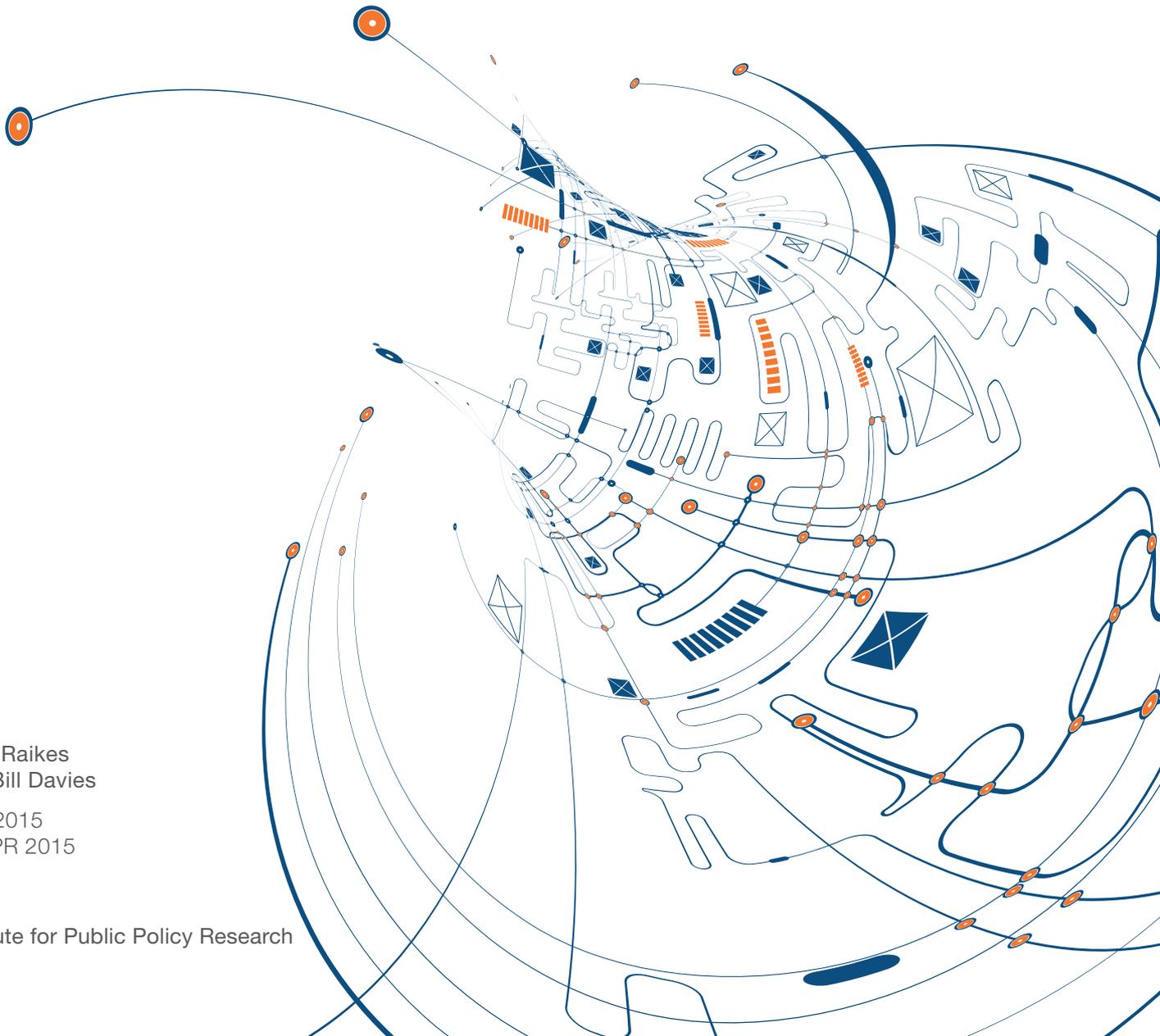


REPORT

EUROPEAN EMPLOYERS' PERSPECTIVES

ON LONG-TERM UNEMPLOYMENT,
RECRUITMENT AND PUBLIC
EMPLOYMENT SERVICES



Luke Raikes
and Bill Davies

May 2015
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SUMMARY

Context

Long-term unemployment is a deeply-rooted and highly damaging problem for European economies – one that will persist regardless of how buoyant these economies become. The problem is not solely cyclical: it also has deep structural causes.

Resolving it will not be easy, therefore, particularly as demand-side interventions such as direct job creation have largely fallen out of favour. The governments of developed economies have increasingly been turning to supply-side employment support programmes to make the long-term unemployed (LTU)¹ more employable.

The objectives of these programmes are similar across different countries. Namely, they are intended to improve labour supply, reduce unemployment and increase employment by making jobseekers more attractive to employers, and by making work more attractive than benefit receipt.

While programme objectives may be similar, their methods differ by country. These differences are driven by a number of factors – primarily the political economy in which they evolved, the specific labour-market challenges they are looking to address and the institutional actors responsible for their design. This inevitably means that strategies are configured differently within each European country, although they tend to combine different elements of two broad approaches, both of which are focussed on improving the ‘supply side’ – that is, focussing on the activities of the LTU themselves.

- **The employability (or ‘work first’) approach**, which looks to attach people to jobs as quickly as possible. This approach is largely effective for those closer to the labour market, and costs relatively little. However, its tendency to assert that ‘any job is a good job’ means that costs can potentially be incurred further down the line, as the jobs in question are relatively unlikely to be good quality or secure, and the economy therefore does not benefit from the full potential of the workforce.
- **The ‘human capital development’ approach**, which tends to be far more expensive upfront, and prioritises a more thorough ‘up-skilling’ of claimants. While job entry is typically delayed, those jobs are more likely to be sustained in the longer term.

Whatever its emphasis, the purpose of employment support is to make potential employees more attractive to employers. It is therefore essential to understand what employers actually want.

The role of employers

In all countries, whether in growth or recession, employers are central to resolving long-term unemployment – employers will decide whether or not to employ someone who is long-term unemployed. The coexistence of both long-term unemployment and skills shortages indicates that there is a business case for better employment support policy, as well as a social case.

¹ For the purposes of this report and the survey that informs it, we defined ‘long-term unemployment’ as ‘being unemployed for longer than six months’.

It is no surprise, therefore, that both the supply-side measures that dominate policymaking, and the more limited use of demand-side interventions designed to complement them, seek to meet employers' needs.

Understanding employers' attitudes and behaviour in hiring decisions is therefore essential. Their views, whether they are accurate or not, are a material consideration. For this reason we surveyed a total of 2,552 employers across five European countries – the UK, Sweden, Spain, Germany and France – asking them a series of questions related to the LTU and employment services.²

Employer attitudes and interactions

Although 60 per cent of the employers we surveyed said that they did recruit from the LTU, they do tend to differentiate between the LTU and other candidates.

- There is a big difference between countries in terms of employers' propensity to recruit the LTU, with 74 per cent of Spain's employers and 50 per cent of Germany's employers recruiting from the LTU. In many ways, this reflects the different labour market challenges in each country.
- Even employers who recruit from the LTU differentiate between the LTU and other potential recruits. Overall, nearly only one-third (32 per cent) of employers who recruited from the LTU confirmed that they did *not* differentiate; this figure ranged from 50 per cent in Sweden to 21 per cent in Spain.

However, the employers surveyed also had some quite positive perceptions of the LTU.

- The most frequently cited reason for recruiting them was that they had a better attitude than other candidates (cited by 33 per cent of respondents). This proportion was highest in Spain (45 per cent) and lowest in Sweden (18 per cent).
- Past experience of recruiting the LTU was rarely given as a reason for not recruiting them (cited by only 9 per cent of respondents), although far more employers in Germany (16 per cent) than in France (5 per cent) gave this answer.
- More employers thought the LTU 'well- or very well-prepared' for work (37 per cent) than not (13 per cent). Spanish employers were especially positive in this regard, at +50 per cent (net prepared), while in Germany they were least positive, at just +14 per cent (net prepared).
- Employers who did recruit the LTU were more than twice as likely to consider them well- or very well-prepared (47 per cent) compared to those that didn't (21 per cent).

Obstacles to employment

Despite the fact that employers hold some broadly positive views of the LTU as potential (and actual) employees, long-term unemployment persists even during periods of economic growth. Employers, in their responses to our survey questions, gave some indications as to why that might be.

- Not receiving applications was one of the major reasons for employers not recruiting LTU candidates – overall, 34 per cent of those surveyed specified this, ranging from 40 per cent in both the UK and France to 28 per cent in Sweden.
- While, as noted above, past experience was rarely given as a reason for not recruiting the LTU, a significant minority (20 per cent) of employers who did *not* recruit them said that this was due to concerns about their lack of recent work experience. There were wide variations in this regard between the

² Online fieldwork for this survey was conducted between 28 November and 10 December 2014.

countries studied, with the highest proportion found among employers in the UK (38 per cent), and the lowest among those in Sweden (10 per cent).³

Furthermore, by drilling down further we find that all of the employers we surveyed, whether they recruited from among them or not, believed that the LTU had specific skills shortages.

- Three quarters (75 per cent) of all employers thought that the LTU were lacking in at least one of the skills or characteristics listed in our survey.⁴ Interestingly, those that *did* recruit the LTU were more likely to say that they had at least one of these deficiencies.
- Employers that did and those that didn't recruit from the LTU had very similar perceptions of specific skills deficiencies among the LTU.
- While the most frequently cited reason for employing the LTU was that, as previously noted, they had a better attitude than other candidates, other respondents said that motivation was actually a problem – this was the most commonly cited skills deficiency among the LTU, albeit by only a quarter (25 per cent) of employers.
- A minority of employers also found lack of experience in the organisation's line of work to be a problem – overall, 18 per cent of employers cited this as a deficiency, ranging from 24 per cent in the UK to 10 per cent in France.
- Teamwork skills were also found to be lacking among the LTU, with 17 per cent of employers citing it as a problem, ranging from 22 per cent in Germany to 10 per cent in Sweden.

Employers and employment policy

Across all five countries, the employers we surveyed showed a low regard for all government policies and activities aimed at making the LTU more employable, and policy was a peripheral consideration – only 15 per cent of those employers who took on the LTU did so because of government policy (though this varied from country to country, from 26 per cent in France to just 8 per cent in Germany).

However, the majority of employers did experience the benefits of policy in terms of demand-side incentives.

- Most employers (63 per cent of all those surveyed) had received at least one of the incentives to take on LTU candidates we listed.⁵ This proportion was highest in France (69 per cent) and lowest in the UK (53 per cent).
- Unsurprisingly, employers who recruited LTU candidates were more likely to regard financial incentives as effective (57 per cent) than those who did not (40 per cent).
- 'Wage subsidies/grants' was the type of financial incentive most commonly taken up by employers. However, there were differences between countries – in the UK work experience placements were most common, while in Spain tax incentives were.

3 NB: a smaller proportion of UK employers surveyed did not recruit from the LTU.

4 These were: 'positive attitude/motivation', 'experience in organisation's line of work', 'team-working skills', 'experience of the working world in general', 'required skills or competencies', 'IT or software skills', 'technical, practical or job-specific skills', 'foreign language skills', 'oral communication skills', 'planning and organisation skills', 'problem-solving skills', 'written communication skills', 'education', 'common sense', 'customer-handling skills', 'numeracy skills', 'literacy skills or strategic management skills' and 'other'; the other options were 'not applicable – I do not think the LTU lack any skills', and 'don't know'.

