



Reducing inactivity rates in Europe

8 MAY 2023

Introduction

Persisting labour force shortages and the number of unfilled vacancies across the EU bring about the following questions: are there any additional people who can be attracted to the labour market? And, if so, why do they remain outside the labour market and do not seek to (re-)integrate?

An important labour market phenomenon is **inactivity**, rather high across the EU. According to Eurostat in 2021, around 1 in 4 people (26.4%) in the EU aged 15-64 was outside the labour force, corresponding to 74,4 million people. There are significant differences between Member States (over 37% in Italy and 17% in Sweden) as well as between different regions within a given Member State.

In view of the shrinking working age population due to ageing combined with serious labour and skills shortages, it is essential to prioritise effective policy actions at EU and national level to reduce inactivity. Activation on different sub-groups of the economically inactive population is crucial to ensure a sufficient labour supply, secure the financial stability of social security systems and to promote social inclusion and a more inclusive labour market. Reducing the inactivity is also crucial for the inactive themselves as it offers access/return to professional stability, self-sufficiency and professional development.

Main recommendation

BusinessEurope would welcome if the European Commission supported the EU PES Network in improving its cooperation with private employment services across Europe, as well as between employment services and social services, with a view to reducing inactivity rates and progressing towards the EU and national employment rate targets set as part of the European Pillar of Social Rights Action Plan. National specificities and practices should be always taken into account while proposing potential actions.

Background

People who are outside of labour market are those who are neither employed nor unemployed and they do not have a job and a/ are not actively searching for a job and/or b/ are not immediately available to work.



The inactive population is a very broad category and includes such sub-categories as students, pensioners and homemakers, provided they are not in employment or registered as unemployed. These various categories of the inactive are attached to the labour market to a varying degree; as a consequence their activation potential is different. The EU-LFS data confirms that a significant share of the inactive population wants to work and is potentially available for work¹. If they are provided tailored support, for example childcare provision for young mothers with caring responsibilities or flexible work schedule for older workers, they are likely to (re-)enter labour market and remain professionally active.

European employers are in the search for labour force and talent. Activating the inactive can be one of the most effective options to tap into the needed human potential. While the private sector can go a long way, dedicated public sector support is often needed. The coordinated approach is needed as the inactive are likely not to fit with the criteria for different categories of support. The inactive are not a usual target group for public employment services (PES), however, developing the offer to support the activation of the inactive groups is urgently needed. Social services, either public or provided by non-governmental organisations, are essential preliminary stage to prepare the inactive for further activation measures, but quite often lack connection with the labour market. In such a case all social support does not result in labour market outcome which would be taking up and remaining in employment.

With this note BusinessEurope aims to analyse reasons for inactivity across the EU Member States, discuss existing solutions and assess their effectiveness as well as propose necessary measures. Roles and responsibilities of different stakeholders will also be discussed.

Characteristics of the inactive

The data from EU-LFS provides a worrying overview of **the scale of inactivity** in the EU. In 2022 the inactivity rate exceeded 37% in Italy; at the same time over 30% inactivity rate is found in four EU Member States (Croatia, Romania, Greece and Belgium). In 2018 the majority (80%) of the non-employed population aged 15-64 was considered inactive and only about 20% were unemployed.

