Mechanisms that encourage repeat movement between unemployment and labour market programmes are well known. In Denmark, Finland and Sweden, the PES has in the past systematically provided workers nearing UI benefit exhaustion with places on programmes that generate a new period of UI entitlement. Both Denmark and Sweden have now abolished the possibility of requalifying for UI through programme participation, as described in Section 2.B. Finland had to scale back a system of generalised subsidies for private sector hiring of the long-term unemployed in the early 1990s, but it continued to provide places on programmes near the time of UI exhaustion (OECD, 1996). More than half of those who participated in a programme in 1995, and 63% of those who participated in 1998, had already participated in at least one programme since 1991 (Aho *et al.*, 1999, updated to 1998 in a separate memorandum). In 1997 the contribution period required to qualify for UI was increased from 6 months to 10 months so that it was no longer possible to requalify only through participation in a single 6-month programme.

A closely-related issue arises in countries where many unemployed people receive locally or regionally-financed social assistance benefits. Commonly, local or regional authorities hire their social assistance beneficiaries just long enough to qualify them for UI. Among the countries where this practice appears to be widespread or fairly widespread are Belgium, Canada, Germany, and Switzerland, but there may be a few others.⁴² It arises in the Netherlands to a limited extent (see Table 4.11) perhaps because municipalities there have (until recently) been liable for only 10% of the cost of assistance benefits. National authorities may not be able to prevent municipal and regional authorities from hiring clients in regular jobs with payment of UI contributions. However, when repeated cycling arises, the different levels of government have an incentive to co-operate to stop this.⁴³

Although it is generally desirable to restrict carousel effects of the kinds described here, it is important to examine the alternatives. If government is unwilling to reduce levels of income support or wages within programmes, or if such measures would be ineffective, the obvious alternatives to cycling are quasi-permanent income support or programme participation, which may not be better. Rather than only trying to put a stop to

cycling in general, policy reforms need to look at issues such as how to distinguish layoffs for objective economic reasons from voluntary quits and regular employer use of UI, and how to treat repeat unemployment as a form of long-term unemployment where the policy considerations listed in Sub-section 2.B apply.

Conclusions

Countries with a low share of long-term unemployment in total unemployment tend to have a low overall level of unemployment: this relationship is not very tight, but it holds in cross-country comparisons of both the levels and the changes through time in these variables. A study here of longitudinal data for eleven European countries in the mid-1990s has highlighted the central role of long-term unemployment, where total unemployment is high. Many individuals do experience only short, non-repeated spells of unemployment, but they account for only a relatively small proportion of total months of unemployment. About 40% of those who were short-term unemployed at a given point in time (December 1995), according to the conventional definition of unemployment duration, went on to experience 12 or more months of unemployment by the time their current spell had finished. About half of the remainder accumulated 12 months of unemployment in total over a four-year time-span, when months spent in other spells of unemployment are also taken into account. So in the end, on average five out of six people who were unemployed in December 1995 experienced 12 months of unemployment.

The long-term unemployed appear to be relatively more likely to go on to become very-long-term unemployed in some countries, and more likely to leave the labour force in others. In European countries, even among prime-aged males the total inactive population is several times the population in long-term unemployment, as conventionally defined. However for this group the population in potentially-avoidable disability and early retirement and in long-term unemployment are, arguably, roughly similar in size. Patterns of variation across countries seem partly consistent with the hypothesis that long-term unemployment, disability and early retirement behave as substitutes.

Patterns of unemployment benefit availability could explain some cases where very-long-term unemployment is reported, particularly among older workers. However for youths a reverse pattern holds, since in several countries in Southern Europe there are many youths in very-long-term unemployment, who are unlikely to be receiving unemployment benefits. In interpreting such cross-country relationships reverse causality must be considered, *i.e.* it must be asked whether high unemployment has encouraged exclusion from benefits (more likely for youths, who in some countries are expected to rely on parental income support) or the provision of more generous benefits (more likely for older workers). Background factors such as aggregate demand conditions, employment protection legislation and wage determination systems were not analysed here, but may also play an important role.

The second section of the chapter focuses on issues of timing in the design of active labour market policies. Most such policies can be seen as aiming either to “prevent” or “cure” long-term unemployment. There are various arguments both for and against targeting assistance mainly on the long-term unemployed. If exit rates from unemployment decline with the duration of the unemployment spell because of “state dependence” (the experience of unemployment in itself reducing employability), or if the long-term unemployed are hardly employable at all, targeting employment assistance on the short-term unemployed may be appropriate, leaving long-term unemployment to be handled partly

by social measures. However, “lock-in” effects argue against making places on long-term labour market programmes available to the short-term unemployed. When activation measures which involve an element of obligation to participate are considered, an argument for making obligations stricter as the duration of unemployment increases is that this helps to motivate job search among the shorter-term unemployed.

Faced with such conflicting arguments and trade-offs between “prevention” and “cure”, most countries with long-duration benefits adopt a strategy of regular interventions in the unemployment spell, combined with special programmes that are targeted on the long-term unemployed. The idea of delivering intensive assistance early to individuals who are at risk of long-term unemployment, as identified by statistical “profiling”, attracts considerable interest. However profiling techniques are still under development, and it is not clear that current techniques are targeting assistance where it will be most effective. Relatively few countries use profiling extensively, and a combination of standardised eligibility rules and individualised assessment still applies when referrals to training or job-creation programmes are made. Some of the more disadvantaged short-term unemployed could, this chapter suggests, be given earlier admission to labour market programmes currently targeted on the long-term unemployed simply by using a broader definition of long-term unemployment (*e.g.* 12 months of unemployment in the last 18 months).

