

The UK's long-term unemployed face tougher requirements in return for their benefits – community work, training programmes or daily visits to the Jobcentre. To assess the likely success of the Chancellor's strategy, **Barbara Petrongolo** surveys the evidence on the effectiveness of the 'sticks' and 'carrots' of active labour market policies.

Tackling long-term unemployment: the research evidence

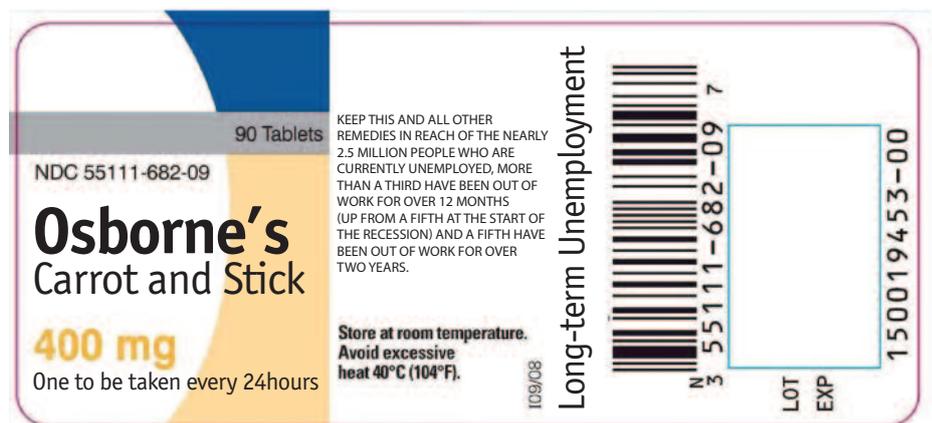
During the Great Recession, UK unemployment increased from about 5% to 8%, with a disproportionate increase in the number of long-term unemployed. Of the nearly 2.5 million people who are currently unemployed, more than a third have been out of work for over 12 months (up from a fifth at the start of the recession) and a fifth have been out of work for over two years. The rising incidence of long-term unemployment is a distinctive feature of virtually all recessions, as job-finding rates tend to remain persistently low even after the first signs of a recovery.

Long-term unemployment is a perennial policy concern for several reasons. First, it tends to have detrimental effects on the individuals involved. Workers' human capital (whether actual or perceived by employers) may deteriorate during a spell of unemployment, and the time devoted to job search typically declines. Both factors imply that the chances of leaving unemployment fall the longer it goes on. More generally, long-term unemployment adversely affects people's mental and physical wellbeing and it is one of the most significant causes of poverty for their households.

Second, insofar as the long-term unemployed become gradually detached from the labour market, they play a reduced role in the competition for jobs. This means that unemployment is less effective in curbing wage pressure, potentially leading to even further increases in unemployment and its persistence (Machin and Manning, 1999).

These and related considerations have motivated a wide variety of policies to address the problem of long-term unemployment. Policy interventions combine elements of 'stick' and 'carrot'. They involve job search requirements and sanctions to promote sufficient search

Job search requirements of the Jobseeker's Allowance failed to raise search efforts among the unemployed



effort; or direct assistance to the unemployed, including help with their job search process and training provision. In addition, governments may provide wage subsidies to firms that hire the long-term unemployed.

A number of social experiments in the United States provide evidence on the effects of job search assistance and stricter search requirements. The combination of these two policies often leads to a reduction in the time spent on unemployment benefits. At the same time, this does not necessarily mean that everyone coming off benefits is being employed in a new job (Card et al, 2010).

Similar conclusions have been highlighted for the UK (Manning, 2009; and Petrongolo, 2009). And a potential side effect of these and other active labour market policies is displacement of jobseekers who do not receive targeted intervention (for example, the short-term unemployed), as they face stronger job competition from those who do (Crépon et al, 2013).

The US evidence on the effects of training programmes for welfare recipients and employment subsidies is, at best, mixed. The overarching conclusion is that these programmes – at least in the short term – are often ineffective at improving the re-employment chances of the unemployed and in several cases would not pass a cost-benefit test (Heckman et al, 1999).

On the other hand, longer-term evaluations tend to be more favourable than short-term ones, and substantial heterogeneity in the impact of these programmes implies that they may generate significant benefits for certain groups. It should also be noted that the provision of job search assistance typically

has a more beneficial impact than training programmes, especially in the short term (Card et al, 2010). The evidence for Europe is thinner, but it broadly replicates lessons from the US experience.

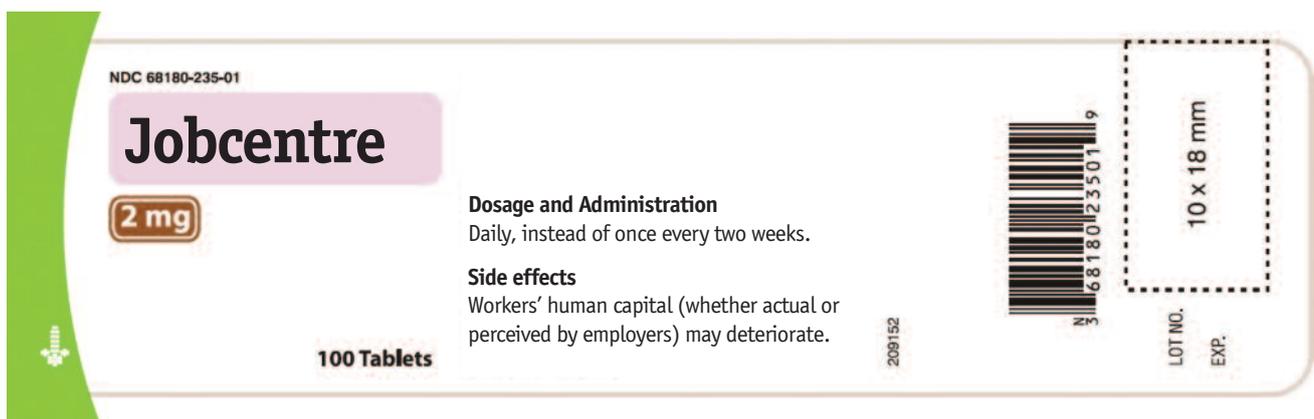
In some cases, the policy impact is unsatisfactory because resources allocated are limited relative to the scale of the unemployment problem. But in other cases, even adequately funded intervention may fail to give programme recipients what they feel they need (Heckman et al, 1999).