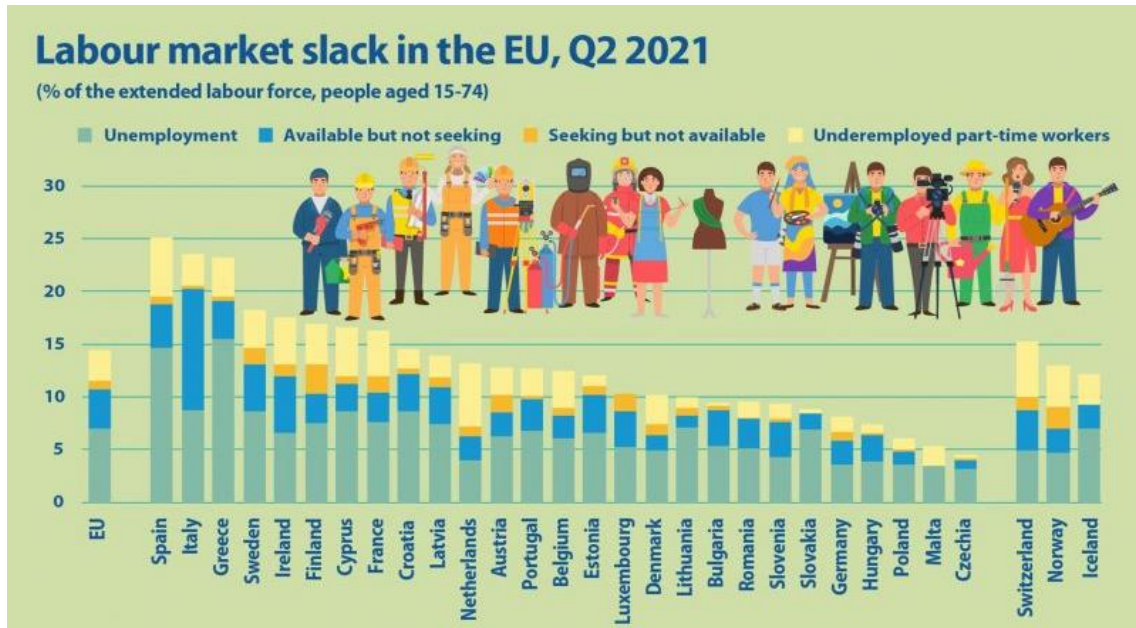
The latest developments in the labour market linked to the COVID-19 pandemic and its containment measures have highlighted the relevance of looking further than unemployment to detect potential additional labour force. If we add to the previously described group of the inactive – not working and not searching for work and/or not immediately available - part-time workers who would like to work

¹ The European PES Network, *Activation of the Inactive: PES initiative to support the activation of inactive groups*, Thematic paper, p.7.



more², we can assess **labour market slack**³ that is a good indicator of the potential pool of additional labour force. The figure below presents labour market slack in the EU-27 and EEA countries.

Figure 1.



Source: Eurostat (2022).

Labour market slack tends to be more than twice as large as the unemployment. It also tends to grow more than the unemployment and recede slower. A new category – “employed but not working” – emerged as a new category of labour market slack during the Covid-induced closures (Q2 2020). This phenomenon can be repeated if, for some reason, short-term work schemes (STWS) were to be introduced.

According to the ILO concept of the labour force, there are **different sub-categories** of the inactive people (% of the inactive, data from 2019):

- People who are in education or training (35%)
- People with caring responsibilities (17%)
- People with health problems and disabilities (16%)
- Retired (14%)
- Those discouraged and believing that no work is available (4%)⁴.

² Those on part-time contracts who would like to work more can be described as “underemployed part-time workers”. There may be different reasons for their underemployment: they may be not able to work more hours due to a lack of employment opportunities, but this category also includes people who are not able to work more hours due to health issues. From the activation point of view, the first group is “the real labour market slack” that can increase the number of their work.

³ More info can be found at [Eurostat](https://ec.europa.eu/eurostat/).

⁴ The share of the discouraged in the inactive population is relatively small, however, in Italy, Portugal, Croatia and Latvia discouraged individuals are quite numerous (over 10% of the inactive).



It is worth noting that those in education or full-time training are not the primary “activation target” as it is likely that their transition to the labour market will be smooth thanks to the newly acquired competences. Moreover, a cautious approach is needed as regards retired people: those retired long time ago will be very difficult to bring back to the labour market due to an already changed lifestyle and inevitable skills gap. However, those who have retired recently may be still interested in continuing their professional activity, possibly making use of flexible working time arrangements or appropriate work organisation. This group can turn out to be a “quick win” and well-designed activation measures may prove very effective.

The table below presents differences related to country specific patterns of inactivity.