In countries where unemployment is high without a high incidence of long-term unemployment, the short-term unemployment that makes up the bulk of total unemployment arises mostly in repeat spells. Various “carousel effects” have been identified here. Countries with a relatively short duration of UI entitlements may rely on this to limit the cost of benefit payments, but this allows labour markets to respond to the incentives in the monetary entitlement conditions, which favour patterns of employment alternating with UI claims. Deregulation of fixed-term contracts, leading to growing use of them (Chapter 3) along with increasing UI claims, may also be interpreted as a factor that generates carousel effects.

Other countries, those which provide long-duration benefits, have more often adopted expensive labour market programmes as part of their strategy for limiting benefit claims. At times this has been successful, but one of the main problems has been the emergence of another type of carousel effect, cycling between unemployment and programme participation by the most disadvantaged unemployed. First Denmark and more recently Sweden have taken steps to stop this type of cycling by making participation in labour market programmes, after some time in unemployment, quasi-permanent. In recent decades, only a few programmes have offered permanent subsidised jobs for the unemployed, and the older ones among these were closed to new entrants after a few years. The more recent strategies are more cautious and sophisticated, but they still face some of the same risks.

Wide international variation in rates of disability, early retirement and female labour force participation (Chapter 2) and total employment (Chapter 5) suggests that there is considerable scope for raising employment rates in many countries through policy measures. However the success of reforms to reduce inactivity rates will depend very much upon having already in place policies that can rapidly convert entries into the labour market into entries to employment: such reforms will not be productive if they overwhelm policies that are already finding it difficult to keep long-term unemployment down. It is important to ensure that future policies are grounded in experience, studying and understanding both the difficulties that have arisen in trying to keep unemployment low with high levels of social protection, and the situations where this combination has to some extent proved to be sustainable.

Notes

1. Machin and Manning (1999) note that the rise in unemployment seen in the bulk of these European countries following the first oil-shock has been associated with an increase in the average duration of unemployment, rather than with an increase in the inflows to unemployment.
2. Corak and Heisz (1996) also argue that duration should be measured in terms of the average *completed* duration of unemployment, but (in contrast to Karr, 1997, who measures it for currently-unemployed persons) their measure relates to cohorts of individuals who begin their spell of unemployment at the same time. Such a measure would be sensitive to the frequency of extremely short spells which make little contribution to total unemployment.
3. Chart 4.2 relates to two years, 1990 and 2000, which in most countries were preceded by fairly long periods of employment growth. In time-series, a graph relating unemployment to the conventionally-measured average duration of unemployment shows “loops” because at the start of a recession short-term unemployment increases. Corak and Heisz (1996) show that there is a near-linear relationship between unemployment and their measure of the average completed duration of unemployment spells (see Note 2).
4. In Canada in 1999, just 9% of the unemployed were long-term unemployed, but 34% had not been employed in the last year. The latter figure has grown considerably since the 1980s, which might reflect increased problems in entering or re-entering the labour market, or institutional changes that encouraged more jobless Canadians to look for work (Bédard *et al.*, 2000).
5. See Schwartz *et al.* (2001) for more recent survey information on frequent users of Employment Insurance (EI).
6. In UK data for 1984, 58% of individuals who had been unemployed for less than 6 months and 40% of individuals who had been unemployed for over 12 months returned to unemployment within a year, but by 1990 these percentages had converged to near 50%. The Restart strategy (introduced between 1986 and 1990) increased the rate at which long-term unemployed leave unemployment (in some cases, by entering a labour market programme).
7. According to Winter-Ebmer and Zweimuller (1992), it is a well-known fact that individual spell duration is inversely related to the repetition factor.
8. Winter-Ebmer and Zweimuller include some control variables in their regressions, but nevertheless the serial correlation in individual unemployment experiences that they observe could reflect changes (*e.g.* in personal circumstances or occupation) that increase an individual’s risk of unemployment for some years at a time, rather than a causal impact of past unemployment experience on future experience.
9. The level of the *Allocation spécifique de solidarité* is increased by 44% for unemployed workers aged 55 and over, who are also able to request exemption from job-search requirements (see the *indemnisation du chômage* page at www.service-public.fr). In Spain, assistance benefits are limited in duration for workers aged less than 52. For a concise overview of benefit provisions in EU countries see www.europa.eu.int/comm/employment_social/missoc2001/missoc_238_en.htm and related pages. In Australia a benefit (Mature Age Allowance) providing exemption from job-search requirements was introduced in 1994, and by 1999 the number of unemployment payments to the 60- to 64-year-old age group concerned had increased by 85%, relative to other age groups (OECD, 2001*b*). Reverse causality could also explain cross-country correlations, *i.e.* high unemployment among older workers tends to lead to more generous benefit arrangements for them. Brunet and Richet-Mastain (2002) document the low hiring rates of older workers in France.
10. There are non-cash incentives for unemployed people to register in Italy and Spain, *e.g.* concession rates for public transport and eligibility for hiring subsidies. These are the only EU countries where over 80% of young adults (those aged 20 to 24) live with their parents, according to a limited set of 1987 data cited by Fernandez Cordón (2001), suggesting that parental income support substitutes for cash benefits.
11. In the European Economic Area, 76% of the unemployed are registered, and contact with the Public Employment Service (PES) is much the most common method of job search, concerning 75% of the unemployed (Eurostat, 2001). Many people who are registered unemployed or have UI benefits are not unemployed according to the labour force survey definition (see OECD, 2001*b*, note 141), and PES policies are also relevant to this labour market group. Some old estimates (OECD, 1998) indicate that numbers receiving benefits are low (less than half the numbers unemployed) in Japan, the United States,

