

# FROM INACTIVITY TO EMPLOYMENT: RECOMMENDATIONS

## Analysis of the impact of public policies and factors affecting inactivity: Opportunities for raising activity and employment in Serbia

### **Recommendations for raising the activity of youth in education:**

- Conduct research at the nationally representative level on the duration of studies after the reform of the higher education system and develop an in-depth analysis of the relationship between the duration of studies and inactivity.
- Create new jobs, including an institutional environment for them, which could be reconciled with the studying process, with a view to increasing the number of active young people in education. Since more than a half of all college/university students (who are generally closer to the labour market than secondary school students) are studying in Belgrade, this is precisely the region where the creation of new jobs aimed at their activation would be the most desirable.
- Introduce additional criteria, such as the distinction between full-time and part-time students, the year of their enrolment and the like, into the set of criteria defining persons who are in full-time education within the social protection system.

### **Recommendations for activating youth who are not in education:**

- Facilitate activation of inactive mothers by:
  - o creating casual or part-time work-from-home jobs, which could be reconciled with household duties;
  - o improving the system of child care services.
- Establish a closer link between the education system and active labour market policies:
  - o provision of information about training programmes, aimed at reducing youth discouragement regarding employment prospects;
  - o compulsory training in job-seeking skills integrated in the formal education system (registration with the NES, search of job databases, CV writing, vocational guidance etc).

### **Recommendations for raising the activity of the elderly population (55–74):**

- creation of jobs in the field of elderly care or other jobs matching the skills of this age group;
- strengthening employment capacities of the persons losing their jobs in the transition process should start in the shortest possible time after the dismissal;
- accurate mapping of the jobs for which the laid-off persons are skilled, assistance in job-seeking strategies.

### **Recommendations for activating unemployment benefit recipients and pecuniary social assistance beneficiaries:**

- Enhance the activating component of the social transfers policy by:
  - o stimulating unemployment benefit recipients and pecuniary social assistance beneficiaries to engage in more intensive job seeking, through increased monitoring and a combination of stimulation and control measures;
    - more thorough monitoring of unemployment benefit recipients' active job seeking efforts;
    - higher authorisations for social workers to assess job-seeking efforts of pecuniary social assistance beneficiaries fit for work, instead of accepting registration with NES as evidence that a person is an active job seeker;

- *enhanced referral of social transfer beneficiaries with insufficient employment capacities to formal and additional education systems and the possibility of increasing the amount of social transfers for those in education.*
- *Establish more effective communication among social welfare, employment and education systems, to enable integrated monitoring of the activation of social assistance beneficiaries fit for work.*

***The main recommendations on legal employment protection and unemployment insurance:***

1. *Tie the amount of severance pay to the duration of employment with the last employer only, rather than to the employee's total years of service.*
2. *Consider extending the maximum duration of fixed-term employment contracts from the current limit of 12 months to three years.*
3. *Stimulate unemployment benefit recipients to search for jobs more readily by means of:*
  - *more intensive oversight of their behaviour ('help and badger') by systematically checking, monitoring and supporting their job seeking activities, in order to facilitate their re-employment and hinder their inactivity or work in the informal sector.*
  - *awarding subsidies for fast re-employment to compensate for the 'lost income' of unemployment benefit.*