<i>Reason for inactivity</i>	<i>Country specific remarks</i>
<ul style="list-style-type: none"> Disability 	<p>Particularly common in Denmark, Norway.</p> <p>The employment gap of the people with disabilities compared to prime-age is highest in Hungary (70%) followed by Slovakia and Poland. Accounts for 60% in Ireland and 52% in Belgium and the Netherlands.</p>
<ul style="list-style-type: none"> Homemakers 	<p>Particularly common in Malta, Cyprus, Ireland, Italy and Poland.</p> <p>Mothers (aged 25-54) with young children have particularly high inactivity rate and low employment rates.</p>
<ul style="list-style-type: none"> (Early) retirement 	<p>Particularly common in Croatia, Slovenia and Austria.</p>
<ul style="list-style-type: none"> NEETs 	<p>Particularly common in Bulgaria, Italy, Romania (exceeds 10%).</p> <p>Inactive NEETs account for 6,2% of young people (age 15-24).</p>
<ul style="list-style-type: none"> Discouraged workers 	<p>Comparatively high in Italy, Portugal, Croatia and Latvia.</p>

Source: own elaboration based the European PES Network, Activation of the Inactive: PES initiative to support the activation of inactive groups, Thematic paper, pp.10-11.

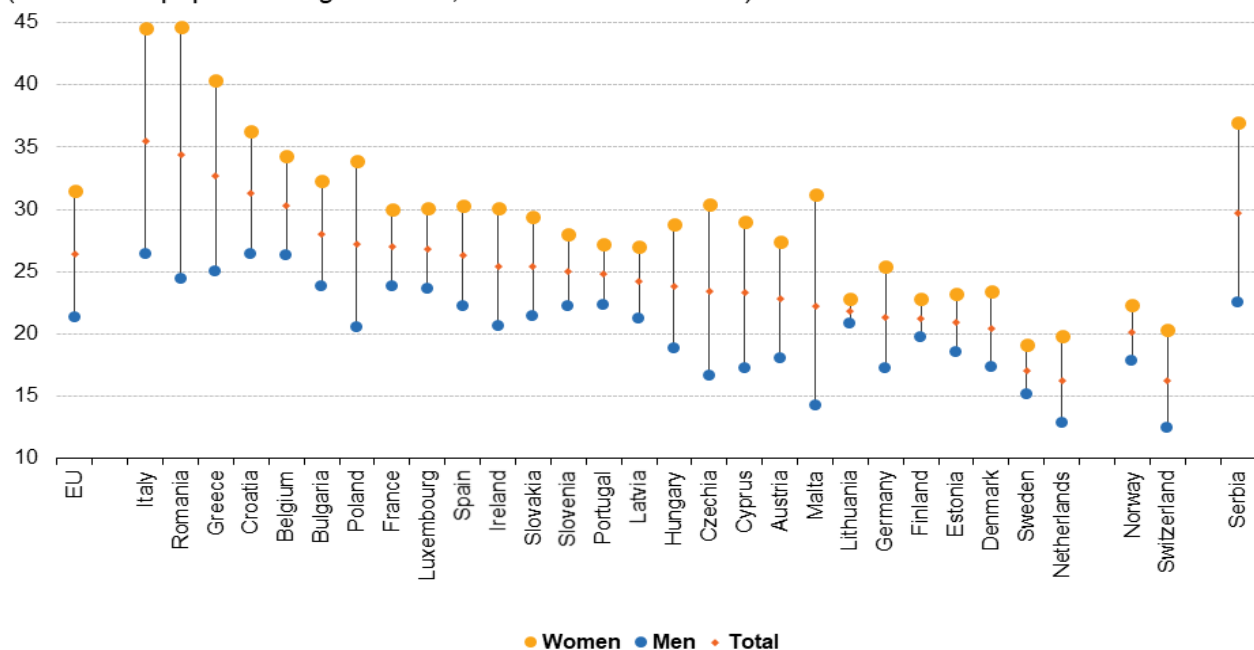
In all countries, **the share of women outside the labour force was higher** than that of men. In Romania, Italy, Malta and Greece, the share of women outside the labour force exceeded the corresponding share of men by more than 15 p.p. Romania, Italy and Greece also had the largest shares of women outside the labour force in the EU, with more than 40 % of women in all three countries outside the labour force. The figure on the following page presents the share of the inactive by sex and country.