- Greece, Portugal and probably Spain (benefit coverage is likely to have increased in Portugal and Spain with the introduction of new assistance benefits). Benefit coverage is also low in Korea and Italy and near zero in Turkey and Mexico.
12. Woodbury and Rubin (1997) list some arguments for subjecting Extended Benefits to strict eligibility requirements and work search tests, saying that their merits are debatable.
 13. Much research has attempted to determine how far negative “duration dependence” (a decline in the monthly rate of exit from unemployment with the duration of unemployment) is due to “unobserved heterogeneity”. (AM, 2000, Box 6.7, gives an illustrative calculation of “unobserved heterogeneity” and a web search finds many papers that apply these concepts). For example, data which do not distinguish between temporary layoff and permanent layoffs give a misleading impression of the extent of negative duration dependence (Jensen and Svarer, 2001). Jansson (2002), citing US and Danish evidence, comments that hazard rates for [exit from unemployment] to new jobs are close to horizontal. Lacroix (1999) finds that there is no negative duration dependence among welfare recipients in Newfoundland after allowing for observed forms of heterogeneity. Negative duration dependence, if any, seems to be a weak tendency that can be reversed by labour market policies: positive duration dependence has been observed in Sweden (when benefit duration was limited to 60 weeks) and Denmark (where benefits become after some time conditional on programme participation).
 14. In some countries, policy analysts emphasise the importance of a very-hard-to-place group of long-term unemployed, needing assistance from several different public authorities (*e.g.* help from social workers as well as employment counsellors). This concern seems to be increasingly expressed when long-term unemployment falls below 1% of the population. In Australia and the Netherlands, where jobseekers are assessed for referral to contracted intensive assistance providers, about 0.1% of the working-age population are referred to special programmes (the Personal Support Program aiming to tackle severe personal barriers in Australia, “social activation” offering socially useful unpaid activities in the Netherlands) for people who are unemployed (rather than disabled) and yet are assessed as having little immediate prospect of a regular job (*e.g.* alcohol abusers).
 15. Gerfin and Lechner (2001) for Switzerland and Sianesi (2002) for Sweden illustrate the pattern where employment rates for programme participants fall behind those of non-participants during the programme, and then catch up – partially or completely – over the next year.
 16. “Activation early in the unemployment period entails a risk of retaining the individual in employability enhancement programmes rather than employment. This is particularly valid for those groups of unemployed persons who are highly like to find employment even without participating” (AM, 2000). See also Räisänen (2001).
 17. See Holmlund (1998). Dormont *et al.* (2001) and Fougère (2001) summarise similar evidence for France.
 18. Exceptionally in Ireland (as in the United Kingdom, many years ago) the long-term rate of Unemployment Assistance benefit (paid after 15 months) is slightly higher than the short-term rate.
 19. These advantages of “workfare” targeted on the long-term unemployed, over a strategy of simply reducing replacement rates, would need to be quite large to justify its much greater cost. Obligations on jobseekers to participate in employment programmes may face criticism but also have public support, *e.g.* see the discussion of assessments of Work for the Dole in OECD (2001*b*). Martin and Grubb (2001) discuss some evidence for “motivation” effects in terms of individuals leaving unemployment around, and often before, the time that their participation in programmes is scheduled to start.
 20. OECD (2000, Chapter 4) describes benefit eligibility conditions in a number of countries.
 21. The idea that a progressive tightening of obligations achieves a more favourable balance between the job-search incentive effects and programme cost and disutility effects is an argument against profiling, insofar as this leads to obligations being applied and costs engaged early in the unemployment spell.
 22. Lalive *et al.* (2000) found that, in Switzerland in 1998 and 1999, after expiry of the unconditional benefit period the rate of entry to training courses by male unemployed increased by 47% and their rate of entry to employment programmes increased by 80%. Programme participation was often limited to a single labour market programme (of six months’ duration or less), rather than being continuous through to the end of the two-year benefit entitlement period.
 23. An evaluation finding that early referral to temporary employment programmes is often more effective than referral at seven months (SECO, 2000) favoured this move to flexibility in timing.
 24. In UK pilot projects, it was found that when the 10% of newly-unemployed clients of the Employment Service with the highest estimated probabilities of remaining unemployed were selected, using a statistical model, 65% of them did not subsequently enter long-term unemployment: and this method identified only 19% of the clients who did in fact become long-term unemployed (Wells, 1998). Payne and Payne (2000) estimated another model and found that the 9% of new claimants with the highest predicted probabilities became long-term unemployed in 52% of cases, while 23% of other new claimants also became

