

Long-term unemployment: There is no easy fix

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*The Great Recession has brought with it a significant increase in the long-term unemployed. This is especially concerning as long-term unemployment has detrimental effects on the individuals involved, affecting mental and physical well-being. Concerns about the consequences of long-term unemployment and existing policy evaluations provide a useful framework to evaluate the strategy proposed by George Osborne to tackle long-term unemployment in the UK, writes **Barbara Petrongolo**.*



During the Great Recession, unemployment in the UK increased from about 5% to 8%, with a disproportionate increase in the number of long-term unemployed. Of the nearly 2.5 million currently unemployed, more than one third have been out of work for over 12 months, up from one fifth at the start of the recession, with 20% having 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 have appeared.

Long-term unemployment is a perennial policy concern for several reasons. First, long-term unemployment tends to have detrimental effects on the individuals involved. Workers' human capital (whether actual or perceived by employers) may deteriorate during an unemployment spell, and the time devoted to job search typically declines. Both factors imply that chances to leave unemployment fall with its duration. More generally, long-term unemployment adversely affects the mental and physical well-being of individuals involved and is one of the most important causes of poverty for their households. Secondly, insofar as the long-term unemployed become gradually detached from the labor market, they play a reduced role in the competition for jobs, thereby making them less effective in curbing wage pressure and leading to an even further rise in unemployment and its persistence (see [here](#) for academic work on this).

These and related considerations have motivated a large variety of policies to address the long-term unemployment problem. Policy intervention may involve job search requirements and sanctions in case of insufficient search effort, or direct assistance to the unemployed, including help with their job search process and training provision – and indeed most welfare systems combine elements of both “stick” and “carrot”. In addition, governments may provide wage subsidies to firms who hire the long-term unemployed.

A number of social experiments carried out in the US provide evidence on the effects of job search assistance and tighter search requirements. Their combination often leads to a reduction in the time spent on unemployment benefits. At the same time, the impact on exit rates from benefits into new jobs is less clear-cut, implying that not all transitions off benefits represent new hires (see [here](#) and [here](#)). Similar conclusions have been highlighted for the UK (see [here](#) and [here](#)). Finally, a potential side effect of these and other active policies is displacement of nontreated jobseekers (see [here](#)).

Existing evidence on the effects of training programs for welfare recipients and employment subsidies is – at best – mixed. The overarching conclusion from the US experience is that these programs are often ineffective at improving the re-employment chances of the unemployed and in several cases would not pass a cost-benefit test (see [here](#)). However, longer-term evaluations tend to be more favorable than short-term ones (see [here](#)), and substantial heterogeneity in the impact of these programs implies that they may generate significant benefits for certain groups. Existing evidence for Europe is thinner, but it broadly replicates lessons from the US experience.

While in some cases the policy impact is unsatisfactory because resources allocated are limited relative to the scale of the unemployment problem, in other cases even adequately funded intervention may fail to generate the required synergies between the State employment service and program recipients. For example, studies for both the US and

the UK have shown that benefit recipients are typically not keen on compulsory training schemes or, more generally, on repeated interaction with the employment service, and in some cases may respond to targeted intervention by interrupting their benefit claims (see [here](#), [here](#) and [here](#)). In this case one would observe an impact of policy on the exit rate from (claimant) unemployment, even in the absence of effects on new hires.

Transitions from claimant unemployment into inactivity are not straightforward to evaluate. While they reduce expenditure on unemployment benefits, they may deteriorate further the labor market prospects of those who drop out of the unemployment benefit system. By ceasing to be attached to the labor market, their job finding rates may decline further, and if they become eligible for other benefits, the resulting impact on total benefit expenditure becomes ambiguous.

Concerns about the consequences of long-term unemployment and existing policy evaluations provide a useful framework to evaluate the strategy proposed by George Osborne to tackle long-term unemployment in the UK. According to the chancellor's announced plan, unemployment benefit claimants who have spent two years on the existing Work Programme have three options available to retain their benefits: (i) community work for 36 hours a week, plus 10 hours of job search activity; (ii) an intensive training program for claimants with problems such as mental health issues, drug addiction or illiteracy; (iii) attend the Jobcentre daily, instead of once every two weeks.

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

Mandatory training for the very low-skilled is intended to tackle the specific reasons for the long-term unemployed failure to find jobs. Existing evaluations of the effects of training programs for the unemployed are not clear-cut in general, and the complementarity between the training provided and the skills of the recipients implies that the contribution of these programs to the cognitive skills of the "hard to reach" may be even lower than for the average unemployed. However, these programs may have better chances at improving basic non-cognitive skills such as self-discipline and reliability, by imposing recipients a daily training or work routine.

Finally, the option of attending a Jobcentre daily is highly unlikely to boost job finding – as well as having high administration costs. Such intervention is meant to induce stronger job competition for a given set of jobs, by stimulating job search effort among the long-term unemployed. But fiercer competition for jobs is hardly going to raise transitions into work at times when the number of available Jobcentre openings has reached a historical low of about 1 job posting per 8 unemployed jobseekers. The other issue is whether the long-term unemployed are going to become more effective jobseekers by simply being forced to visit a Jobcentre daily. Back in 1996, when the Jobseekers 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 (see [here](#)). If explicit job search requirements were not effective in a period of rapidly growing labor demand and falling unemployment, there is no good reason to expect them to be effective in the aftermath of a severe recession.

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