5 These included: 'wage subsidies/grants', 'work experience placements', 'trial work-placements', 'training subsidies/grants', 'tax incentives', 'flexibility over labour market rules', 'vouchers (e.g. travel, childcare)', and 'other'.

On the supply side, the employers surveyed expressed clear beliefs about how effective or ineffective certain interventions were.

- Of the four types of intervention we asked respondents to assess, across all countries employers thought that ‘work experience and job placements’ was by far the most effective type of measure (43 per cent net effectiveness), followed by formal qualifications and courses (16 per cent net effectiveness).
- Employers appeared to reject threatening to withdraw benefits as a means of improving employability (-12 per cent net effectiveness).⁶

There is an evident mismatch between the policies that are in place and employers’ perceptions of which policies are actually needed within each country. In the UK, employers were most favourably disposed towards formal qualifications, but that is not what is offered by the UK public employment service (PES)⁷ (far from it). However, the opposite is true in France: there the survey indicates that employers don’t tend to value formal qualifications, yet they are a prominent part of the offer to the LTU.

For the purposes of effective policymaking, contact between employers and employment services is also vital.

- Of those employers who did recruit from the LTU, 56 per cent recalled contact with the PES, compared to only 21 per cent of those who did not recruit from the LTU.
- Most employers didn’t engage with the PES in their country, although again this varied by country: while almost half (49 per cent) of French employers had contact with the PES, only a third (33 per cent) of those in the UK did.
- Broadly speaking, employers had a negative view of the PES: 31 per cent said it was effective, compared to 58 per cent who said it was ineffective (-27 per cent net effectiveness). Employers regarded it least favourably in Sweden (net -45 per cent) and most favourably in the UK (net +2 per cent).
- PES contact appears to differ by business size – small businesses (less than 50 employees) and very large businesses (more than 1,000 employees) tended to have less contact with the PES than those in between; those with between 100 and 249 employees tended to have most contact.⁸
- In general, employers considered government policy ineffective for dealing with the LTU: 34 per cent said it was effective, compared with 58 per cent who said it was ineffective. Employers in Sweden and Spain regarded it least favourably (-34 per cent net effectiveness), and those in the UK most favourably (-2 per cent net effectiveness).

Conclusions

Transforming the labour-market chances of the LTU is a difficult task, and one that can only be overcome with a clear understanding of employers’ attitudes towards them. While those employers who responded to our polling generally had fairly positive perceptions of the LTU, there are some severe challenges that employment support needs to resolve. Many employers perceived the LTU as having positive attitudes and adequate skills, and those who had contact with them were even more positive. However, many employers believed that their

6 The fourth of these questions asked, ‘How effective or ineffective do you think the Jobcentre Plus/*pôle emploi* is at making the long-term unemployed more employable?’ While the wording of the question remained the same for each country, the specific name of each country’s PES (Jobcentre Plus/*pôle emploi* and so on) was used in each case.

7 In the UK the PES is Jobcentre Plus. As noted above, in each of the countries surveyed we asked a country-specific question (regarding the *pôle emploi* in France, for example) to ensure that we were comparing like with like.

8 These results are indicative and based on sample sizes of between 200 and 392 within each size band (fewer than 50, 50–99, 100–249, 250–499, 500–999 and 1,000+).

lack of recent work experience was an issue, and that they also lacked other skills and characteristics.

We found that employers had clear views about which policies were and were not effective, but – given that there is limited contact between employers and employment services – it is perhaps no surprise that they did not hold those services in high regard. Employers gave quite strong indications of which policies they thought would make the LTU more employable – they favour work experience and formal qualifications over the threat of benefit sanctions, for example. However, there appeared to be a mismatch between the policies employers thought effective, and the policies actually being delivered. Employers also had a very dim view of employment policy in general.

Recommendations

Relationships between employers and employment services are clearly important, but regulating these relationships is unlikely to be the answer. De Koning and Gravesteyn (2012) have demonstrated that making the registering of vacancies with employment services mandatory, as some countries have, has not resulted in employment services gaining full access to available vacancies, or in higher levels of contact with businesses. Nevertheless, both sides should take steps toward developing more formal connections, and to that end we make the following recommendations.

- Public employment services should be coordinated at the level of functional economic areas, and should proactively engage with local employers in order to access unadvertised vacancies for the benefit of their clients. It is vital that the geography of policymaking matches the geography in which businesses and their labour markets operate, so that it can better align demand and supply for labour across an area. While there are already instances of this – the welfare-to-work market in the UK, for example (where private providers deal with the very long-term unemployed and economically inactive) – public employment services are often limited to only sourcing publicly advertised vacancies.
- Public employment services should be conducting more detailed surveys of the skills and candidate requirements of local workforces – and employers, if they want to influence the shape of services, should fully participate in these exercises. Public employment services should also be regularly reviewing the incentives they are offering to employers to determine whether they are impacting on hiring decisions.
- Employers should proactively engage with work experience and vocational training schemes. Many of the skills problems employers identified relate to experience of work, and this applies not only to the LTU but to all those over the age of 16 without a vocational qualification, who are most likely to become long-term unemployed later in life.
- Employers should also be prepared to pull their weight and make positive steps towards recruiting longer-term out-of-work candidates. Arbitrarily discriminating against those who have been out of work for six months or more may be an efficient way of screening high numbers of applications, but it also means that employers are missing out on a range of potential candidates who could be up to the job. Employment services can help to change negative perceptions by encouraging work placements and trials, and educating employers about what support can be provided to candidates who are perceived as more risky hires.

Employment services can and must make a difference – and there is scope for them to do so. Different countries with different labour markets will face very different challenges, but they share a common need to reduce long-term unemployment and provide effective services to support those who are out of work. While supply-side measures are ultimately not, on their own, enough to

provide jobs to all who want them, they can make a difference by connecting jobseekers with vacancies, and by improving their human capital so that they are better able to compete for jobs.

However, getting the best from employment programmes involves more than signposting, employability and training: it also depends upon fostering relationships with those who ultimately provide routes out of unemployment. At the moment, employers are too peripheral to services, and services too peripheral to employers. Bringing both sides together is key to identifying and securing the jobs and skills that will be needed in the future European jobs market.

1. INTRODUCTION

1.1 Employers and employment services

Unemployment is a major social and economic problem for all developed economies. While numbers clearly rise during recessions or fiscal consolidations, even during periods of growth a residual frictional and structural unemployment problem persists. While the extent of this problem varies over time and between countries, its effects are well-known and pernicious. Unemployment causes damage on many fronts: to the quality of life of the unemployed and their families; to businesses who want to recruit and retain good workers; and to the general public, who shoulder the fiscal cost.

However, while long-term unemployment remains a persistent problem across Europe, policies aimed at tackling the problem continue to fall short. Much of the reform agenda has focussed to a large degree on escalating the role of employment services and increasing conditionality to ‘push’ the unemployed towards employment. These approaches have their limitations: they often fail to resolve deeper skills issues among the workless population, and ultimately do little to resolve the disconnect between those who want to work and those who need employees.

If the problem of long-term unemployment is to be resolved it is essential that these two groups are listened to and brought together more effectively.

1.2 Methodology: our European employers survey

To better understand the interplay between employers and employment services in Europe, IPPR commissioned Populus to survey 2,500 employers in the UK, France, Germany, Spain and Sweden – 500 in each country. Employers in all sectors and of all sizes were asked to give their views on a range of issues related to the LTU.⁹ We were particularly interested in:

- employers’ attitudes towards the LTU
- their interaction with, and perspectives on, public services designed to make the LTU more attractive to their businesses.

To place this research in context, in chapter 2 we outline the development and key features of active labour market policy (ALMP) in some detail, and in doing so consider the different approaches that European countries take toward resolving long-term unemployment.

The remainder of the report proceeds as follows.

- Chapter 3 presents a review of existing research, and presents our own findings on employers’ attitudes towards, and interactions with, the LTU.
- Chapter 4 explores employers’ perspectives on the obstacles faced by the LTU.
- Chapter 5 describes the findings of our polling regarding the amount and type of contact that employers have with employment support providers.
- Chapter 6 presents our conclusions and our broad recommendations for reform.

⁹ All respondents were responsible for hiring – that is, all answered ‘yes’ to the question, ‘Are you fully or partly involved in recruiting other members of staff as part of your current job?’

2. THE DEVELOPMENT OF ACTIVE LABOUR MARKET POLICIES IN EUROPE

2.1 Active labour market policies in developed economies

Employment policy has been at the centre of a long-term shift in the political-economic debate. During the postwar period of political and economic consensus, efforts to combat unemployment included a strong element of demand management, and state intervention in the economy was generally far more widespread. However, the paradigm-shift towards a far more laissez-faire approach to policy, and reactions to economic stagnation and high levels of unemployment across the continent (see Bonoli 2010), meant that supply-side interventions in the labour market – specifically what became known as ‘active labour market policies’ or ALMPs – took up the slack.

ALMPs consist of many different elements which are predominantly focussed on the labour ‘supply’ side. They were first introduced in Europe as early as the 1950s (in Sweden for instance; *ibid*) as a complement to ‘passive’ labour market policies – namely cash transfers which, despite providing essential income to those who had become unemployed, were on their own judged to have negative effects on job search.

Thus, the objective of ALMP is to ‘activate’ the unemployed: to increase their jobsearching, to improve their labour market prospects, and to make them more attractive to employers, thereby improving the rate at which people enter or re-enter employment. In a meta-analysis of 130 ALMP schemes, de Koning (2007) found that the utility of appropriately designed ALMPs is broadly accepted, and that those who had participated in an ALMP programme were between 5 and 10 per cent more likely to find work than had they not participated. These effects are typically more observable and substantial when measured over longer time-periods: Card et al (2009) found that even programmes that show initially negative employment effects will often show positive effects in years two and three.

The performance of ALMPs is influenced by a range of contextual factors. The fit of the programme with its local, national (or international) context, for one thing, is significant. Kluge and Schmidt (2002) found that providing training to support the unemployed access available vacancies was more effective as a strategy in Europe than in the US, partly because ‘educational credentials matter considerably’ in Europe. Labour demand is also crucial to the success of any ALMP (Dar and Tzanattos 1999), and a range of studies have shown how labour market conditions at a local level are a key determinant of the likely success of a programme (see for example Jones et al 2002, Mosley and Mueller 2007, and Davies and Raikes 2014). Programme design therefore needs to differ between areas in order to reflect the subtleties of geographic differences in labour markets, employer preferences and – inevitably – political contexts.

A range of different ALMP policies and measures are, and have been, in operation. In general, their aims and desired outcomes are to:

- match potential employees with the labour market
- support employers to take on ‘riskier’ employees
- provide the unemployed with the skills they need to gain access to the labour market.

Specific examples of ALMP interventions include supported job search, benefit administration,¹⁰ training, employment incentives, sheltered employment, work placements and workfare programmes.