- long-term unemployed. Berger *et al.* (2001) argue that accurate prediction is possible but most US state profiling systems do not use enough exogenous variables to achieve this.
25. According to Martin and Grubb (2001), results from two major studies of the impact of activation measures suggest that proportional impacts on exit rates from unemployment to employment do not vary systematically with the level of labour market disadvantage. This implies that the impact on employment rates in absolute terms (the percentage point increase) does tend to be smaller for the more disadvantaged groups.
 26. In the evaluation reported by Eberts (2001), welfare recipients were referred to three different service agencies either at random (the control treatment) or according to their predicted probabilities of entering employment. Individuals with the lowest estimated employability were referred to the agency (Goodwill) that provided the most hours of assessment and employability planning, with an approach conducive to helping those with fewer job-ready skills. Those with the highest employability were referred to an agency (Behavioral Foundation) which delivered services on a self-directed and self-paced basis. Assigning recipients to service providers in this way raised average employment outcomes compared to those of the control group by an estimated 25% (*i.e.* from 12% to 15%), mainly because Goodwill achieved better outcomes than other agencies for low-probability welfare recipients. These positive findings relate to a pilot programme, evaluated with a relatively small sample.
 27. De Koning *et al.* (2000) describe estimated econometric models used to calculate profiling scores in the Netherlands in the 1990s: region, education, ethnic origin and age were the most important factors determining the probability that a person becomes long-term unemployed. However profiling procedures have been modified since then.
 28. Restrictions on the variables allowed in profiling models are also an issue in the EU, where in many countries “it is forbidden to record so-called soft characteristics and attitudes in a database due to their stigmatising effect. Hence, alcoholic abuse, etc., must be kept separately. There is no doubt that abuses or motivational factors have an important impact on the re-integration to the labour market. One way to reduce the problem is to (...) assign recurrent jobseekers to the same counsellor as before”. (PLS Ramboll, 2001a).
 29. Certain recent policy changes should help to minimise the problem of inaccurate responses by jobseekers: some new clients (older workers, parents, indigenous Australians and those recently released from prison) are now referred for a broader assessment interview to a Personal Advisor who, where appropriate, undertakes a re-classification of the initial JSCI score (FACS, 2002).
 30. Some US state employment service staff are reportedly reluctant to refer some workers to more intensive programmes, because obliging some claimants to participate in more services than others could be seen as unfair (OECD, 1999, pp. 115 and 120). However research suggests that customer satisfaction is higher when individual service plans are created and more intensive services are proposed, as the federal Employment and Training Administration recommends (Wandner and Messenger, 1999).
 31. Swedish employment offices can also place the unemployed into a category “not job ready” (OECD, 2001a, p. 78).
 32. The determination of “placement characteristics” in Germany often takes place fairly early in the unemployment spell, but practices vary by locality. A legal obligation to engage in an assessment arises after six months of unemployment (PLS Ramboll, 2001b).
 33. Le and Miller (2001) (in line with findings by Winter-Ebmer and Zweimuller, 1992), find that a forecasting model that gives high weight to individual labour market history variables performs well in predicting the number of weeks looking for work in the next calendar year. They note that it is the individual’s more recent labour market history that is relevant: a variable summarising labour market performance since the person first left full-time education is barely significant. Thus, gains in forecasting accuracy may be available by using individual history data relating to just the last few years. Their research uses retrospectively self-reported data and merits cross-checking in administrative data, given the low degree of correlation between the two Australian data sources (OECD, 2001b).
 34. Roed and Nordberg (2001) also found that employees with high unemployment benefits had high rates of recall: this “confirms the implicit contract hypothesis and suggests that frequently dismissing firms allocate unemployment to workers with high benefits... it seems that while ordinary unemployment spells are explained primarily by individual search behaviour, recall unemployment spells are largely explained by firm behaviour (or implicit contracts between workers and firms)”. Winter-Ebmer (2002) argues that implicit contracting also influences permanent layoff behaviour, in the case of older workers who can expect to draw benefits through to retirement.
 35. As the contribution period increases, the ratio of the benefit period to the contribution period increases in France (where 14 months of contributions can be followed by 30 months of benefit) and also slightly in Greece; it is constant in Germany and Spain; and it declines in Austria (the UI period increases to 39 weeks only after 6 years of contributions). Canada, the United States, Japan and the Netherlands have