Figure 2.

Share of people outside the labour force by sex and country, 2021

(in % of the population aged 15-64, total and for each sex)



Source: Eurostat (online datacode: lfsa_ipga)

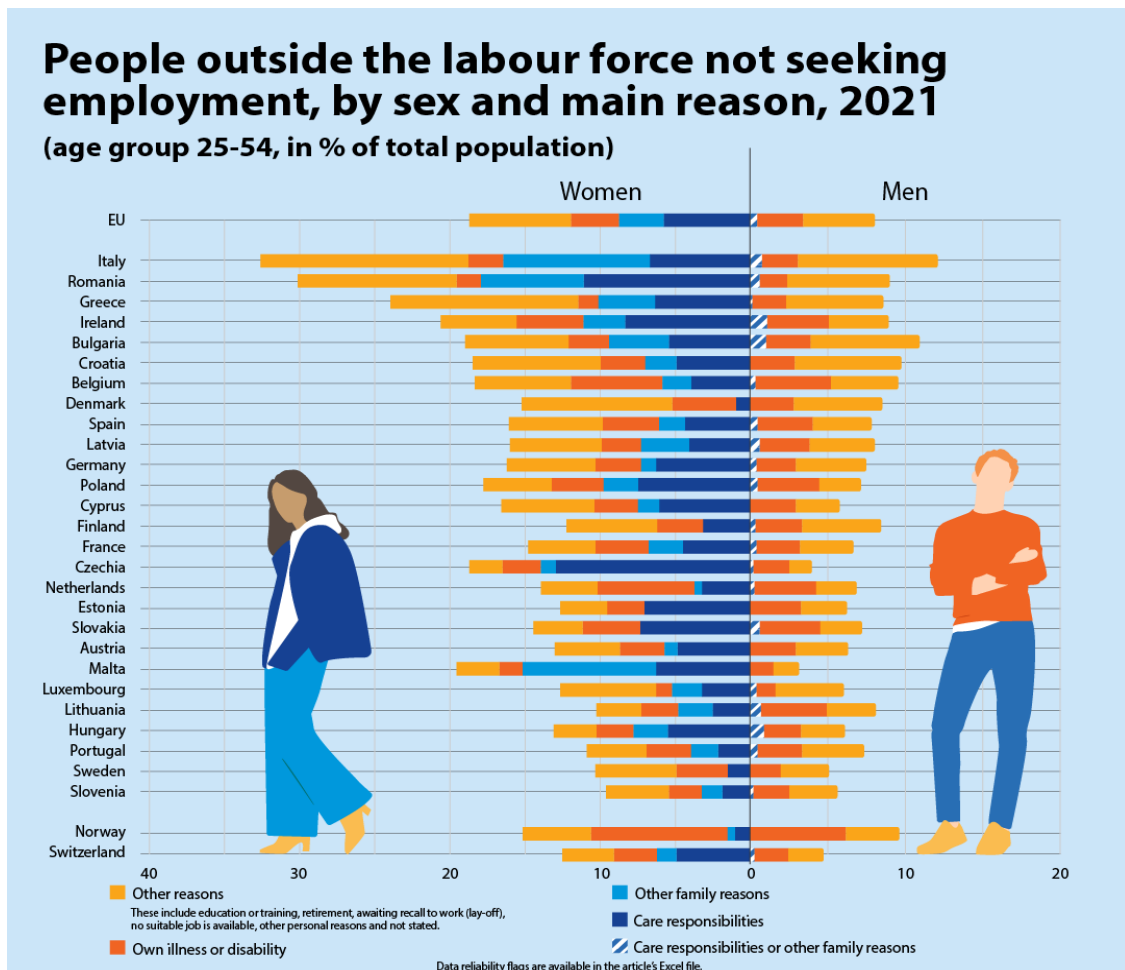
eurostat

Understanding the reasons for inactivity

The figure on the following page presents the share of different **reasons for not seeking employment**:

- Own illness or disability
- Care responsibilities
- Other family reasons
- Care responsibilities and other family reasons (a combined category experienced mainly by men)
- Other reasons (for example participation in training, retirement, lack of suitable job etc.).