***Recommendations on active labour market policies***

1. *It is of essence to adhere to the provisions of the National Employment Strategy 2010–2020, which foresees that budgetary allocation for ALMP should be increased to 0.4% of GDP by 2013 and to 0.5% of GDP by 2020.*
2. *Increase allocations for employment counselling and job matching measures. Since these measures are generally rated as highly effective in increasing employment, which is verified by their evaluation in Serbia, the share of expenditures for these measures in the total budget for active labour market programmes should be increased. This would also enable the introduction of more frequent counselling services, for instance every 15 days, as opposed to the current practice of one counselling session in three months. An increased budget for these activities would also allow for a decrease in the number of unemployed persons per one employment counsellor in the National Employment Service, which, coupled with continuing client guidance by the NES, would contribute to personalising the relationship between employment officers and registered unemployed persons, among whom many are essentially inactive at the moment.*
3. *Vocational education and training programmes should be designed so as to better meet the needs of less educated beneficiaries. Our analysis has indicated that the education level of the inactive population is exceptionally low, which implies that an increase in their labour market participation is possible only if all these individuals are offered better programmes of vocational education and training.*
4. *It is necessary to change the widespread practice of delivering general training programmes and to turn more attention to thoroughly redesigning the entire programme concept by shifting the focus from classroom training to practical on-the-job training (training at the request of a particular employer).*
5. *The programmes such as 'The First Chance' should also be developed for youth with incomplete secondary education. According to our analysis, young people with work experience are less likely to be inactive.*

### **Recommendations on pension system reform**

*Given the characteristics of the Serbian pension system, in order to make work pay for the elderly population, and to increase their labour market participation, it is necessary to:*

- *Tie the amount of the pension not only to the contributions paid, but also to the life expectancy in retirement. If an individual has fulfilled the criterion regarding the minimum number of years of paid contributions and if they decide to retire early, the system could consider an option where the amount of their monthly checks would be set at a level that ensures that their total lifetime pension income in the case of early retirement matches their expected pension income if they retired at the standard retirement age. Such a measure would discourage early retirement, which should contribute to the increase of elderly people's labour market participation.*
- *Raise the minimum age for early retirement. In addition to adjusting the amount of pensions on account of early retirement, it is also necessary to raise the minimum age for early retirement. In Hungary and the Czech Republic, for instance, early retirement is allowed only three years before the full retirement age. In Poland, early retirement is not allowed at all. In Serbia, however, early retirement is granted to men already at 53 years of age, provided they have paid contributions for 40 years. If a person has paid contributions for 45 years, they are allowed to retire at any time.*

### **Recommendations on the implementation of the active ageing concept**

*The concept of active ageing in Serbia was first supported by the National Employment Strategy 2005–2010, followed by the new strategy for the next ten-year period. These documents underline the need to resolve the problems of elderly workers affected by privatisation and restructuring processes, and, correspondingly, propose the following set of measures:*

- *support to flexible forms of employment, modelled for elderly workers. These employment forms are still insufficiently developed, accounting for only 9% of overall formal employment. Moreover, the tax system discourages them by setting a high minimum contribution base, which is the same for full-time and part-time employment;*
- *provision of incentives to employers to hire and retain elderly workers by subsidising taxes and contributions;*
- *delivery of computer literacy training for the elderly, especially the highly-qualified workers;*
- *higher inclusion of elderly workers in active labour market programmes, especially in active job seeking initiatives, as well as the award of employment and self-employment subsidies.*

### **Recommendations on working hours regulations and non-standard forms of employment**

*The Labour Act should be amended so as to include provisions explicitly stipulating that employers and employees are at full liberty to negotiate the working hours arrangement and the way that work is organised. Tax incentives should be created for part-time employment, such as 'mini' and 'midi' jobs in Germany.*

*It is also vital to create more efficient and effective community-based services, including childcare, kindergartens and the care for elderly and disabled persons.*

### ***Recommendations for an education system aimed at increasing activity of the population***

*Since it has been established that higher education levels in Serbia increase individual activity, young people should be stimulated to pursue the highest and most comprehensive education available to them. Accordingly, secondary education should be made compulsory for all. University education should be expanded in terms of the coverage of young generations, with intensified quality control. The revival of life-long learning should help to maintain high activity rates among the middle-aged and elderly generations.*

### ***Recommendations on the availability of services of preschool institutions***

- 1. It is vital that local governments also provide childcare services in preschool institutions to unemployed parents for a few hours per week, so as to give them an opportunity to actively search for jobs. This is particularly significant for unemployed single parents.*
- 2. In order to make the above recommendation feasible, efforts should be invested in expanding the capacities of the existing preschool institutions and establishing new ones.*