For example, UK and US studies show that benefit recipients are typically not keen on compulsory training schemes or, more generally, on repeated interaction with the employment service. Indeed, some are so against it that they respond to targeted intervention by stopping claiming benefits with the effect of reducing the number of claimants but not increasing the number getting back into work (Manning, 2009; and Petrongolo, 2009).

Transitions from claimant unemployment into inactivity could actually lead to worse outcomes. While they reduce expenditure on unemployment benefits, they may lead to further deterioration in the labour market prospects of those who drop out of the benefit system since by ceasing to be attached to the labour market, their job finding rates may decline further. If they then become eligible for other benefits, the resulting impact on total benefit spending could be an increase rather than a reduction.

Concerns about the consequences of long-term unemployment and the evidence from previous policy evaluations provide a useful framework for assessing

The long-term unemployed are unlikely to become more effective jobseekers by being forced to visit a Jobcentre daily



the strategy that George Osborne has proposed to tackle long-term unemployment. According to his announced plan, unemployment benefit claimants who have spent two years on the existing system of support, work experience and training (the Work Programme) have three options available to retain their benefits:

- First, community work for 36 hours a week, plus 10 hours of job search activity.
- Second, an intensive training programme for claimants with such problems as mental health issues, drug addiction or illiteracy.
- Or third, attend the Jobcentre daily, instead of once every two weeks.

Community work – including preparing meals for the elderly, cleaning up litter or working for local charities – is primarily intended as a way for unemployed claimants to pay back some of the benefits they receive. But this initiative may not be as cost-effective as it is hoped, if engaging individuals who have been out of work for years in useful tasks for the community requires a substantial amount of supervision.

Mandatory training for the very low-skilled is intended to tackle the specific reasons for the failure of the long-term unemployed to find jobs. But given the lack of strong evidence of positive effects of training for the unemployed, the contribution of these programmes to the cognitive skills of the 'hard to reach' may be even lower than for the average unemployed. Nevertheless, the programmes may have a chance of improving basic non-cognitive skills, such as self-discipline and reliability, by imposing a daily training or work routine on recipients.

Finally, the option of attending a Jobcentre daily is highly unlikely to boost job finding, and it will also have high administration costs. Such intervention is meant to encourage stronger competition for a given set of jobs by stimulating search efforts among the long-term unemployed. But fiercer competition for jobs is hardly going to increase transitions into work at a time when the number of available Jobcentre openings has reached a historical low of one job posting for every eight jobseekers.

It is also doubtful that the long-term unemployed are going to become more effective jobseekers simply by being forced to visit a Jobcentre daily. Back in 1996, when the Jobseeker's Allowance was introduced, the requirement to visit a Jobcentre every two weeks and provide detailed evidence of active job search did not raise overall job search effort among the unemployed. If explicit job search requirements were not effective in a period of rapidly growing labour demand and falling unemployment, there is no good reason to expect them to be effective in the aftermath of a severe recession.

Fiercer
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Further reading

David Card, Jochen Kluge and Andrea Weber (2010) 'Active Labour Market Policy Evaluations: A Meta-Analysis', *Economic Journal* 120(548): F452-77.

Bruno Crépon, Esther Duflo, Marc Gurgand, Roland Rathelot and Philippe Zamora (2013) 'Do Labor Market Policies have Displacement Effects? Evidence from a Clustered Randomized Experiment', *Quarterly Journal of Economics* 128(2): 531-80.

James Heckman, Robert Lalonde and Jeffrey Smith (1999) 'The Economics and Econometrics of Active Labor Market Programs', in *Handbook of Labor Economics Vol. 3* edited by Orley Ashenfelter and David Card, Elsevier.

Stephen Machin and Alan Manning (1999) 'The Causes and Consequences of Long-term Unemployment in Europe', in *Handbook of Labor Economics Vol. 3* edited by Orley Ashenfelter and David Card, Elsevier; earlier version available as CEP Discussion Paper No. 400 (<http://cep.lse.ac.uk/pubs/download/dp0400.pdf>).

Alan Manning (2009) 'You Can't Always Get What You Want: The Impact of the Jobseeker's Allowance', *Labour Economics* 16(3): 239-50; earlier version available as CEP Discussion Paper No. 697 (<http://cep.lse.ac.uk/pubs/download/dp0697.pdf>).

Barbara Petrongolo (2009) 'The Long-term Effects of Job Search Requirements: Evidence from the UK JSA Reform', *Journal of Public Economics* 93(11-12): 1234-53; earlier version available as CEP Discussion Paper No. 841 (<http://cep.lse.ac.uk/pubs/download/dp0841.pdf>).