Figure 3.



ec.europa.eu/eurostat

Source: Eurostat 2022.

The picture is striking: **care responsibilities and other family reasons are reported to affect women to a much greater extent than men**; a very small proportion of men being affected by this factor. Romania (8,5%), Bulgaria (6,4%) and Hungary (6%) had the highest shares in the EU of young women outside the labour force, not seeking employment due to care responsibilities or other family reasons⁵.

At the same time there is a link between **provision of good quality and affordable childcare** services and female employment rate. A good example of this positive correlation is Denmark, which is the EU Member State with highest levels of young childcare coverage: around 70% of children between 0-3 years old in 2016. At the same time, female employment participation in Denmark stood

⁵ More information can be found [here](#)



at 73,2% in 2019. Career management companies, especially in Germany, are starting a project to support young mothers to return to work more smoothly after a parental leave period.

In this context, it is worth noting that prime age women (between 25 and 49 years old) with childcare responsibilities are the largest category of those willing to take up work (their reported willingness to work is 32%). The second largest group willing to work are prime age men with health problems or disabilities. At the same time, the least motivated group for activation are older workers (aged 55-64) who are less interested in seeking (full-time) employment, even though it remains a crucial priority to make progress towards active ageing in line with the 2017 EU social partners autonomous agreement. **Understanding the obstacles in taking up employment is crucial for effectiveness of the proposed solutions.**

Germany: tailored measures needed to foster female employment

In general, inactivity rates in Germany are below average, reflecting a strong labour market and skill shortages. Over the past decades, Germany expanded public day-care facilities and all-day schooling, thereby improving the reconciliation of work and family life. During the covid-19-pandemic, however, schools and day-care centres were closed, leaving families to deal with additional care responsibilities. For some families, that left only the choice to withdraw from the labour market. Though closures are over, day-care workers and teachers are lacking – resulting in reduced opening hours and missed lessons. Here, investment in high-quality education and care is necessary for female employment to increase.

Women with migration background have particularly high inactivity rates. Here, additional investment in integration and language courses may help.

Apart from personal condition (i.e. disability) or family situation, **low education level** or rather inappropriate education and skills are one of the important reasons for inactivity. According to Eurostat, those with low educational attainment are three times more likely to stay out of the labour market than those with high educational attainment.

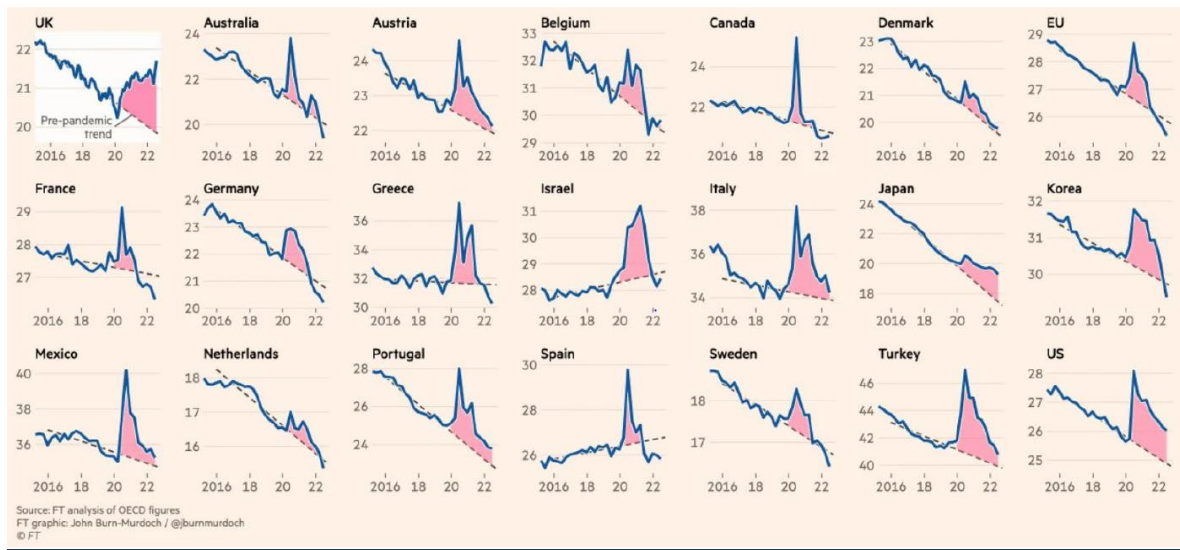
Different types of **barriers usually interact**. For example, people with low educational attainment quite often do not have (relevant) work experience and/or have childcare responsibilities. Another common example of multiple barriers is the case of people with disabilities who often have low educational level and/or their skills are outdated. Furthermore, lower education usually translates into lower income; as a consequence the financial incentive to work might be weaker compared to the level of benefits they receive.