## SUMMARY

In addition to strikingly high unemployment, the Serbian labour market also features high inactivity, especially in the period after the economic crisis. The inactivity bulk consists of very heterogeneous population groups, whose inactivity is less conspicuous than their unemployment, which is why it has drawn less attention from the general public, even from the public policy-makers. Nevertheless, its economic and social repercussions, especially for the working age population not in education, are very similar to the effects of unemployment. The rise in inactivity in the times of economic downturn was primarily caused by the growing number of inactive persons above 55 years of age (whereas the number of inactive persons in the 15–54 age group decreased), accounting for about 60% of the inactivity tally, which has increasingly meant that the inactivity problem in the recent years has been that of reactivating the elderly population. As long as inactivity rate is high, the Serbian economy will be wasting plenty of untapped potential, which also applies to any other country's economy. This is exactly the reason why the European Union's new strategy for sustainable growth and employment, Europe 2020, sets the targets for increasing the employment rate of the population aged 20–64 to at least 75 percent. As a country aspiring to join the European Union, while still considerably lagging behind the EU levels in this respect, Serbia needs to adopt policies aimed at raising the adult population's activity rate, which would, in time, ensure the use of the country's full labour potential, provided that the prerequisite of increased labour demand has been met.

The study identifies three fundamental groups of inactive persons, explores the specific causes of their inactivity and formulates the most important recommendations for the policies that would contribute to higher activity rates of the working age population. The research is significant for a number of reasons. Firstly, the increase of employment is key to reducing poverty and social exclusion. Secondly, despite the relatively high economic growth rates over the past decade, creation of new jobs has been insufficient and employment figures have decreased by approximately 500,000 persons since the beginning of the crisis, which means that Serbia will be facing a huge challenge struggling to reach the employment targets of the National Employment Strategy until 2020, set at 66% for the population aged 20–64. Thirdly, population ageing will augment the problems related to activation of elderly workers, but the failure of the active ageing concept would increase the pressure on the pension and social welfare systems. Finally, unemployed or inactive youth entails missed opportunities for achieving higher economic growth rates in the long term. When facing prolonged periods of unemployment, young people tend to lose their knowledge and skills, hindering their entry or re-entry into the labour market, which increases their likelihood of becoming permanently 'scarred' in terms of lower total life-long income or, in more severe cases, the possibility of developing deviant behaviour.

On the one hand, high inactivity in Serbia is the result of the harsh economic situation and the insufficient number of vacancies, which all groups of inactive persons have found very discouraging. Labour demand factors were identified a long time ago as pivotal reasons behind the poor performance of the Serbian labour market. Both national employment strategies so far (the first, effective in the period 2005–2010, and the second, effective since 2010 until 2020), as well as various official and unofficial strategies for economic growth, have extensively addressed the issues regarding the reform of the overall economic climate and the enhancement of the institutional environment in the labour market.

On the other hand, in contrast to unemployment, which is primarily determined by the scope and structure of labour demand, inactivity is equally importantly determined by self-governing factors influencing the supply of labour, i.e. the decisions of individuals not to offer their work in the labour market. As concluded by the analysis below, these factors vary depending on the age and sex of inactive persons.

The research methodology used in this paper is based on the idea that ensuring the reliability of findings requires the use of a single database of individual data (Labour Force Survey – LFS was used, as the only adequate data source), as well as that, given the heterogeneity of the inactive population, it is necessary to consider the characteristics and causes of inactivity separately, according to vital structural qualities of inactive persons. In the first step, therefore, an in-depth empirical analysis covered three major groups of inactive persons: youth (15-29), middle-aged (30-54) and elderly persons (55-74).

Further analysis has indicated the existence of five groups of inactive persons, differing in the causes of their inactivity and the likelihood of activation. Among elderly and middle-aged persons, three very contrasting groups of inactive persons have been identified: pensioners, housewives and the so-called inactive unemployed persons (those who are not actively looking for a job, yet perceive themselves as unemployed), whereas youth is divided in two groups: persons in education and those out of education.