ALMP strategies tend to differ markedly between countries and their welfare systems. As is true of the meta-structures of welfare states (see Esping-Andersen 1990), these strategies are contingent on the political, social and economic institutions in which they emerge. For instance, some systems will generally diagnose the long-term unemployment problem as a symptom of inadequate skills mismatched with a changing labour market; they will therefore prioritise the improving the prospects of the LTU by advancing their ‘hard’ skills and improving their human capital (this is known as the human capital development model). Other systems diagnose long-term unemployment as being primarily due to a lack of immediate labour market experience, and therefore stress rapid labour market attachment as the best means of ending an individual’s lengthy period out of work (this is known widely as the ‘work first’ model; see Finn 2005).

These two approaches are quite distinct in focus, approach and mechanics. Human capital development (HCD) approaches emphasise upskilling participants in order to make them more attractive to prospective employers and improve demand for higher skills employees in the labour market. Work first, by contrast, emphasises rapid labour-market attachment to those vacancies that are immediately available (for fuller discussions of these contrasts see Bruttel and Sols 2006, Finn 2005 and Bonoli 2010).

Evaluations of these approaches have shown that both tend to yield similar employment outcomes for participants, but at a generally different pace and cost. For instance, HCD approaches tend to deliver improved employment outcomes and progression (Dyke et al 2005), but tend to be more expensive (as training tends to be more expensive than intensive jobsearch). Work first approaches, on the other hand, tend to find jobs for participants more quickly, but these jobs are often lower-skilled and may offer weaker pay and progression opportunities (Greenberg et al 2009) – so costs to the taxpayer, while low upfront, may be incurred later on in the form of weaker tax revenues.

While the distinction between HCD and work first approaches can be illuminating, in reality ALMPs can and often do draw from one or other of the two approaches as the unemployed enter different stages of their benefit claim. Measures that pursue both approaches can co-exist within a single programme; likewise, as we will explore in the following section, some countries emphasise employability more (as the UK does) while others (like France and Germany) invest more in training the unemployed. Furthermore, the effectiveness of either type of strategy (or indeed a hybrid of the two) depends on the nature of the labour market, including the type of workforce that employers need, and the skills and wage expectations of potential employees.

2.2 Different ALMP strategies in Europe

Whether stress is placed on training, employability, or providing subsidies to businesses, the objective of ALMP is to make potential recruits more attractive to future employers. It is therefore worth exploring how approaches to ALMP differ between countries, and the extent to which these different approaches reflect the evidence – both of employer demand, and of what is most effective at improving labour market prospects.

¹⁰ Benefit administration (which includes benefit conditionality) can be categorised as passive, as well as active, labour market policy, and there is an acknowledged difficulty in disentangling the two. For a detailed discussion of the distinctions between active and passive labour market expenditure, see Grubb and Puymoyen 2008: 17–18.

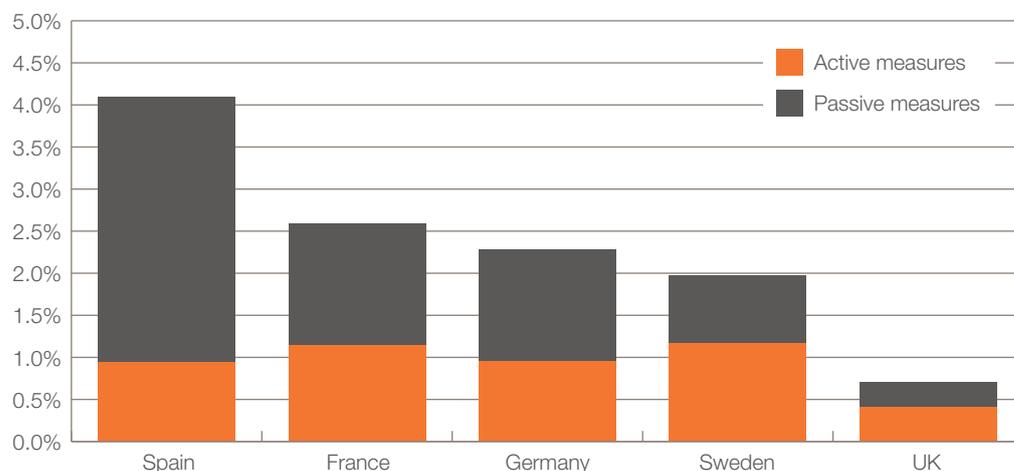
We can distinguish between two core strands in labour market policy that addresses unemployment: the ‘passive’ and the ‘active’.

- Examples of **passive measures** include the replacement of wage income with out-of-work benefits (such as jobseeker’s allowance in the UK). As we might expect, such measures are most widely used in countries that have either generous entitlements, high unemployment, or both (as is the case in Spain).
- **Active measures** describe a wider range of initiatives, including supply-side measures such as welfare-to-work programmes, and demand-side measures like employment subsidies.¹¹ This paper is primarily concerned with the impact of measures that fall into this latter category.

Both the level of expenditure and the balance between active and passive measures differ significantly between countries. Figure 2.1 illustrates OECD data on the extent of public investment in active and passive labour market policy across the five countries we surveyed – Spain, France, Germany, Sweden and the UK. This data largely reflects Immervoll and Scarpetta’s (2012) account of how activation expenditure on ‘active measures’ varies between countries. Their study found that this spending varied widely, but that historically, higher levels of investment as a share of GDP have been evident in the Nordic countries, with more moderate investment levels in central Europe, and the smallest investments found in eastern European states and the UK. The only significant deviation between this picture and that shown in figure 2.1 is that Swedish investment appears to have fallen since Immervoll and Scarpetta’s research was published.¹²

Figure 2.1

Public expenditure (as % of GDP) on active and passive labour market policies, by selected European country, 2010



Source: OECD 2015

11 The relationship between benefit entitlements and positive outcomes is more complex than is often assumed. The extent to which lost wages are compensated for by unemployment benefits is known as the replacement rate. In theory, higher replacement rates mean that there is less of a financial incentive to work, and so the unemployed are unlikely to search for work with the same intensity as they would have were the replacement rate lower. However, they can also allow the unemployed to be more careful about which jobs they take, enabling many jobseekers to select jobs to which they are better suited, and which they are better able to sustain – which is clearly of benefit to them, the economy and the public finances. In reality, the behaviour of jobseekers – and any individual – is far less predictable than the simple following of financial incentives: there are many other barriers and incentives which determine employment outcomes.

12 There is a statistical relationship between the active and passive measures across the OECD data: states that spend more on cash transfers per person also tend to invest more in individuals on active measures (as a proportion of GDP).

Figure 2.1 also illustrates relative expenditure on ‘passive measures’, and thus reflects both the generosity of replacement ratios¹³ and the volume of claimants. Passive expenditure tends to be ‘strongly counter-cyclical’ (ibid), as it rises in proportion to the number of people who are unemployed. However, spending on active programmes tends to react only moderately to changes in unemployment levels in most countries, with the notable exception of the Nordic countries. This lack of strong responsiveness means that, in most countries, total spending per unemployed person tends to decline significantly as unemployment rises during cyclical downturns (ibid).

Perhaps just as important as headline levels of activation investment are the particular policies that individual states allocate resources to. The data on active measures is complex, but a report for the OECD by Grubb and Poymoyen (2008) painstakingly identified and broke down expenditure figures which, while imperfect, are a reasonable proxy for activation ‘effort’ by individual states.

Breaking this expenditure down in greater detail, as we do in figure 2.2 below, is instructive. Broadly, it demonstrates that the five European countries we examine in this report generally place significant emphasis on using their respective public employment services (PES), and the administration of the benefit system, as core instruments in their approaches to tackling unemployment. PES involves, for the most part, basic interventions such as monitored jobsearch, work-focused interviews and the use of the benefits system to influence behaviour. The literature shows that approaches which focus on basic employability and labour market attachment have traditionally performed strongly: a range of studies provide evidence that employability services are able to quickly re-engage welfare recipients with the labour market, and reduce benefit receipt (see, for instance, Freedman et al 2000: viii and Bloom et al 2002: ii; for a UK-specific focus, see Dalton and O’Neill 2002).

What the literature also emphasises is that employability services are relatively inexpensive relative to training and other activation enterprises. While PES employability services feature strongly among the other four countries, the UK is somewhat of an exception among its European neighbours in terms of its stress on employability interventions (Berry 2014). Spain invests far less in PES employability activities; indeed, the Spanish model came under criticism from the OECD in 2013 for the balance of its active versus passive labour market policy expenditure in general, and its underinvestment in PES specifically.

‘The decentralized public employment service may not have the capacity for implementing activation policies on a sufficient scale to counterbalance the potential negative effects of generous benefits on work incentives. Spain’s expenditure on passive measures is around 3% of GDP (the highest level in the OECD), while expenditure on active measures is slightly below 1%, and most of the ‘active’ expenditures are employment incentives.’

OECD 2013

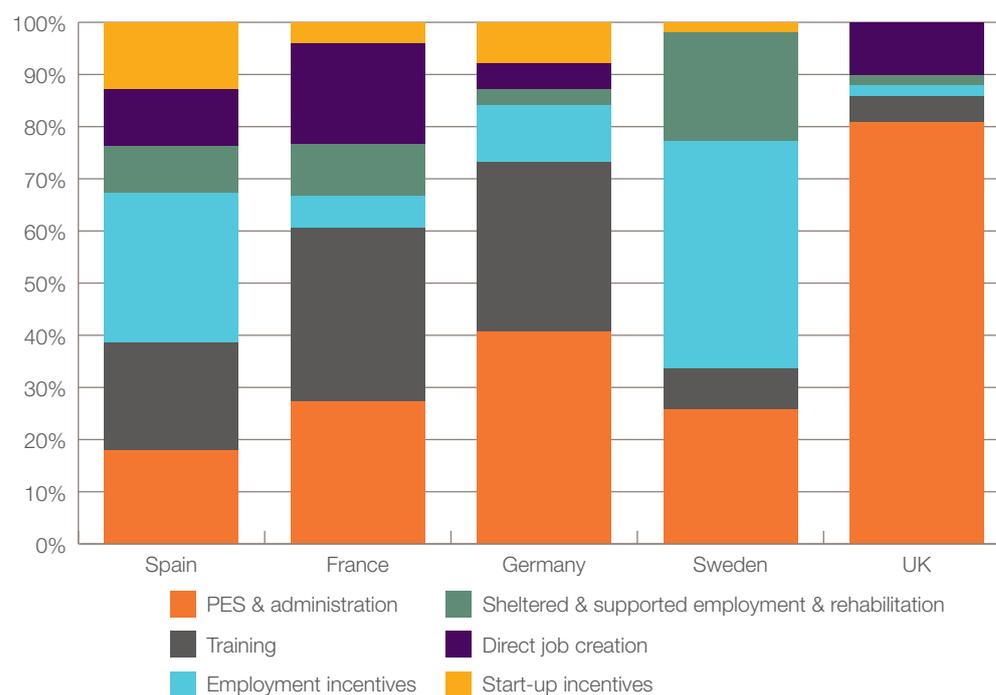
Looking beyond PES investment, there is considerably more spread among the other four states in terms of their ALMP strategies than in the UK. Both France and Germany give considerable weight to providing formal skills training for the unemployed, and there is evidence that such an approach can produce results. For instance, the findings of Card et al (2009) and Kluve and Schmidt (2002) confounded previous studies (predominantly from the US) that concluded there was no evidence in favour of investing in skills, qualifications and training. Instead, both articles noted that in different contexts and over longer evaluation periods, HCD approaches could result in similar – and

13 For more detail on replacement ratios, see the annex.

sometimes better – employment outcomes. Importantly, they found that the effect HCD has on influencing post-participation employment depends on employer demand for formal training and education. As mentioned above, European employers appear to value formal qualifications more than their US counterparts (Kluve and Schmidt 2002). Beyond its direct employment effects, HCD participation can also result in better outcomes in terms of job quality, wages and opportunities for progression (see for example Dyke et al 2005).