The figure on the following page shows that there is a downward trend of inactivity over the last 7 years.



Figure 4.

Inactive population (Percentage of people aged 15-64 who are neither in employment nor seeking work)



Source: *Financial Times*, 07/10/2022



Effective approaches to reducing inactivity rate

Transitions on the labour market are natural: each person economically active can experience spells of employment, unemployment or inactivity in his/her professional career. The point of utmost importance is that the former two last as short as possible.

There are different national definitions of the unemployed and the inactive. For the sake of this paper, **the unemployed person** is, as defined by Eurostat, according to the ILO guidelines, as someone aged 15 to 74 without work during the reference week who is available to start work within the next two weeks and has actively sought employment at some time during the last four weeks. A person is outside the labour force (**the inactive**), according to ILO definition, if he or she is not a part of the labour force, meaning he or she is neither employed nor unemployed. These individuals are not working at all and not available or looking for work either, some of them may be of working-age. **The inactivity rate** is the proportion of people outside the labour force (i.e. economically inactive persons) in the total population of the same age group.

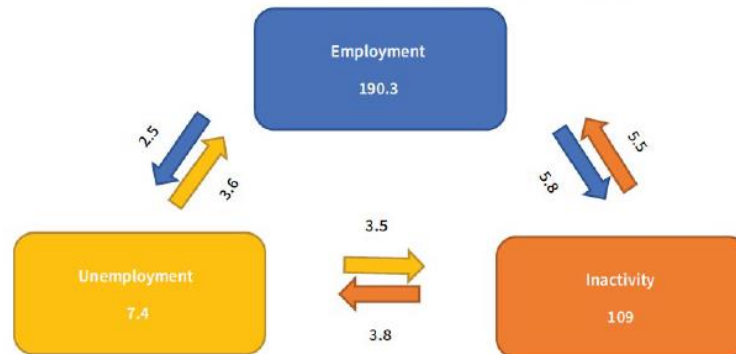
Between the third and the fourth quarter of 2021, 3.6 million unemployed people in the EU (24.6% of all unemployed in the third quarter of 2021) found a job. During this period, 7.4 million (51%) remained unemployed and 3.5 million (24.5%) became economically inactive. Of all those in employment in the third quarter of 2021, 2.5 million (1.3%) became unemployed in the fourth quarter of 2021 and 5.8 million (2.9%) transitioned into economic inactivity.



The figure below presents labour market transitions between employment, unemployment and inactivity between Q3 and Q4 of 2022.

Figure 5.

Transitions in labour market status, EU27, Q3 2021–Q4 2021 (million people)



Source: [Eurostat](#)

As of today, over 194 million people are employed in the EU, 6.7 million unemployed, and over 108 million people are out of the labour force. The number of people not participating in the labour market is too high, especially in the context of the current labour shortages. Going forward, it is important that the Commission, national governments, including public employment services, work with the social partners and private employment services, and the relevant social services organisations to reduce inactivity in Europe. The need for effective action at EU and national levels is even more urgent in the perspective of the expected shrinking of the EU working age population by 35 million people by 2050 due to many baby boomers reaching retirement age in the coming years and decades.