- relatively complex schedules. In most other countries this ratio declines rapidly, since potential benefit duration does not vary at all with the contribution period.
36. Some administrative statistics discount short breaks in the unemployment spell. EC (2001) treats the Belgian rule that unemployment breaks under three months are not counted as exits from registered unemployment as exceptional. In Denmark, the long-term unemployed are defined as those who have been unemployed more than 80% of the year. Policy analysis has also focused attention on the “marginal group” who were unemployed more than 70% of the time (or either unemployed or in a programme more than 80% of the time) over a 3-year period (FM, 1997; AM, 2000).
 37. OECD (1994a, Table S) gave statistics for the incidence of long-term unemployment in registration data for seven European countries: the incidence of long-term unemployment was always lower in registration data than in labour force survey data, with discrepancies exceeding 10 percentage points in Germany, Ireland, and the United Kingdom. Teasdale (1998) notes this discrepancy in UK longitudinal data. Respondents to the German “Structure of unemployment in early 2000 survey” appear not to report breaks in unemployment due to illness or failure to report to the employment office (advice from national authorities). Karr (1997) claims that the duration of unemployment as reported in questionnaire responses will always be longer than the duration of registered unemployment because respondents do not consider interruptions such as illness and failing to register to be interruptions of their unemployment. However some factors could generate the opposite result, e.g. part-time work breaks the unemployment spell in labour force survey data but it can be compatible with continuing unemployment in registration data, and policies in some countries (e.g. Australia and France) encourage this.
 38. Eurostat (1987) reported that people on courses to improve their qualifications were no longer classified with the registered unemployed, except (in Greece, Italy, Luxembourg, Denmark, Spain and the Netherlands) if participants continue to receive unemployment benefit or if the course is held in PES centres. People in subsidised employment were not counted among the registered unemployed.
 39. OECD (1993) reported that the “temporary” jobs created “turned out to be very difficult to terminate and there is no desire to have further experiences of this sort”.
 40. In Sweden a large rise in the proportion of unemployed people qualifying for UI preceded the recession of the early 1990s, and this might be related to deregulation and increased use of fixed-term contracts (OECD, 1994b, p. 198). In Italy claims for ordinary unemployment benefit with reduced requirements (for people who employed between three and six months in the year) more than doubled between 1991 and 1999 and in 1999 these claims accounted for over half total spending on ordinary unemployment benefit (a quarter of spending on all types of unemployment benefits: numbers on the benefits restricted to victims of layoffs for economic reasons, CIG and mobility, have been falling since 1994). The growth of temporary labour, creating a continuous flow of persons who have acquired the right to benefits, probably contributed to this (MLPS, 2000). As mentioned in Section 1.C these claims are often repeated.
 41. Seasonal employment raises similar issues. Some countries (Australia, France, and Norway) have defined patterns of seasonal work that preclude the receipt of unemployment benefit. In Australia, since 1999 people who have been engaged in high-income seasonal work in the six months prior to claiming allowances have to use that income before accessing allowances. Such definitions seem to be quite difficult to apply in practice. However, benefit legislation usually has no specific provisions for employment on fixed-term contracts.
 42. In Belgium, arrangements allowing local authorities to employ Minimex recipients for long enough for them to accrue entitlement to UI benefits are officially codified in Article 60 of the 1976 legislation which governs social assistance. In Canada, employment programmes for social assistance recipients appear to pay Employment Insurance contributions: for example in Prince Edward Island “There is more tracking by welfare staff now to ensure that [social assistance] individuals qualify for EI through EEP/JCP [Employment Enhancement and Job Creation] placements” (publish.uwo.ca/~pomfret/wtw/html/provsum/phase2.html). In Germany, an estimated 46% of social assistance recipients who are in a labour market programme are in insured work with a regular contract, typically lasting a year, which qualifies the participants for UI. In Switzerland, as of December 1998, the town of Geneva was employing 310 UI exhaustees in temporary jobs with a maximum duration of 12 months (www.ville-ge.ch/geneve/chomage/f_action.htm), which is the minimum duration of contributions to requalify for UI benefits. In Finland, also, municipalities may provide UI exhaustees with enough employment (additional to qualifying employment provided by national PES programmes) to requalify them for UI benefits.
 43. In 2000, Germany passed a Law for the Improvement of Co-operation between the Employment Offices and Social Assistance Authorities with this aim.

Annex 4.A

Data for the Main Labour Status variable in Table 4.2

The full range of possible categories in the Eurostat Main Labour Status variable are as follows:

- Carries out a job or profession, including unpaid work for a family, business or holding, including an apprenticeship or paid traineeship, etc.
- Unemployed.
- Pupil, student, further training, unpaid work experience.
- In retirement or early retirement or has given up business.
- Permanently disabled.
- In compulsory military service.
- Fulfilling domestic tasks.
- Other inactive person.
- Not applicable (child less than 15 years).

The guidelines (Eurostat, 1998) explain that “The ‘main activity status’ gives each person’s self-perception regarding his/her activity status; for instance, it identifies students with small jobs who are more closely associated with other students than with other employed persons”. Most of the EU member states have a single question which follows the above list more or less closely. The guidelines ask for it to be placed after the main questions on “ILO labour force status”, relating to classification as employed, unemployed or out of the labour force. However, in practice, some put it before, and this may have an influence on the results.

In principle, long-term unemployment should be a subset of the “unemployed” category of the Main Labour Status variable. A check shows that there is only a little overlap with other categories of the Main Labour Status variable. The largest overlaps, in terms of men aged 25-54, are with employment (Czech Republic), education (Sweden) and “other inactive” (Belgium), in all cases at around 0.3% of the population of working age.

Annex 4.B

Labour market transitions in European Community Household Panel data

“Seam effects” are a well-known phenomenon in survey data where respondents are asked to recall events that occurred prior to the interview. Frequently, respondents report unchanged labour market status over the reference period back to the previous interview date, so that transitions are reported to occur just after this date. Cognitive research suggests that respondents forget information within the response interval, and bias their reporting when they can no longer remember correct answers (Rips *et al.*, 2000). Respondents may even have no meaningful basis for reporting detailed month-by-month changes in status if survey categories correspond poorly with reality as they perceived it, *e.g.* because the respondent had irregular work while also seeking regular work, but questions do not recognise this status.

In the ECHP, surveys go into the field between March and September and ask respondents to recall their labour market status month by month over the preceding calendar year, so the presence of seam effects at the beginning and end of calendar years is not surprising (Fisher *et al.*, 2000). The analysis here uses ECHP data for the years 1994 to 1997 (waves 2 to 5 of the survey, 1995 to 1998). All spells of long-term unemployment (12 or more continuous months unemployed) were identified and the distribution of these spells by start and termination month was examined (discarding starts/terminations in January 1994 and December 1997, where observations are truncated). The relative frequency of January as a start month and December as a termination month in the unweighted data is shown in Table 4.B.1.

Only in UK and in French data are reported transitions (nearly) equally frequent in all months of the year. In countries where ratios in Table 4.B.1 are over 11, more than half of all entries to and exits from spells of long-term unemployment were reported to occur in January. Reported transition rates are near evenly distributed across the remaining months, rising slightly in the summer months and shortly afterwards (July to October). One important consequence of the seam effects is that – when a person reporting unemployment in each month of one year is counted as being long-term unemployed for the first time in December – the total number of long-term unemployed is on average one-third higher in December than in other months.

