

## Employment

### ACTIVE LABOUR MARKET POLICIES TO FIGHT YOUTH AND LONG-TERM UNEMPLOYMENT

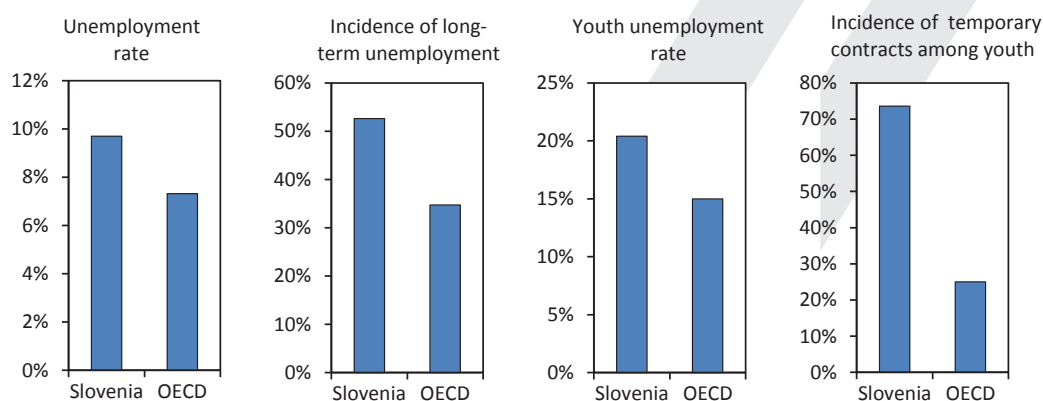
- ▶ Unemployment has more than doubled since the start of the global crisis and has remained at a high level. More worrisome, the incidence of long-term unemployment in Slovenia is among the highest in the OECD.
- ▶ The crisis has hit the youth the hardest, leaving more than one in five young workers without a job.
- ▶ The high youth unemployment rate is also a consequence of the high labour market segmentation. The 2013 labour market reform and the phasing out of preferential treatment of student work in 2015 were bold steps in the direction of reducing labour market duality.
- ▶ But further steps are needed for full recovery: more extensive and better-targeted active labour market programmes (ALMPs) as well as adequate social protection for those not making the transition.

#### What's the issue?

The unemployment rate rose by around 6 percentage points after the start of the global financial crisis to peak in excess of 10% at the beginning of 2013, before declining slightly to 9.7% by end-2014. The prospects of the unemployed remain dire. More than half of unemployed persons have now been out of work for more than a year, which is considerably higher than the OECD average (see Figure). Moreover, almost half of the unemployed do not receive any income support in Slovenia, facing substantial risk of poverty.

The crisis has hit youth the hardest, more than doubling the unemployment rate in the 15-24 age cohort and leaving one in five young workers without a job. The share of the youth population that is not in employment or in education and training (NEET) has also been on the rise. An important factor contributing to the vulnerability of youth is the traditionally high segmentation of the Slovenian labour market: the incidence of temporary contracts among young workers is close to 74% and is the highest in the OECD by a wide margin. This has exposed

#### » The risk of unemployment is high in Slovenia, especially among youth



Notes: Data refer to Q4 2014 for the unemployment rate, Q3 2014 for the incidence of long-term unemployment and youth unemployment, and 2013 for the incidence of temporary contracts. The figures for the OECD represent a weighted average of all OECD countries except Chile.  
Source: OECD Employment Database.

the young to cyclical economic fluctuations more than in most other developed countries.

The effective implementation of the 2013 new labour market legislation by the Slovenian government is a very important step towards eliminating the duality and increasing the flexibility of the labour market. By loosening one of the most restrictive employment protection legislation (EPL) for permanent contracts in the OECD and fostering the convergence of employers' termination costs across contract types, the government has removed an important roadblock along the way to integrating the least employable groups into the labour market. Another reform, launched in February 2015, phased out the preferential treatment of student work, which was another major factor behind labour market duality in Slovenia. The reform introduced healthcare and pension contributions for student work and a minimum hourly gross wage rate, increasing the cost of student work, but keeping its flexibility.

However, further coordinated efforts are necessary to effectively reduce labour market slack while providing adequate social protection to those not making it. The most important area concerns active labour market programmes, on which Slovenia spends only around 0.3% of GDP, half of the OECD average. In addition, Slovenia's tradition of low income inequality and generous social insurance calls for extending the safety net to those not eligible for the current benefits. There is a need to reduce existing disincentives to work, induced by relatively high average effective tax rates and minimum wage, and a generous benefit structure for those eligible. This must therefore be coupled with a simultaneous increase in the share of unemployed receiving some form of income.

## Why is this important for Slovenia?

Reducing the economic and well-being costs associated with unemployment in general, and increasing the employability of young and low-skilled workers in particular, should be a prime policy objective. Long spells of unemployment often result in skills depreciation and a loss of motivation for finding work, and can easily turn into structural unemployment and low participation rates. High youth unemployment is especially detrimental to skill formation and can have long-lasting implications for career development, not to mention that it often concerns the most vulnerable and credit-constrained segment of the population.

## What should policy makers do?

- ▶ Increase resources for active labour market policies and encourage greater participation in existing programs (e.g. job counselling, job search services and training).
- ▶ Better target active labour market policies to the long-term unemployed and the low-skilled (e.g. by developing new schemes with market-relevant content that are specifically targeted at these groups such as as vocational programmes or job-brokerage of employment services).
- ▶ Create a system of independent evaluations of individual ALMPs in order to improve their efficiency in light of the main features of the Slovenian labour market and economy.
- ▶ Reduce existing disincentives to work while simultaneously decreasing the high share of unemployed without any source of income by ensuring that the more liquidity-constrained young workers can benefit from an extended duration of unemployment benefits (beyond three months).
- ▶ Further reduce duality by making conditions across different contract types more similar.



## Further reading

OECD (2015), *OECD Economic Surveys: Slovenia*, OECD Publishing. [http://dx.doi.org/10.1787/eco\\_surveys-svn-2013-en](http://dx.doi.org/10.1787/eco_surveys-svn-2013-en)

OECD (2015), "How does Slovenia compare?", country note to the OECD Employment Outlook 2014, OECD Publishing. <http://www.oecd.org/els/emp/EMO-SLO-EN.pdf>

OECD (2014), *Slovenia: Reforms for a strong and sustainable recovery*, OECD Publishing. <http://www.oecd.org/slovenia/2014-05-Better-Policies-Slovenia-EN.pdf>