Figure 2.2

Element expenditure as share of total active investment, by selected European country, 2010



Source: OECD 2015

Expenditure on demand-side categories is notably lower than on supply-side categories within all countries, due to a number of factors. Sheltered employment, start-up incentives and (with the exception of France) direct job-creation are not ‘core’ employment strategies in any of the countries we studied.¹⁴ While it is perhaps no coincidence that these measures have a limited evidence base, the emergence of different strategies in different states is more than simply a reflection of what does and does not ‘work’.

The differences between countries’ approaches to employment policy are not determined entirely by differences between their labour markets. Both supply- and demand-side measures are often determined by other factors. As Bonoli (2010) points out, the fact that different countries adopt different activation strategies is a reflection of the various historical, social and political institutions through which policies have emerged, as well as of the economic contexts and empirical evidence that inform them.

¹⁴ In any case, for the purposes of this research these three elements deliberately function outside of the mainstream labour market, and are therefore not of direct consequence to the employers who responded to our survey.

2.3 Summary and implications for policy

There is certainly no ‘off the peg’ solution for welfare-to-work support in Europe. What strategies are chosen will therefore depend on governments’ objectives, and the resources they make available.

The importance of these strategies should not be overstated – the literature on ALMP shows that active measures have a modest impact. The nature of labour demand – that is, which jobs are actually available to jobseekers, the skill levels required by these jobs and where they are located – remains decisive, not just during a recession but also as the nature of labour demand changes over a longer period of time.

Nevertheless, governments face choices over emphasis and investment. Employability (or ‘work first’) approaches, while cheaper upfront, tend to mean that costs are incurred further down the line because jobs are not sustained and the full potential of labour is not deployed. ‘Human capital development’ (HCD), which prioritises more thorough up-skilling and hence job-sustainment, tends to be far more expensive upfront.

Whatever the strategy, bringing together the two principal sets of actors – the jobseeker (labour supply) and the employer (labour demand) remains key to meeting the core objective of ALMP. A full appreciation of employers’ perspectives on the LTU is crucial if we are to understand the barriers to gaining employment that candidates face, and design support and services that can help them overcome those barriers.

3. EMPLOYER ATTITUDES AND INTERACTIONS

3.1 Employer attitudes in the literature

The LTU face distinct challenges in the labour market even where there are sufficient vacancies. They may struggle to gain employment because they lack the skills necessary for the available jobs, or may be discriminated against by virtue of their unemployed status despite the fact that they have skills equal to those of other candidates. This section explores some of these themes in order to better understand the barriers that long-term unemployed people face, and how they can be supported into work.

Academic research has found that employers have less favourable attitudes towards employing the long-term unemployed than towards employing those who have been out of work for shorter periods. Practical experiments have convincingly demonstrated how these attitudes affect employers' recruitment choices. For instance, Oberholzer-Gee (2008) sent employers a selection of fake job applications, the only core differences between which were the lengths of time for which the 'candidate' had been unemployed. The research found that the likelihood that a job application will be successful rapidly diminishes the longer a candidate has been unemployed, and that this was due entirely to the employers' perceptions of them as candidates. Ghayad (2013) conducted a similar experiment, specifying different periods of unemployment on false CVs sent to employers, and found that after six months of unemployment a candidate's chances of being invited to interview deteriorated markedly. Again, the only explanation for this is that employers discriminate between short- and long-term spells of worklessness. A tipping point of six-months is also suggested by the findings of a survey of 1,000 UK managers for the Institute for Leadership and Management, in which while only 5 per cent of managers said the employment status of candidates was relevant to their recruitment practices, this figure rose to 28 per cent when they were asked specifically about those who had been out of work for six months or more (ILM 2009). These results perhaps illustrate both the impact that employer discrimination has, and the fact that time spent out of work makes the LTU less employable; furthermore, they highlight the difficulty of disentangling the two.

To better understand the drivers of employer differentiation, we need a better understanding of their general and specific concerns about potential candidates. A briefing for the UK Commission for Employment and Skills (Hasluck 2011) identified a number of common explanations that employers gave for why recruiting from the ranks of the employed was preferable to recruiting people who are out of work. These reasons included the following assertions:

- employed workers are more skilled and valued
- hiring a top performer is a way of accessing a competitor's strategies
- people who were made redundant were laid off because of performance or other problems
- the skills and contacts of unemployed people may be out of date
- unemployed people are often frustrated, bitter and angry – characteristics not welcomed in new work environments
- weeding out the 'unemployed' just helps as a screening tool for overworked human resources departments (Hasluck 2011).

Our survey provides further evidence of a range of other concerns that employers have about the perceived skills deficits of long-term unemployed candidates. While these perceptions may not accurately reflect the skills and profiles of all long-term unemployed individuals, they serve to illustrate some of the challenges that individuals (and the employment services that support them) must overcome in order to persuade employers to recruit them.

3.2 Survey results

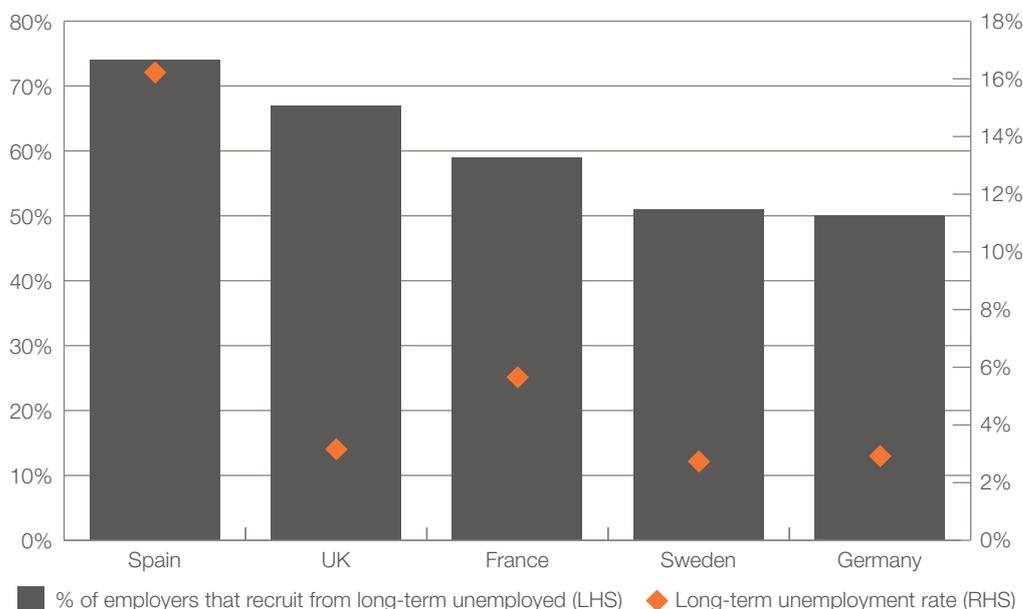
As a starting point, our survey looked at employer attitudes to the LTU in five European countries – Spain, the UK, France, Sweden and Germany – both on aggregate and within each country.

Overall, six out of every 10 employers did take on long-term unemployed candidates, although substantial differences between countries were evident, as figure 3.1 illustrates. Recruitment of LTU candidates was most commonly reported in Spain, where three out of four employers said that they drew some of their workforce from the LTU, compared to around half of surveyed employers in Germany and Sweden.

Putting these findings in context, the long-term unemployment rate is highest – and has risen most dramatically in recent years – in Spain, where the global recession and ensuing retrenchment continue to have the sharpest impact on the labour market.¹⁵ As might be expected, the countries that we studied – with the exception of the UK – conform to a general pattern wherein in those countries with higher rates of recruitment from the LTU have higher rates of long-term unemployment.

Figure 3.1

Percentage of employers who reported that they recruit the LTU¹⁶ (LHS), and the long-term unemployment rate* in Q3 2014** (RHS), by selected European country



Source: Eurostat 2014

*Note: Defined as those unemployed for six months and over

**Latest available data

15 For more detail, and discussion on long-term unemployment in Europe see Dolphin et al 2014.

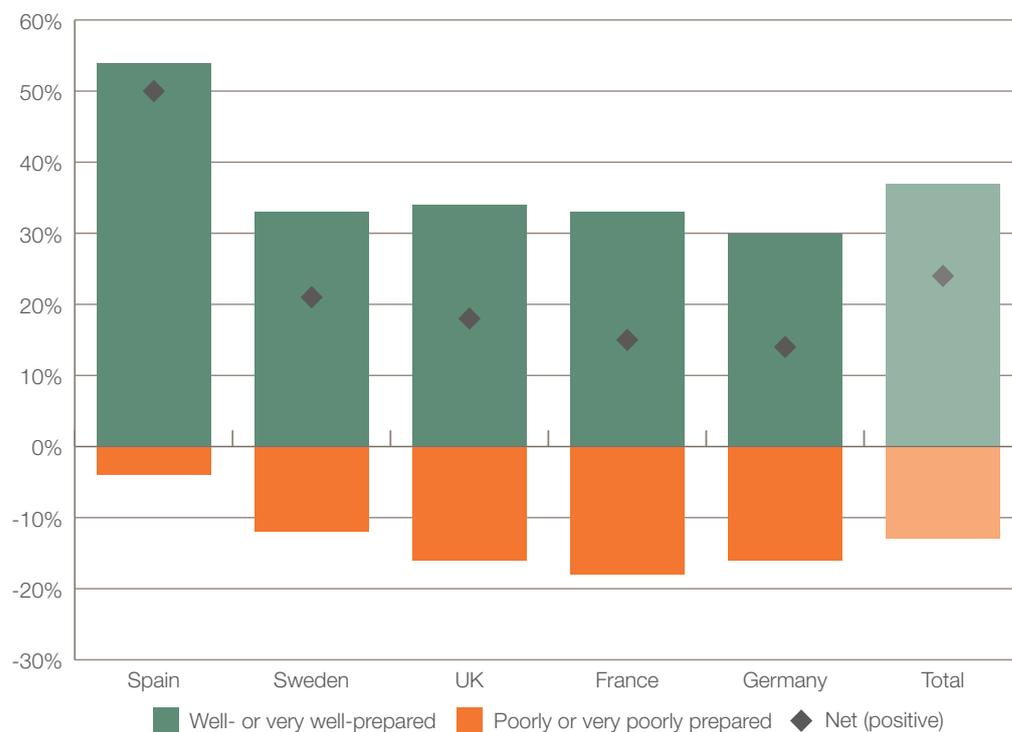
16 Based on employers' response to the question, 'In your current position, do you ever recruit employees who have been long-term unemployed?'