Table 4.B.1. **Relative frequency of end-year starts and terminations
of long-term unemployment spells in ECHP data**

	Ratio of starts of long-term unemployment spells in January 1995, 1996 and 1997 to average starts in the preceding 11 months	Ratio of terminations of long-term unemployment spells in December 1994, 1995 and 1996 to average terminations in the following 11 months
Austria	3.4	10.9
Belgium	12.3	23.0
Denmark	8.0	15.4
France	2.2	1.8
Germany	7.8	3.8
Greece	15.8	43.4
Ireland	8.0	6.3
Italy	22.8	28.1
Portugal	6.6	15.3
Spain	18.6	21.9
United Kingdom	0.7	1.2
ECHP^a	9.7	15.6

ECHP: European Community Household Panel.

a) Unweighted average of countries shown.

Source: OECD calculations based on the European Community Household Panel, waves 2 to 5.

— Table 4.B.2. **Average unemployment rate and incidence of long-term unemployment in ECHP data compared with Labour Force Survey data^a** —

	Unemployment rates			Share of long-term unemployment in total unemployment		
	EU Labour Force Survey ^b	ECHP (reweighted)	Difference	EU Labour Force Survey ^b	ECHP (reweighted)	Difference
Austria	4.1	5.0	0.9	25.1	29.5	4.4
Belgium	9.8	14.4	4.6	60.6	66.4	5.8
Denmark	7.0	10.3	3.3	28.4	46.8	18.3
France	12.2	10.2	-2.0	38.9	45.3	6.4
Germany	8.9	9.6	0.8	47.7	46.2	-1.6
Greece	9.4	10.0	0.7	53.6	36.1	-17.4
Ireland	12.1	14.8	2.7	60.6	67.3	6.7
Italy	11.6	15.4	3.9	64.3	55.2	-9.1
Portugal	7.1	7.4	0.3	50.7	37.8	-13.0
Spain	22.5	22.4	-0.1	53.0	40.3	-12.7
United Kingdom	8.4	5.8	-2.6	41.9	37.6	-4.3
Average^c	10.3	11.4	1.1	47.7	46.2	-1.5
Median^d	9.4	10.2	0.8	50.7	45.3	-1.6

ECHP: European Community Household Panel.

a) Unweighted average in 1994-97.

b) OECD standardised unemployment rates.

c) Unweighted average of the countries shown.

d) Unweighted median of the countries shown.

Source: ECHP waves 2 to 5; OECD QLFS standardised unemployment rates and OECD unemployment duration database.

In order to minimise biases arising from the inclusion of responses by respondents who are not accurately reporting transitions, three weighting factors were applied: one (often well below 1) for records with any long-term unemployment spell that started in January or ended in December, a second (often well above 1) for records with one or more long-term unemployment spells that started or ended only in other months, and a third (close to 1) for all other records. These weighting factors were calculated for each country, such that after reweighting the ratios in Table 4.B.1 became one (on average across starts and terminations) by construction, with total months of unemployment and total months of long-term unemployment in the sample both unchanged.

Benchmark comparisons of ECHP unemployment rates and incidences of long-term unemployment with similar data from labour force surveys are shown in Table 4.B.2. ECHP unemployment rates are slightly higher than standardised unemployment rates on average, and the cross-country correlation between ECHP and labour force survey unemployment rates is high (although it declines considerably if Spain is excluded). The ECHP (reweighted) data for the incidence of long-term unemployment are close to labour force survey estimates on average, but with large differences for individual countries: in particular, the ECHP incidence of long-term unemployment is higher in Denmark, and lower in the four countries of Southern Europe.