Pensioners and housewives have slim chances for activation. Faint prospect of reactivation of pensioners, who account for just under a half of all inactive persons, is caused by the absence of desire to work and by ensured means of livelihood. On the other hand, slim activation outlook of housewives relates to the division of work in the family and/or to their involvement in household-based production, which, in conjunction with low education levels and the lack of work experience outside the household, suggests poor likelihood of employment for this group, too. In the short term, young people in education, who account for about a quarter of all inactive persons, are also unlikely to become active. Their inactivity stems from the lack of desire to work, which is, on the one hand, not uncommon given their primary orientation towards education. However, for a number of young people in education, inactivity is associated with the absence of institutional incentives to harmonise work with education. Furthermore, the education process in Serbia, especially that of higher education, typically lasts considerably longer than envisaged, resulting in immobilisation of a significant part of the potential labour force that could possibly introduce more dynamic trends in the labour market.

On the other hand, the possibilities for activation of inactive unemployed persons and youth out of education are considerably greater. Inactive unemployed persons' desire to work is much stronger (especially among persons under 55 years of age), the principal reason for their inactivity being discouragement regarding the likelihood of finding work. Among the persons above 55, who have become inactive after losing their jobs in the transition process, downheartedness is more intense and relates to their initial failure to find jobs after years of secure employment, as well as to low self-assessment of their own capacities, which includes poor health condition. Young people outside education are also found to be willing to work. For those who have not yet started their families, the most prominent causes of inactivity include discouragement and/or disinterest in entering the labour market. On the other hand, inactivity of women who have children is somewhat more complex, but essentially temporary in nature, since they are able to re-enter the labour market once their children have grown up. The most difficult situation is that of women who are clinched between taking care of their children and of their incapacitated parents or elderly relatives.

In the last two groups, inactivity is strongly linked to both sex and family status of individuals: marriage and parenthood increase inactivity among women, and decrease it among men. Inactivity is, additionally, higher among persons with low educational attainment and among those that can rely on income from social transfers or income of other household members. A separate analysis of the impact of the two main social transfers conditional on labour market activity – unemployment benefit and pecuniary social assistance – indicates that their recipients are not encouraged to be active or are even less active in the labour market compared to individuals with similar characteristics. While, on the one hand, the inactivity of unemployment benefit recipients is higher than that of other individuals registered with the National Employment Service, on the other hand, although a formal requirement for access to pecuniary

social assistance is that recipients fit for work should seek employment actively, they fail to do so in a large number of cases. Our analysis of parameter characteristics of these transfers indicates that the main problem lies in the lack of incentive for activation and shortcomings in overseeing the behaviour of their recipients, rather than in their overgenerosity.

We are of the opinion that the current labour taxation system presents a serious obstacle to the functioning of the labour market, both on the labour demand side and on the supply side, which is the primary focus of this study. More specifically, the high tax wedge on lower-wage labour (e.g. at the level of the minimum wage) means lower net wage and, consequently, lower opportunity cost of inactivity. On a related note, the status of being formally employed is almost incompatible with the possibility of receiving pecuniary social assistance, which also represents a disincentive ('the inactivity trap') for true activation of working-age individuals from poor families. Further, we analyse other institutional deficiencies of the Serbian labour market affecting the high inactivity rate: the interaction of relatively high legal employment protection and insufficient oversight of unemployment benefit recipients' job seeking activities, as well as a very modest level of active labour market programmes and insufficient emphasis of their long-term activation role are also factors affecting the higher outflow of labour force members into inactivity and/or unemployment and longer spells of these statuses.

The main proposals for labour taxation system reform comprise the following:

1. increase the non-taxable portion of the wage, preferably up to the minimum wage level;
2. consider a selective reduction in social insurance contributions chargeable to the employer, solely for lower-wage labour;
3. consider a selective reduction in social insurance contributions chargeable to the employee. The criteria for selective reduction could be as follows:
  - reduce contributions only for those receiving the minimum wage or earning a below-average wage, or
  - reduce contributions only for the lower-wage sectors, or
  - reduce contributions only for younger workers with below-average wages,
4. adjust the minimum contribution base for actual hours worked or abolish the minimum contribution base altogether;
5. consider re-introducing non-taxable employee benefits (e.g. meals allowance, holiday allowance) up to a fixed, universally applicable maximum amount.