Higher rates of long-term unemployment also appear to influence employers' perceptions of the LTU. For instance, the Institute for Leadership and Management's survey of British employers (ILM 2009) found that the difficult economic climate had led to a (positive) change in employer attitudes about recruiting LTU candidates. Responses to our survey appear to support this perception (see figure 3.2) – generally, employers' views regarding the employability of the LTU was positive, and far more so among those who do recruit from among them. However, this positivity was stronger in some countries than in others: while Spanish employers who responded to our survey felt strongly that long-term unemployed candidates were reasonably or well prepared for work, those in Germany, where long-term unemployment is lowest, had the least positive perceptions of LTU candidates among the five countries.

Predictably, few of those employers who held negative attitudes towards the LTU recruited any of their workforce from among them. Employers who did recruit from the LTU were more than twice as likely as those who did not to say they were well-prepared for work (at 47 and 21 per cent respectively). The indicative results by industrial sector appear to show that respondents in financial services and education were most likely to believe that the long-term unemployed were insufficiently prepared for work.

Figure 3.2

Employers' responses to the question, 'In general, how do you rate the job-readiness of the long-term unemployed' (2014)



Source: IPPR/Populus poll; base: 2,552 responses

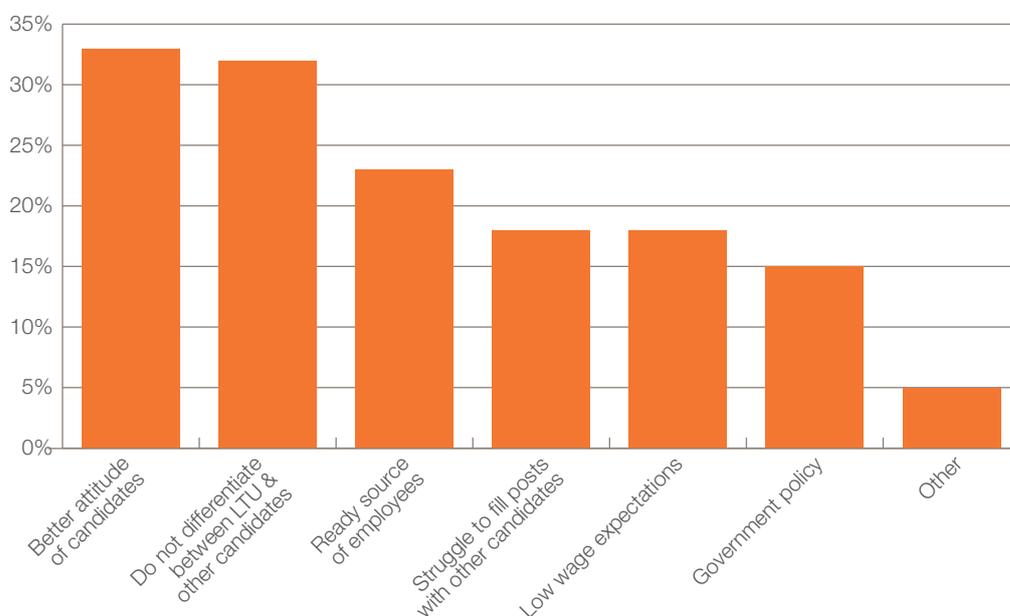
Employers recruited long-term unemployed candidates for a range of reasons, the most common of which (perhaps contrary to majority public opinion) was the perceived better attitude of LTU candidates. This echoes research by Snape (1998) in which she found that employers believed there were advantages to hiring unemployed candidates in that they may be more enthused about the work, a more committed employee, and more flexible and adaptable (Snape 1998, cited

in Hasluck 2011). However, these beliefs are not universally held, and many employers who did not recruit long-term unemployed candidates held starkly contrasting views.

Even among those employers we surveyed who did recruit unemployed individuals, their responses indicated evidence of discrimination by employment status: only one-third told us that they did not differentiate between the LTU and other potential recruits. At the national level, this tendency to differentiate between long-term unemployed and other candidates was lowest in Sweden, where 50 per cent of respondents who did recruit LTU candidates said that they did not distinguish between candidates on the basis of their employment status, while among those in France this proportion was just 23 per cent.

Figure 3.3

Employers' responses to the question, 'You said that you recruit employees who have been long-term unemployed in your current role. Which of the below reasons describe why this is?' (2014)

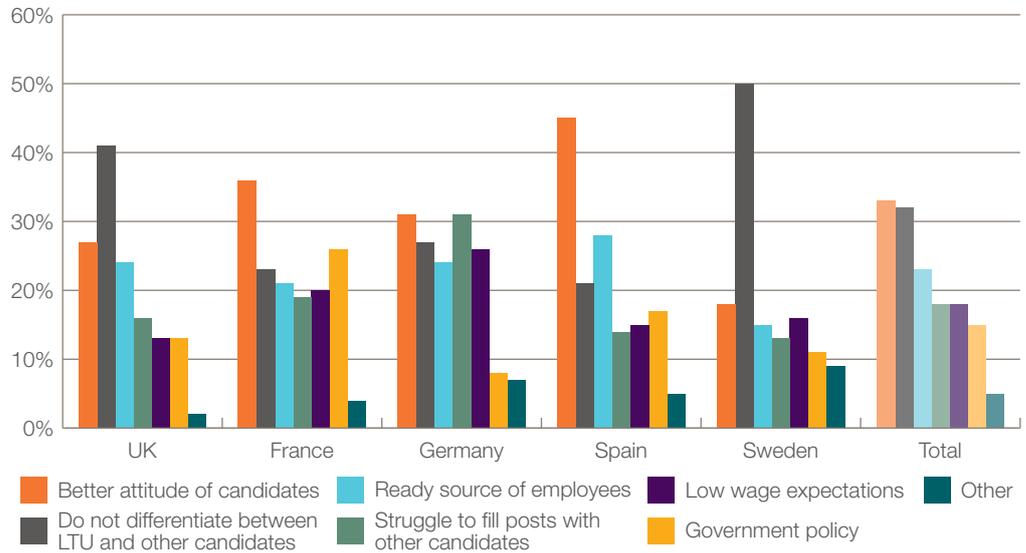


Source: IPPR/Populus poll; base: 1,535 responses

Many government measures seek to counteract this differentiation by intervening in the labour market (through tax incentives, for instance). However, government policy was among the least-cited reasons that employers gave for recruiting from the LTU (only 15 per cent of respondents chose this option); low wage expectations among LTU recruits, and the fact that they act as a 'ready source of employees', were marginally more popular responses. Predictably, employers' attitudes differed by country: at 26 per cent of responses, government policy was felt to be more influential in France than elsewhere, while in Germany it was perceived as having the least influence, receiving only 8 per cent of responses. A more detailed breakdown of responses by country is provided in figure 3.4.

Figure 3.4

Employers' responses (by country) to the question, 'You said that you recruit employees who have been long-term unemployed in your current role. Which of the below reasons describe why this is?' (indicative*) (2014)



Source: IPPR/Populus poll; base: 763 responses

*Note: Sample sizes range between 255 and 337 for each country.

It is difficult to ascertain why respondents in France felt that government policy had a stronger influence over their recruitment activity than respondents elsewhere. As we will explore fully in section 5.1, while contact with employment services (in France, *pôle emploi*) was higher among respondents in that country than in others, French employers' attitudes towards both employment services and government policies more widely were generally negative.

3.3 Summary and implications for policy

The literature demonstrates that employers discriminate in their recruitment practices depending on candidates' employment status, and the results of our survey of employers support this finding. Nevertheless, the majority of employers surveyed – particularly those who actually recruit them – had a positive view of the LTU. Notably, it appears that these attitudes are influenced by conditions in the labour market – higher unemployment appears to be connected to a more positive attitude towards the work-readiness of the unemployed.

However, our findings raise two obvious concerns for policymakers. The first is that discrimination by employers entrenches disadvantage for those who have experienced long spells out of work. The second is that government policy is not perceived as being effective at resolving genuine supply-side deficiencies in the labour market.

4. OBSTACLES TO EMPLOYMENT

4.1 Reasons for not recruiting the long-term unemployed

Around one-third of the employers who responded to our survey stated that they do not recruit long-term unemployed candidates. An understanding of why this is the case is vital if policy design is to be improved, and will provide valuable intelligence to both those providing services for the LTU, and to businesses looking for recruits. Hasluck (2011) summarises the opportunity well: 'While experience of recruiting and working with unemployed people may change perceptions of risk and cost, the dilemma is how to persuade employers to take on unemployed people in the first place when their perceptions of risk remain high.'

As illustrated in figure 4.1 below, across all five countries the most commonly cited reasons for not recruiting the LTU were not receiving applications from them, or there being sufficient numbers of other candidates. The former answer was the most common answer overall, and was given by 34 per cent of respondents who stated that they did not recruit LTU candidates. This is not hugely surprising, given that many vacancies will not be advertised in the places where most unemployed candidates might look for work, particularly the job advertisements circulated in employment service offices.

Public employment services (PES) hold limited information on vacancies within their local areas, which naturally limits their ability to find jobs for the LTU.¹⁷ De Koning and Gravesteijn (2012) reported that '[t]he average PES registration rate in the EU-27 countries is 52%, with more than half of PES estimating their share of vacancies in the national market to be less than 40%'.¹⁸ Both these findings and our survey data suggest that there is considerable potential for improved interaction between employment services and employers in order to ensure that the full range of vacancies are available to unemployed jobseekers, and equally that employers are receiving applications from a wider range of potential recruits.

The second and third most common reasons cited for not recruiting the LTU by respondents to our survey were that employers either did not need to recruit from among this group, or that there were sufficient alternative candidates (who presumably have stronger employment histories) to recruit from. Employers less frequently cited concerns about the quality of unemployed candidates themselves: concerns about their lack of recent experience, and being out of the habit of working, were raised by 20 and 12 per cent of employers respectively. 'Past experience' was one of the least common reasons given for not recruiting them: only 9 per cent of employers that did not hire from among the LTU explained this as a consequence of previous experience.

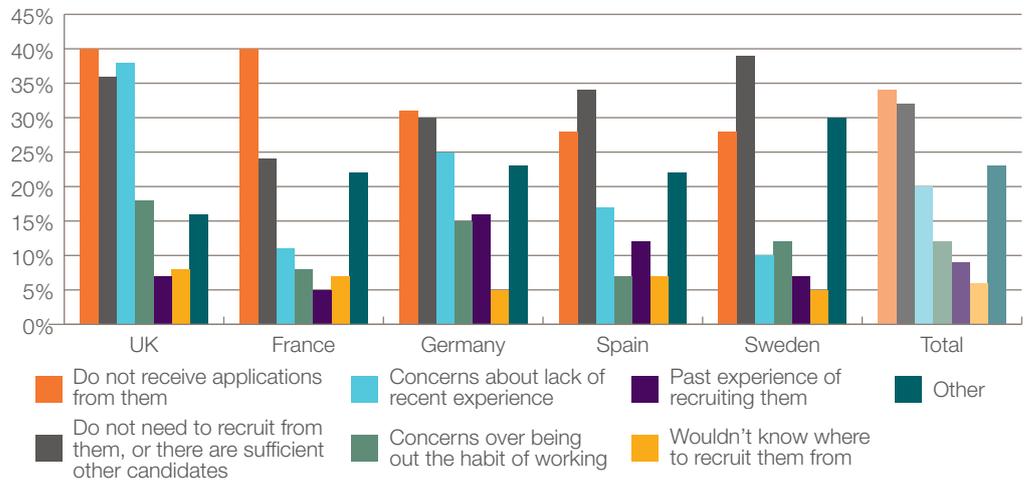
Disparities between the countries in terms of the prevalence of concerns over the quality of LTU candidates are only indicative due to sample size, but there are some stark differences illustrated in figure 4.1 that are worthy of follow-up research. UK respondents to our survey tended to be more concerned than others about LTU candidates' lack of recent experience and their being out of the habit of working (which is striking given the UK's relatively low unemployment rate and the high level of churn in the lower end of its labour market). German employers, meanwhile, were most likely to cite previous experience as a reason for not recruiting the LTU.