Annex 4.C

 The use of statistical profiling techniques
 in OECD Member countries

Table 4.C.1. Statistical profiling techniques in Member countries

	Advance identification of those prone to long-term unemployment	Choice of interventions to prevent long-term unemployment	Is statistical profiling used to predict outcomes? If not, why?
Australia	Via the Jobseeker Classification Instrument (JSCI). The JSCI score is a weighted sum of 18 factors, including duration of unemployment, age, educational attainment, recency of work experience, aboriginal status, geographic location, disability/medical condition, and language and literacy. Centrelink staff ask a series of structured questions to obtain information on the 18 factors.	The JSCI is used to stream Job-Network-eligible jobseekers into either Job Search Training or Intensive Assistance. Certain of the structured questions act as “triggers” for further assessment by Centrelink. However, Job Network members are responsible for detailed assessment of a jobseeker’s needs.	The JSCI was developed using a statistical analysis to identify factors that increase the likelihood of remaining unemployed for more than 12 months, using system-based data from 1995 and 1996, and a mailed survey questionnaire in 1997 to determine later labour market status. Weights were re-estimated with effect in 2002. The JSCI Supplementary Assessment may be administered and used to allocate points to the JSCI. An Occupational Psychologist may override the JSCI score in exceptional circumstances.
Austria	People who have been unemployed for 3 months and some special categories (youth school leavers from special schools, women with unresolved child care problems, people with disabilities) are automatically directed to the Counselling Zone. But more important are assessments by counsellors (with the help of an interview manual) and customers’ wishes and the time a person has been looking for a job are also taken into account.	The Service Zone offers a basic package of information and help with finding a job for all unemployed people: those directed to the Counselling Zone also receive intensive support and advice. On the basis of specific counselling, many different problems are tackled <i>e.g.</i> careers guidance, childcare solutions, external individualised support, activation measures, training and employment schemes.	Not used, because the only “hard and fast” criteria identifying risk of LTU are disabilities and, in the case of young people, no training. Otherwise the main causes of a higher risk are a lack of “soft skills” as well as personal circumstances, character traits and behaviour. These factors do not show up in data but can easily be identified by counsellors and in the course of case management.
Czech Republic	Legislation defines a number of categories to receive particular attention from the employment office: youths with only obligatory schooling and no longer in education, people responsible for children aged under 15 years, jobseekers laid off through structural change, those aged over 50 and those unemployed for over 6 months.	The main interventions are reconversion, socially useful jobs, support in setting up in independent work, sheltered workshops, and youth traineeships: use varies with the risk group <i>e.g.</i> sheltered workshops for the disabled. Prior to any referral the jobseeker must have attended individual consultation, a job club, or a specialist assessment centre.	Unemployment duration and repeated unemployment are important characteristics of hard-to-place jobseekers but not the only ones. The use of interventions is determined by the local office on the basis of the concrete situation of the local labour market and probable placement of the long-term unemployed.
Denmark	Regional labour market offices monitor the labour market and define target groups on this basis. The UI funds notify persons in the target group to the PES. From 2001, greater emphasis is given to individual selection on the basis of an interview after 3 months unemployed. The PES in two regions uses special proformas for interviews to identify more characteristics (largely “soft”, <i>e.g.</i> motivation, unrealistic job wishes).	On basis of interviews between 3 and 6 months, an individual action plan is drawn up in the majority of cases.	Lack of reliable data and applicable methods for calculating the risk of LTU have been the main obstacles to statistical profiling. A method based on hazard rates from a duration-analytical perspective as a function of individual characteristics and history of unemployment, in the Ministry of Labour’s DREAM data set, is currently being tested. However further development work is needed, and a statistical system would only supplement assessments by individual PES officers.

Table 4.C.1. **Statistical profiling techniques in Member countries** (*cont.*)

	Advance identification of those prone to long-term unemployment	Choice of interventions to prevent long-term unemployment	Is statistical profiling used to predict outcomes? If not, why?
Finland	As early as possible, the jobseeker is invited to an interview where a skill-mapping and personal job-seeking plan are made. There is an obligation to participate in drawing up the plan after five months at the latest. From 2001, in relevant cases, this can be replaced by an "activation plan" which also involves municipality.	The jobseeking plan should be as concrete as possible (job-seeking course, vocational training, subsidised work, etc.). It is a precondition for assignment to employment promotion measures.	Profiling of the unemployed has been discussed very much but the general opinion is that classifying clients or predicting outcomes will be problematic, for both officials and clients. However a method for estimating the quality and quantity of service needs is under development and will be tested during the year 2002.
France	From 2001, a personalised action plan (PAP) is established through an in-depth interview which takes place within a month after registration.	The PAP identifies services the jobseeker needs and any potential risk of LTU.	Two approaches are envisaged: (a) a statistical approach, used to enhance and facilitate the employment officer's assessment: in some 70% of cases it appears possible to forecast LTU using administrative data; (b) the formalisation of the interview procedure.
Germany	There exist national "placement-relevant criteria", <i>i.e.</i> whether an unemployed person is considered to be "someone whom may be placed without restriction", whether "support is necessary/useful" or "qualification measures have to be provided". The AQTIV Act envisages from 2002 a "profiling" procedure at the beginning of unemployment to identify jobseeker strengths and weaknesses and the risk of LTU.	The "placement-relevant criteria" are starting-points for a classification of unemployed people according to the type of services to be provided. After 6 months the employment office must establish, together with the unemployed person, by which measures, benefits or own efforts LTU can be avoided. The AQTIV "profiling" procedure will set out the individual placement strategy in an integration agreement.	There is no forecasting procedure on a national scale, but a number of regions are testing techniques. The AQTIV Act foresees a uniform and sound procedure for the identification of the risk of LTU.
Greece	Reference to introduction of "personalised approach".		Not yet developed.
Hungary	No formal method.	The main interventions are: 1. subsidy for intensive job search, 2. labour market services (providing information, labour exchange, counselling for finding job).	Not yet developed.
Iceland	Those who are unemployed for 6 to 7 months attend a 4-day course to prevent them from becoming LTU.	Some labour market measures are intended for certain groups <i>e.g.</i> women in rural areas or young people.	Not necessary in view of small number of unemployed in Iceland.
Ireland	No system of advance identification.	Referrals to measures are made on the basis of the actual duration of unemployment.	A pilot scheme is being examined.
Italy	No.	Individual characteristics of unemployed are to be taken into account, with special attention to the LTU.	No.
Japan	No.	No.	No. The reasons for unemployment are very varied, so the emphasis is placed on individual situations.
Korea	The subsidy for employment promotion was targeted originally on workers unemployed for a year or more who had been referred to jobs three times. Since 2001 all those unemployed for more than six months are eligible.	Appreciation of counsellors.	A programme to predict the probability of LTU has been used since July 2000. It uses age, education, health, sex, relation with head of household, marital status, and 5 work experience and 3 local labour market variables. An evaluation of its predictive power is not yet available. The system is voluntary for the unemployed and advisory for counsellors.
Luxembourg	Early identification is through the "psycho-social support scheme" applied after a maximum of 3 months to youths and 6 months to adults.	Psychologists, teachers, social workers and doctors provide personalised support.	No. Thanks to the low level of unemployment, the services can easily see the registered population at any time.