The main proposals for social benefits reform within the social policy system comprise the following:

1. enable retaining pecuniary social assistance and child allowance even after obtaining formal employment, with a possible reduction of benefit amounts in steps, up to a specified maximum wage level,
2. consider the effects of introducing individual or family work benefits.

The main recommendations on legal employment protection and unemployment benefits:

1. link the amount of severance pay to the duration of employment with the last employer only, rather than to the employee's total years of service;
2. consider extending the maximum duration of fixed-term contracts from the current limit of 12 months to three years;
3. stimulate unemployment benefit recipients to search for jobs more readily by means of:
  - a) more intensive oversight of recipients' behaviour ('help and badger') through systematic checking, monitoring and support of beneficiaries' job seeking efforts to assist their re-employment and hinder inactivity or informal work;
  - b) awarding subsidies for fast re-employment, which would compensate the 'lost income' from unemployment benefit.

Recommendations on active labour market policies:

1. it is necessary to follow the recommendations adopted within the National Employment Strategy 2010–2020, foreseeing that appropriations for ALMPs be increased to 0.4% of the GDP by 2013 and further to 0.5% of the GDP by 2020;
2. increase appropriations for counselling and job matching measures. This would enable reducing the number of unemployed clients per employment counsellor at the National Employment Service and, along with continued efforts towards client focus in the NES, it would contribute to personalising the relationship between counsellors and the registered unemployed, which currently include many essentially inactive individuals; further education and training programmes should be designed so as to better respond to the needs of the lower-educated beneficiaries;
3. it is necessary to abandon the prevailing practice of general training programmes and direct more attention towards a detailed redesign of the overall programme area, shifting the focus from classroom training to on-the-job training (known as ‘training at the request of a particular employer’);
4. larger-scale programmes targeting youth (such as ‘The First Chance’) should also be designed for youth without secondary education. Our analysis indicates that work experience reduces the likelihood of inactivity among youth.

In the sphere of further pension system reform, it is necessary to work on raising the minimum age for early retirement and also adopt a solution fairer in actuarial terms, whereby the pension amount would be tied not only to the contributions paid, but also to the life expectancy in retirement. Linked to this is the promotion of the active ageing concept, which was first supported in Serbia within the National Employment Strategy 2005–2010, and subsequently also in the new strategy covering the next ten-year period. These documents highlight the need to solve problems of elderly workers affected by affected by the privatisation and restructuring processes and the following set of measures is proposed in that regard:

1. support flexible forms of employment adapted to elderly workers;
2. provide incentives to employers to hire and retain elderly workers through subsidising tax and contributions;
3. provide IT literacy training for elderly, especially highly skilled workers;
4. increase the inclusion of elderly workers in active labour market programmes, especially in active job seeking initiatives and employment and self-employment subsidies.

Recommendations on education naturally flow from an analysis of youth inactivity and the overall educational profile of inactivity. As the likelihood of inactivity decreases with the increase in education level, raising the population's education level in the long term, in particular that of youth who are still in education, would affect activity growth. In this context, introduction of compulsory secondary education and expansion of higher education are proposed, with adherence to quality standards and consistent implementation of education reform that would lower the number of youth dropping out of the education process and reduce the average duration of studies.

With a view to higher activation of mothers with young children, the capacities of pre-school institutions should be expanded. Child care services could thus be offered to unemployed parents as well, at least for a few hours per week, which would facilitate their active job seeking efforts. This is particularly important for unemployed single parents.

Inactivity is frequently brought about by care for elderly family members. Local-level initiatives, such as the elderly carers programme, should be stimulated, given that such programmes ensure direct job creation for unemployed women without qualifications or with very low qualifications, and indirectly also labour market access for women who would otherwise not be able to join the labour force owing to a lack of appropriate care services for their family members.