17 For a discussion of matching PES vacancy data to 'whole market' vacancy data, see <http://www.cedefop.europa.eu/en/publications-and-resources/publications/5194>

18 The sample sizes were too small for the identification of national trends.

Figure 4.1

Employers' responses to the question, 'You said that you do not recruit employees who have been long-term unemployed in your current role. Which of the below reasons describe why this is?' (indicative*) (2014)



Source: IPPR/Populus poll; base: 763 responses

*Note: Sample sizes range between 255 and 337 within each country.

4.2 Workplace skills and characteristics

In order to better understand the specific concerns of all employers (regardless of whether they are reluctant to recruit the LTU), our survey also sought to identify which areas could be improved upon to make long-term unemployed candidates more attractive to potential employers, focussing particularly on deficits of workplace skills.

Table 4.1

Employers' responses to the question, 'Which of the following skills and characteristics do you find are most often lacking from the long-term unemployed, if any?' (2014)

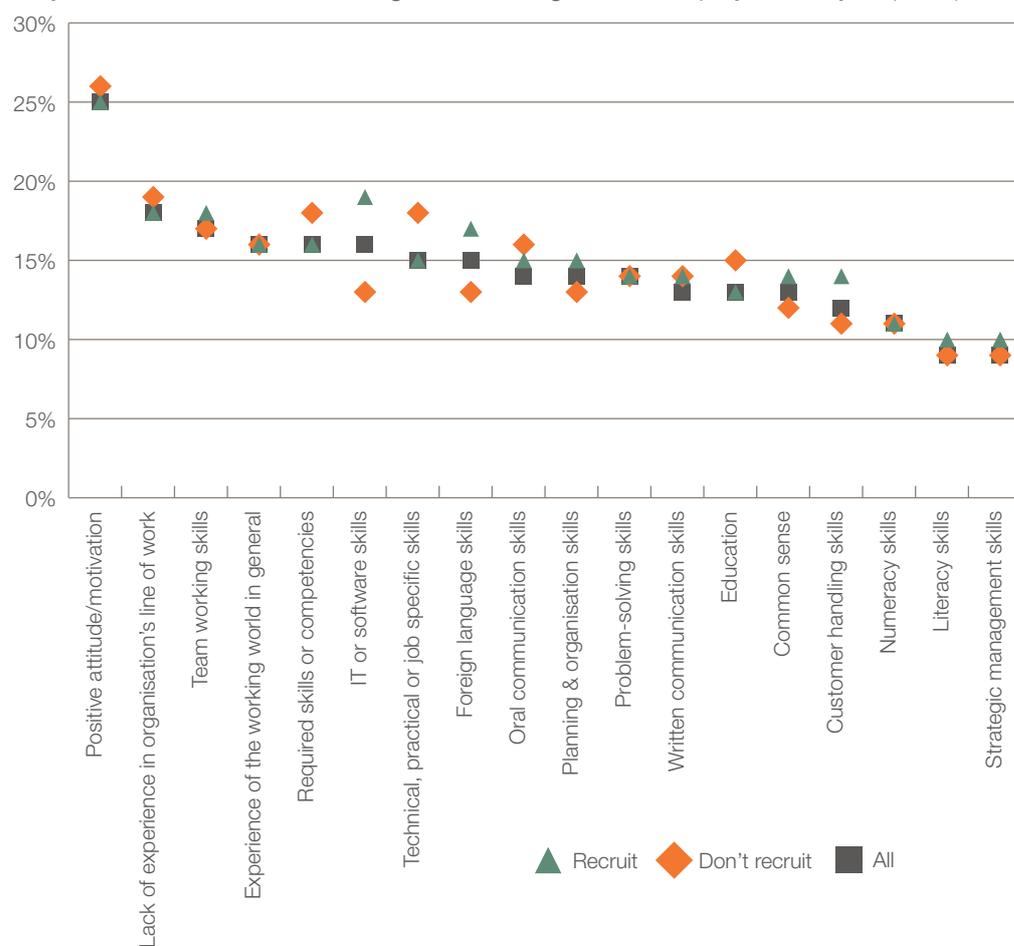
	Total	UK	France	Germany	Spain	Sweden
Positive attitude/ motivation	25%	28%	28%	27%	20%	21%
Lack of experience in organisation's line of work	18%	24%	10%	21%	14%	20%
Team working skills	17%	20%	16%	22%	14%	10%
Experience of the working world in general	16%	20%	15%	17%	11%	18%
Required skills or competencies	16%	18%	16%	17%	12%	17%
IT or software skills	16%	21%	14%	16%	19%	10%
Technical, practical or job-specific skills	15%	17%	18%	19%	11%	13%
Foreign language skills	15%	10%	13%	15%	28%	8%
Oral communication skills	14%	18%	17%	15%	11%	12%
Planning and organisation skills	14%	17%	13%	13%	12%	14%
Problem-solving skills	14%	15%	10%	15%	14%	15%
Written communication skills	13%	17%	15%	13%	8%	14%
Education	13%	12%	10%	17%	13%	14%
Common sense	13%	16%	16%	11%	13%	10%
Customer handling skills	12%	18%	9%	15%	10%	10%
Numeracy skills	11%	16%	12%	12%	8%	6%
Literacy skills	9%	18%	7%	11%	7%	4%
Strategic management skills	9%	10%	10%	9%	12%	5%
Other	3%	2%	2%	2%	4%	3%
Not applicable – I do not think the long-term unemployed lack any skills	18%	14%	17%	17%	22%	21%
Don't know	7%	5%	9%	6%	4%	9%

Source: IPPR/Populus poll; base: 2,552 responses

Employers reported that the long-term unemployed were lacking in specific skills and characteristics (interpreted in a broad sense). Three quarters (75 per cent) of all respondents identified at least one area in which they felt that potential LTU candidates were lacking in skills; notably, this rate was higher among those who *did* recruit LTUs (80 per cent) than among those that did not (69 per cent).¹⁹ The most commonly identified deficiency in workplace skills or characteristics was a ‘lack of positive attitude/motivation’ (cited in 25 per cent of responses to this question). The second most common challenge was the perception that candidates lacked direct experience in the employer’s field of work (which accounted for 18 per cent of responses).

The specific skills deficiencies identified do not widely differ between employers who did and did not recruit long-term unemployed candidates, as figure 4.2 below illustrates. This is interesting, as we would expect employers who have recent experience of recruiting from the LTU to have perceptions of recruits’ skills deficits that are different to those of employers those who do not take them on.

Figure 4.2
Employers’ responses to the question, ‘Which of the following skills and characteristics do you find are most often lacking from the long-term unemployed, if any?’* (2014)



Source: IPPR/Populus poll; base: 2,552 responses

*Note: France, Germany, Spain, Sweden and the UK. Excludes ‘not applicable’ and ‘don’t know’ answers.

19 Of the total 2,552 responses, 638 (25 per cent) opted for ‘don’t know’ or ‘not applicable – I do not think the long-term unemployed lack any skills’.

Despite the broad similarity of attitudes across those who did and did not recruit unemployed individuals, a more heterogeneous picture emerges when employers' responses are considered on a country-by-country basis, as table 4.1 above shows in detail. Most notably, the perceived lack of a 'positive attitude/motivation' was a major issue in all countries, and was the problem most commonly cited by employers in every country except Spain. This perhaps again reflects the wider malaise within the Spanish labour market, as does the relatively high number of Spanish employers (22 per cent) who considered long-term unemployed candidates not to lack any of the skills listed in our survey (by comparison, only 14 per cent of UK employers gave this answer).

4.3 Summary and implications for policy

Both employers who do and do not recruit the LTU are potentially important sources of information for policymakers. Businesses' perceptions regarding long-term unemployed candidates' weaknesses provide useful insights into the specific challenges that services and individuals may need to overcome in order to secure gainful employment, including the following broad findings applicable across all five countries covered in our survey.

- A third of employers did not recruit long-term unemployed candidates because applications from them were not forthcoming.
- A quarter of employers considered long-term unemployed candidates to lack motivation or a positive attitude.
- Three-quarters of employers thought that long-term unemployed candidates had at least one skills deficiency. Although, as described above, employers who did recruit the LTU had views about the nature of those skills deficiencies that were similar to those of employers who did not recruit them, employers who *did* recruit the LTU were (at 80 per cent) more likely those who didn't (69 per cent) to say that they had at least one of the skills deficiencies listed, than those who did not recruit them (69 per cent).

Each of these broadly-held perceptions – as well as any specific skills deficits among individual candidates – present both difficulties and opportunities for individuals and the employment services looking to support them. The first of the above findings indicates that, on the one hand, employment services have an opportunity to reach out to more employers who are not receiving applications from their clients. On the other hand, however, the ability of individual candidates or service providers to overcome perceptions of a lack of motivation among the unemployed may be more difficult – particularly where business recruiters are using 'long-term unemployed' as a signal to differentiate between candidates.

Overcoming these barriers is one of the core purposes of employment services and incentives for employers. It is therefore to employers' interactions with, and attitudes towards, these services that we now turn.

5. EMPLOYERS AND EMPLOYMENT POLICY

5.1 Interaction with, and perceptions of, public employment services

Measuring employers' interactions with the public employment service (PES) in their country or area is difficult because data is patchy. The extent of PES penetration into the vacancies market provides a partial signal for this, which, as mentioned in the preceding chapter, can be measured by the extent to which employers register their new vacancies with their local or national employment services. A review by the European Commission found that while vacancy registration rates varied significantly between countries, of every PES within the EU27 group of countries more than half estimated that their vacancy registration rates were less than 40 per cent of total vacancies within their national labour market (de Koning and Gravesteijn 2012: 2). The scale of registration is influenced by a variety of factors, including the perceived usefulness of registering new posts with the PES, and in some cases national regulations concerning the registration of job advertisements. These differ markedly by country – in Sweden, for instance, it is mandatory for vacancies to be registered with the PES, but not in the other four countries reviewed in this study (ibid). However, even legal obligations to register vacancies do not guarantee market penetration (as employers find ways around the system), nor do they ensure meaningful or positive relationships with employers, who may find the administrative burdens of doing so unwelcome (Weber 2012).

Our survey also provides evidence that less than half of employers in each of the five countries in which we conducted our survey recalled having any contact with their public employment services. Interaction with the PES appeared highest in France, where 49 per cent of employers recalled having some interaction with the *pôle emploi*, and an equal 49 per cent recalled having none (2 per cent responded 'don't know').²⁰ Recalled contact with the PES was lowest in the UK, where two-thirds of surveyed employers (65 per cent) reported having had no contact with Jobcentre Plus. This notably low contact in the UK is likely driven by what Weber (2012) describes as an explicit strategy on the part of the Department for Work and Pensions:

'Most if not all PES aspire to increasing the market share of employers they work with, although in some countries such as the UK, there is a more "residual" approach, with market mechanisms in the foreground of matching supply and demand.'