Table 4.C.1. Statistical profiling techniques in Member countries (cont.)

	Advance identification of those prone to long-term unemployment	Choice of interventions to prevent long-term unemployment	Is statistical profiling used to predict outcomes? If not, why?
Mexico	State employment services detect people that have more difficulties for job search training.	Access to other programmes is by personal application conditional on screening criteria.	Data are used for aggregate analysis of the labour market to guide public policy, not for individual prediction. Automated evaluation of the capabilities of employment applicants is under consideration.
Netherlands	The “chance meter” is based on a questionnaire, with instructions to the counsellor on how to calculate a score. The score classifies the person into one of four groups. Groups 2 and 3 are considered placeable but at risk of LTU.	Group 1 receives no intervention until after six months of unemployment. In other cases the counsellor decides on appropriate labour market or other measures.	The questionnaire responses are scored as described, but an econometric model is not used.
New Zealand	The counsellor enters the jobseeker’s answers to multiple-choice questions into the SOLO computer system, which allocates a Service Group Indicator (SGI) rating. Staff may overwrite SGI assessments, but they have to provide a reason for doing so. The key difference between SGI 1 (highly employable) and 2 (easily employable) is willingness. The key differences between SGI 3 (employable) and SGI 4 (employable with assistance) are capacity and opportunity. SGI 4 is considered to be at risk of LTU.	Short-term jobseekers who achieve a certain SGI rating may be eligible for more expensive help (e.g. wage subsidies). The Case Manager carries out a secondary assessment of SGI 4 people to help select the appropriate intervention. Access to particular programmes is subject to ministerial eligibility criteria, which are based on some of the SGI ratings, categorical factors (age, disability, literacy barriers, etc.), and disadvantage in the local labour market (as assessed by the Case Manager).	All items in the SGI scoring system were selected according to “their capacity to predict unemployment and their usefulness in client management as determined by staff consultation, regression analysis and the review of literature”. OPRA Consulting Group (1998) concluded that it is possible, with the right tools, to predict fairly accurately those at risk and those not at risk. There has been some tracking of cohorts to investigate whether SGI rating predicts time on benefit.
Norway	An individual approach is used, with an interview after three months unemployed.	The underlying principle is that services should be offered related to the individual jobseeker’s situation and competencies.	No. It is better to trust the discretion of the local officer particularly when there is low unemployment and more time to process each case. Profiling would complicate co-operation between the local office and jobseeker in the development of the individual action plan.
Portugal	Registered unemployed are given a code from 1 to 5: codes 4 or 5 are more likely to enter LTU. These indicators are combined with information about the local labour market.	For each standardised group, guidelines describe appropriate operating strategies. Job centres apply qualitative knowledge of the local market and applicant files, and set up personalised and integrated interventions.	The profiling method was evaluated on the basis of a survey of unemployed people, and another of the “CTE” finding that unemployed difficult to place in the labour market did have expected profile.
Slovak Republic	Counsellors identify the risk of LTU informally on the basis of four factors: a) a long history of permanent employment; b) low education; c) personal, social and health obstacles; d) attitude and opinions on the “world of labour”.		Statistical systems are being improved, both for purposes of aggregate analysis, and to make measures more effective through better knowledge of the characteristics and behaviour of different groups among the unemployed.
Spain	No formal method – action plan based on intensive interviews.		Only on aggregate basis, as part of assessment of employability of person.
Sweden	No formal method.	No formal method. However, employment service officers do make estimates as to whether a person is likely to become LTU or not and provide the Activities Guarantee Programme (since August 2000) if this is the case. There is also the Employment Support programme of subsidies.	No, but it appears that some method of aggregate statistical profiling, used for the distribution of resources, may be developed as the basis for a system to “support the employment officer better make use of her/his knowledge and experience”. They note that commuting patterns are an important element on which they have no data at the National Labour Market Board, so not all important variables could be included. But they say that “a systemic pattern has to be developed in the way employment officers judge various cases”.

Table 4.C.1. **Statistical profiling techniques in Member countries** (*cont.*)

	Advance identification of those prone to long-term unemployment	Choice of interventions to prevent long-term unemployment	Is statistical profiling used to predict outcomes? If not, why?
United Kingdom	No formal process, but access to mainstream programmes for everyone after 6 months. For adults the range and the intensity of help builds up from that point, culminating in access (compulsory) to the New Deal for long-term unemployed adults at 18 months. For young people, access to the New Deal for Young People occurs at 6 months.		Not used because considered insufficiently precise. Issue has been investigated thoroughly, and papers are available.
United States	Formal method – worker profiling programme established by law in 1993, made mandatory for State Agencies charged with administration of state unemployment compensation law.	No formal method, but DoL is testing an automated decision support system for staff in One-Stop Centres. It will help workers search for work in their “prior occupation and related occupations” and help to determine which services will help them find work in a cost-effective manner. Not clear that this is just for the LTU.	Identification of those individuals who are likely to exhaust their UI benefits and would benefit from reemployment services, using individual characteristics and local labour market conditions. Leads to mandatory orientation and assessment – at which time PES staff may use their judgement. Studies of predictive power exist.

Source: Secretariat summary of responses to a questionnaire addressed to national labour market authorities in 2001.

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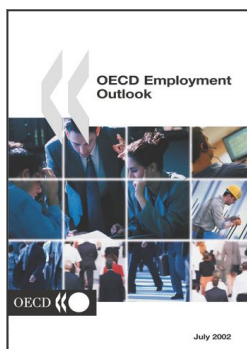
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