Weber 2012: 9

The key feature of employer engagement in the UK is that it largely occurs at a national level, with senior account managers working with a relatively small number of major, nationwide employers, rather than regular liaison with local employers (ibid: 6). Relatively speaking, the PES of the other four countries that we surveyed are more proactive, which may explain the marginally higher rates of employer contact reported in each of them.

²⁰ The question was, 'Within your current job role do you have any contact with Jobcentre Plus/*pôle emploi* [etc]?'

Employers' contact with the PES appears to be positively related to their recruitment from the LTU: while 56 per cent of employers who *did* recruit from the long-term unemployed recalled contact with the PES, only 21 per cent of those who *did not* recruit from the LTU responded in the affirmative.

PES contact also appears to differ according to business size: companies that were either small (less than 50 employees) or very large (more than 1,000) tended to have less PES contact than those that fell between these size-ranges; those with between 100 and 249 employees tended to have most contact.²¹

Table 5.1

Employers' responses (by country) to the question 'Within your current job role do you have any contact with Jobcentre Plus/*pôle emploi* [etc]?' (2014)

	Total	UK	France	Germany	Spain	Sweden
Yes	42%	33%	49%	44%	40%	43%
No	56%	65%	49%	53%	57%	55%

Source: IPPR/Populus; base: 2,552 ('don't knows' omitted)

Contact with the PES did not reflect perceptions of its quality. For instance, while UK respondents had the least contact with Jobcentre Plus, their perceptions of it were least negative: of UK employers, 2 per cent more had a positive view than a negative view on the efficacy of Jobcentre Plus. This contrasts strongly with respondents in France, Spain and Sweden, where negative perceptions of their respective PES were overwhelming (net -39 per cent, -40 per cent and -45 per cent respectively). German employers' attitudes were also net negative, but more moderately so (at -14 per cent).

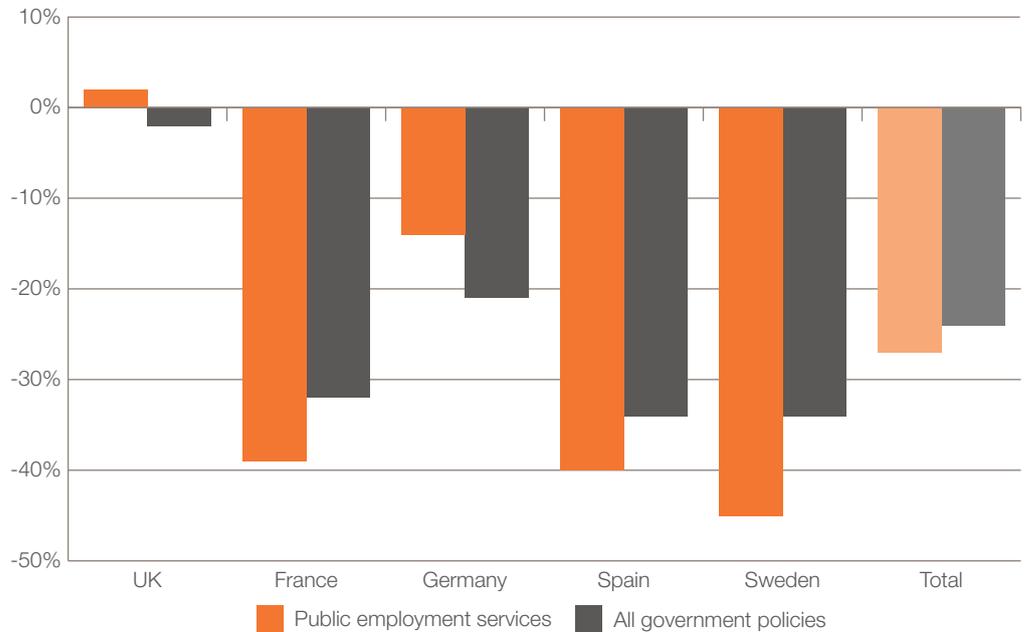
There are many potential reasons why employers in some countries view the PES more favourably than in others. The fact that the Swedish PES, for example, was so negatively perceived by employers is, on the one hand, unusual because it is at loggerheads with internal research conducted by the Swedish PES, which generally reported positive perceptions (see Weber 2012). However, vacancy registration is mandatory in Sweden, and there is a strongly regulated relationship with the PES; there is also a broader negativity toward employment policy generally among Swedish employers. Indeed, the perception of the Swedish PES appears, on the basis of these results, to be linked to the perception of wider government measures. This may be no surprise if employers' most regular contact (if any) with government active labour market policies (ALMPs) is via the PES, as opposed to other agencies that deliver on the demand-side.

Interaction matters: the contact that the PES has with employers is valuable in terms of both designing services and securing vacancies for their clients. For instance, forging connections with employers can enhance the performance of the PES by improving the number of jobs they find for their customers. Research conducted in Switzerland found that caseworkers who had connections to local employers also found jobs for their clients at a faster rate. Specifically, the data showed that the employment probability of these caseworkers' clients was around 3 per cent higher than those of comparator groups (Behncke et al 2007).

21 These results are indicative and based on sample sizes of between 200 and 392 within each business-size band (fewer than 50, 50-99, 100-249, 250-499, 500-999 and 1,000+)

Figure 5.1

Employers' responses (by country) to the questions, 'How effective or ineffective do you think the Jobcentre Plus/*pôle emploi* [etc.] is at making the long-term unemployed more employable?' and, 'Overall, thinking about all government policies and activities aimed at making the long-term unemployed more employable, how effective or ineffective do you think these are?' (net % effective/ineffective) (2014)



Source: IPPR/Populus poll; base: 2,552 responses

5.2 Utilisation and perception of employer incentives

The PES is not the only instrument or institution of ALMP. In our survey we invited employers to recall which of a range of incentives to recruit long-term unemployed candidates they had taken advantage of.

The most common employer incentive taken up by our respondents was wage subsidies (see figure 5.2). Take-up of this incentive was most prevalent among employers in Sweden (recalled in 36 per cent of cases), a finding which reflects the way in which Sweden invests in employment support generally: 44 per cent of that investment supports employer incentives (OECD 2014). Across all five countries, fewer employers recorded having received training grants or subsidies – an incentive most frequently taken-up by employers in France, where investment in training is the central plank of labour market activation policy and funding. Take-up of work experience placements and work trials was also recalled by around one-fifth of all respondents.

Other national nuances are in evidence – while tax incentives were reportedly received by only one in 10 employers in either the UK, Sweden and Germany, receipt of them was roughly double that rate in France and Spain (at 19 and 22 per cent respectively). The extent of provision did not, however, reflect what employers *perceived* to be effective. In the following section of the survey we invited employers to consider which incentives are the most effective for moving the unemployed back into work.

Figure 5.2

Employers' responses (by country) to the question, 'Which of the following incentives, if any, have you received to encourage you to recruit long-term unemployed people at your current place of work?' (2014)



Source: IPPR/Populus poll; base: 2,552 responses ('don't knows' omitted)

While take-up of wage subsidies is common, particularly in Sweden, that does not mean that they are necessarily effective, or that employers consider them effective. Research undertaken on behalf of the UK's New Deal for Young People surveyed employers taking part in that programme, and found that the amount of subsidy available did not influence employers' recruitment practices (Jones et al 2002). Indeed, evidence of the efficacy of employment incentives is ambiguous at best, and their cost in terms of deadweight loss potentially high. For instance, a study by Schünemann et al (2011) of wage subsidies for the LTU in Germany found no evidence that they resulted in either short-run reductions in unemployment or any lasting effects at the three-year mark. A similar study of French wage subsidies (only a small part of the French ALMP investment portfolio) summarised the problem adeptly: 'Although wage subsidy programs may improve hiring and employment prospects of the targeted group, the net effect on unemployment is ambiguous' (Bucher 2008). Where they are used with the objective of helping particular disadvantaged groups into employment (therefore accepting displacement effects and deadweight loss as necessary consequences) such incentives have to be both carefully targeted and carefully designed, particularly where macroeconomic conditions are either benign or improving. While wage subsidies may be welcomed by employers, there is little evidence that these incentives fundamentally change business recruitment volumes.

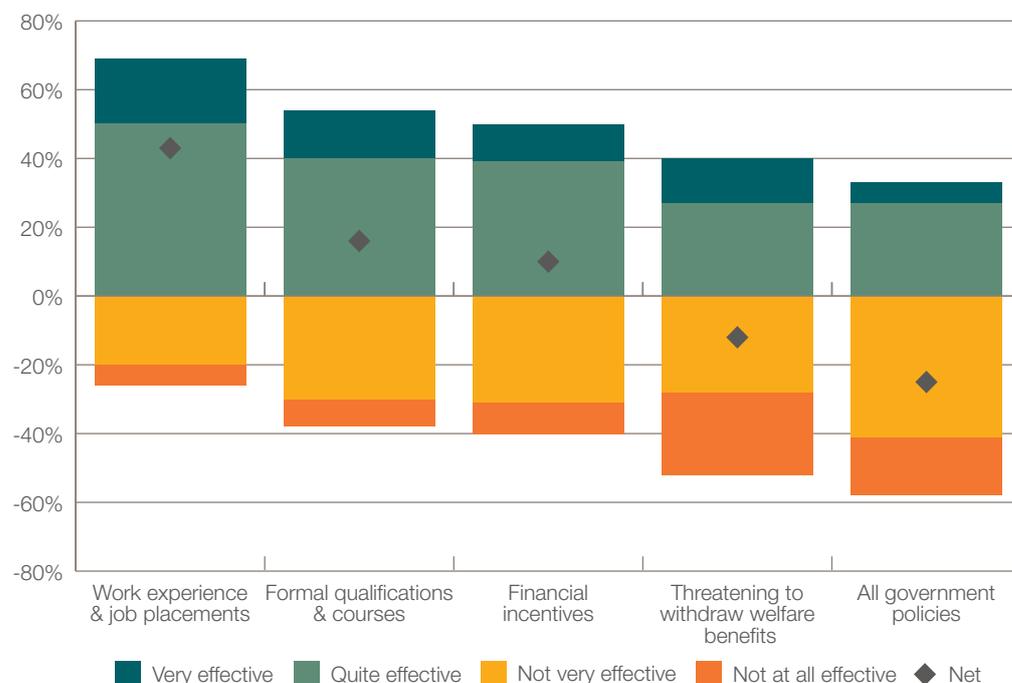
Figure 5.3 below illustrates our respondents' perceptions of specific measures in terms of how effective they are at making the unemployed more attractive as potential recruits. Most striking among these findings is the strongly favourable attitude of employers towards work experience and job placement schemes – measures that give potential employees experience of the labour market without a formal employment contract and which, in trial placements, offer employers the opportunity to 'try before they buy'.

Employers across four of the five countries surveyed had a generally negative view of the effectiveness of the PES in helping the long-term unemployed into work. UK employers were the exception in this regard as, on balance, marginally more of them (2 per cent more) reported a favourable view on the effectiveness

of Jobcentre Plus than an unfavourable one. On the other hand, across each of the five nations the overwhelming majority of employers reflected positively on the effectiveness of work experience and job placements.

Figure 5.3

Employers' responses to the question, 'How effective or ineffective do you think [policy/intervention] is at making the long-term unemployed more employable?' (2014)



Source: IPPR/Populus poll; base: 2,552 responses ('don't knows' omitted)

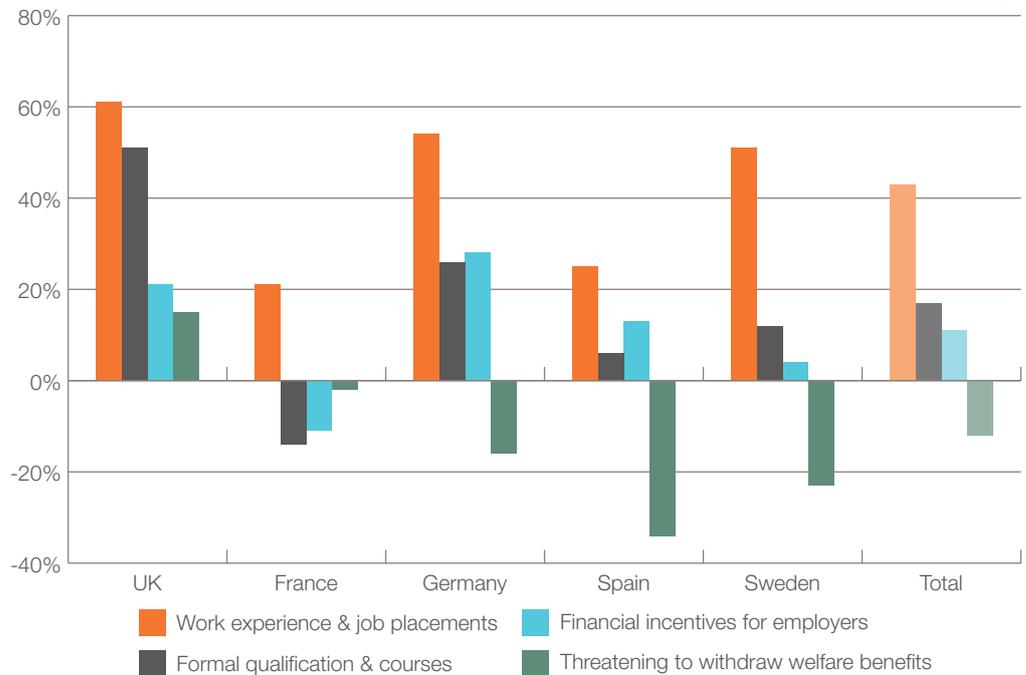
Looking at the national breakdowns of specific measures, attitudes between countries differed widely (see figure 5.4). For instance, the value that employers put on supporting formal training and qualifications was very different. Responses from the UK indicated that formal qualifications are highly prized there, and attitudes towards them among German employers were also notably positive. In the UK's case this supports the Institute for Leadership and Management survey's finding that managers' preference was for the unemployed to achieve professional or vocational qualifications in order to improve their employability (ILM 2009). However, in France employers placed significantly less stock in formal training and qualifications. Further research is required in order to discern whether this is the result of, or in spite of, the emphasis that France puts on formal training as part of its overall activation strategy.

Attitudes towards the use of sanctions²² are also notably polarised: UK employers appear to consider them more effective than not, while attitudes towards them among employers in all other countries were negative – most clearly so in Spain, where 65 per cent of those surveyed felt that sanctions were either 'not very' or 'not at all effective'. Likewise, the perceptions of employers in Spain in this regard fit with what appear to be more broadly sympathetic attitudes towards the labour market status of the Spanish LTU.

22 That is, threatening to withdraw welfare benefits.

Figure 5.4

Employers' responses (by country) to the question, 'How effective or ineffective do you think [each policy/intervention] is at making the long-term unemployed more employable? (net % effective/ineffective) (2014)



Source: IPPR/Populus poll; base: 2,552 responses ('don't knows' omitted)

5.3 Summary and implications for policy

Employers' views are, by their very nature, crucial to resolving long-term unemployment. However, that is not to say that their views in all cases reflect the evidence of what actually helps unemployed people to find work. The task for policymakers is to tread a path between identifying and responding to the employer views that are important to programme design, and working with employers to explain why programmes are designed as they are.

The aspects of these programmes and relationships that businesses most value inevitably vary by the type of employer they are, and by the sector and country they operate in: different businesses present very different 'asks' of employment services. However, it is clear that employers have useful reflections on current incentive offers that policymakers should take into account in order to avoid deadweight – that is, to avoid investing public resources in recruitment subsidies that encourage employers to hire people whom they would have hired anyway.

Indeed, employers have a great deal of constructive information to offer to employment services, not least regarding the vacancies that they have available and the types of recruits that they need to fill vacant posts. Equally, if the objective of government ALMPs is to encourage employers to take on those who are further from the labour market, they need to know what incentives will affect an employer's recruitment behaviour.

That being the case, given their central position in the recruitment process it is both surprising and disappointing that businesses' interactions with employment policy and services is limited, and that even where those interactions did occur employers did not appear to think highly of what employment services had to offer. In the next and final chapter we offer some further reflections on how these relationships can be improved.

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

The LTU face significant barriers in the jobs market. Typically, the longer an individual is unemployed, the greater the challenge he or she faces in returning to the labour market.

The evidence demonstrates that this is not just down to the individual, or to labour demand: candidates' human capital may weaken the longer their spell of unemployment grows, but employers are key actors in providing and denying employment opportunities to the long-term unemployed. Successive experiments have shown that employers do differentiate between candidates – even between short- and long-term unemployed candidates – on the basis of the length of time they have spent out of work, and do so before individuals have the opportunity to demonstrate their suitability for a given job (see for example Oberholzer-Gee 2008)

This presents a challenge both for candidates and for the services tasked with supporting them into work. A detailed understanding of employers' attitudes and behaviours towards the long-term unemployed, and towards the measures and services designed to support them – as we have set out in this report – is essential to overcoming these obstacles.

Our survey of 2,552 employers across five European states confirmed that many employers do indeed differentiate between those who are long-term unemployed and those who are not. Indeed, while a plurality of employers had a positive attitude towards unemployed individuals' preparedness for work, most had clear concerns about their skills profiles and attitudes. The country- and sector-specific nuances in these views will be of particular interest to policymakers and practitioners in their respective states, as it will inform their efforts to tailor services to support long-term unemployed claimants and, where necessary, to reach out to employers to dispel some of the myths about long-term unemployed candidates and encourage progressive businesses to seize an opportunity to widen their candidate base.

However, despite the fact that there is potential for businesses' attitudes and behaviours to inform employment services' strategies, one of the striking findings from our survey responses was that employers considered both those services and employment incentives to be largely peripheral to their hiring decisions. In part this appears to reflect disaffection with what those services are providing. In the UK, for instance, employers value formal qualifications highly, but services for the long-term unemployed are focussed primarily on 'work-first strategies'; the opposite appears true of French employers and services. Equally illuminating was our finding that, overall, fewer than half of employers had any contact with their respective national employment services, and few held employment services (let alone wider government employment policy) in high esteem.

The lack of connection between these two key actors in the labour market means that opportunities are being missed: closer relationships between employers and employment services could result in mutual gains for both sides and, most importantly, benefit long-term unemployed candidates. If the purpose of services is to act as a bridge between candidates and employers, then better knowledge of employer skills gaps could help to inform immediate skills-provision. Equally,

education and support for employers could open up opportunities for a wider field of candidates – a significant minority (10 per cent of all employers surveyed) did not receive any applications from the long-term unemployed. Similarly, closer relationships between employers and services could also offer greater opportunities to candidates: there is evidence that caseworkers who are engaged with local employers have better placement results than those who are not (Behncke et al 2007) and, more widely, relationships with employers can increase the number of vacancies that employment services get on to their books.

6.2 Recommendations

Relationships between employers and employment services are clearly important, but regulating these relationships is unlikely to be the answer. De Koning and Gravesteijn (2012) showed that even in countries where registering vacancies with employment services was mandatory, employment services did not gain full access to available vacancies, nor did services have high levels of contact with businesses. Nevertheless, both sides should take steps towards developing more formal connections, including the following.

- Public employment services should be coordinated at the level of functional economic areas, and should proactively engage with local employers in order to access unadvertised vacancies for the benefit of their clients. It is vital that the geography of policymaking matches the geography in which businesses and their labour markets operate, so that it can better align demand and supply for labour across an area. While there are already instances of this – the welfare-to-work market in the UK, for example (where private providers deal with the very long-term unemployed and economically inactive) – public employment services are often limited to only sourcing publicly advertised vacancies.
- Public employment services should be conducting more detailed surveys of the skills and candidate requirements of local workforces – and employers, if they want to influence the shape of services, should fully participate in these exercises. Public employment services should also be regularly reviewing the incentives they are offering to employers to determine whether they are impacting on hiring decisions.
- Employers should proactively engage with work experience and vocational training schemes. Many of the skills problems employers identified relate to experience of work, and this applies not only to the LTU but to all those over the age of 16 without a vocational qualification, who are most likely to become long-term unemployed later in life.
- Employers should also be prepared to pull their weight and make positive steps towards recruiting longer-term out-of-work candidates. Arbitrarily discriminating against those who have been out of work for six months or more may be an efficient way of screening high numbers of applications, but it also means that employers are missing out on a range of potential candidates who could be up to the job. Employment services can help to change negative perceptions by encouraging work placements and trials, and educating employers about what support can be provided to candidates who are perceived as more risky hires.

Employment services can, and must, make a difference – and within reason there is scope for them to do so. Different countries and labour markets face very different challenges, but the desire to reduce long-term unemployment, and to provide effective services to support those who are out of work, is common to all. While supply-side measures are ultimately no substitute for labour demand, they can make a difference to the chances of those who are out of work by connecting jobseekers with market vacancies and improving the human capital of candidates so that they can compete with those with better CVs.

However, getting the best out of employment programmes is about more than signposting, employability and training: it also depends upon fostering relationships with those who will ultimately provide routes out of unemployment. At the moment, employers are too peripheral to services, and services too peripheral to employers. Bringing both sides together is key to identifying and securing the jobs and skills that will be needed in the future European jobs market.

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ANNEX

PASSIVE LABOUR MARKET EXPENDITURE

The following table illustrates the net replacement rates of the five countries covered by our survey, plus the EU and OECD medians. The higher the number, the closer unemployment benefits are to average wages.

The table illustrates how the generosity of welfare entitlements for the unemployed varies between countries. For instance, Spain's replacement rate is among the most generous of all European countries in terms of supplementing lost wages for both single people and families. The UK, on the other hand, has the weakest replacement ratio – substantially below the EU and OECD averages, but particularly for single people without children.

Table A.1

Replacement rates (at 67 per cent of average wage), 2012

	Single person (no children)	Two-earner married couple (2 children)
Spain	79	89
France	69	84
Sweden	64	83
Germany	59	90
UK	20	67
<i>EU median</i>	<i>65</i>	<i>86</i>
<i>OECD median</i>	<i>64</i>	<i>85</i>

Source: OECD <http://www.oecd.org/els/benefitsandwagesstatistics.htm>