Inactivity is the outcome of a combination of labour market conditions, societal values, individual circumstances and the legal framework related to employment protection (for example, applicable to older workers reaching the retirement age) and/or social security systems. As a result, in searching for effective approaches to reducing inactivity rate both **individual and institutional barriers** need to be addressed. **Some of the necessary measures are universal and apply to all sub-categories of the inactive.**

One of such universal measures is adopting **dedicated outreach activities and tailor-made selection and recruitment process**. Such a recruitment and selection processes need to embrace “patchy” educational attainment, fragmented work experience and put into the right perspective longer inactivity spells.

Improving **effectiveness of matching** between offered jobs and those coming out of inactivity spell is another universal solution. The use of appropriate advertisement channels and/or recruitment techniques is of a special concern in case of the candidates further from the labour market, usually belonging to the



vulnerable groups. This is an area where collaboration between private employment services and public employment services is particularly valuable. Additionally, while digital platforms such as LinkedIn or other platforms managed by public or private employment services have a potential to better inform about vacancies, their usefulness will vary significantly for different group of the inactive, the young inactive being the most likely to be able to use them.

As a “golden” rule, an individual guidance in the process of defining professional goals, assessing realistic professional options, designing training programmes that would enable bringing individual’s skills up to the required level and support in the first months of employment are necessary for all those further from the labour market. **Cooperation between different stakeholders** is also very important, including, among others public and private employment services and other companies, including career management services. It implies interinstitutional cooperation as well working closely with civil society organisations providing social services. Interinstitutional cooperation will be very important at the outreach stage of the activation process. Quite often these are social security institutions that are in contact with those who are inactive through administering and distributing income support measures. Additionally, involving specialised civil society organisations working with different categories of vulnerable groups is crucial to reach out to these groups. Such organisations can also be instrumental in preparing the inactive for the future activation measures, for example through psychological support or motivational training.

Cooperation between public and private employment services helps to broaden the labour market access

A survey among members of the World Employment Confederation conducted in 2022 shows that joint actions of public and private employment services are an important driver to broaden labour market access and activate the inactive workforce. Among all national federations having replied to the survey, 37% indicated that they cooperate with public employment services to exchange on labour market developments including labour shortages and inactivity and a similar number of WEC-Europe members have partnership programmes focused on target groups. The degree and form of cooperation vary strongly between countries, with effective cooperation being for example established in the Netherlands, the United Kingdom and Italy.

All categories of the inactive usually need **dedicated professional training**. Such programmes need to be carefully designed, taking into consideration each sub-group specificities, often their bad experiences with education institutions (for example learning difficulty and/or early drop out of the school system) and longer break from regular learning or professional activity. Psychological aspect of training programmes is of a crucial importance as the inactive may be discouraged and question their capabilities. If not properly addressed, such weakness may act as an “internal break” and make learning efforts ineffective.

Appropriate training programmes are crucial to support labour market changes, especially the context of the twin transition, and prevent from slipping into inactivity.



Czechia: database of retraining to increase efficiency of up- and reskilling

The Czech government stresses the importance of adapting workforce to changing conditions. Appropriate up- and re-skilling provisions are aimed at preparing workers to perform new or changed occupations and ensure smooth transfer from disappearing professions to newly emerging ones. A fundamental step was of launching the database of retraining and further education courses. The database enables the efficient connection of supply and demand. At the same time, it facilitates the administration of further education by public employment services.

With respect to training, BusinessEurope believes⁶ that **Member States should actively work with, and foster stronger cooperation between, public and private employment services in the provision of training to inactive people that responds to labour market needs.** It is also important that training programmes which are provided within an activation support context are regularly evaluated in order to assess their effectiveness in fostering labour market integration and, where necessary, that the training content is updated accordingly.

The **degree of disincentives to work** depends on the early retirement regulations, generosity and access to social benefits as well as lack of and/or high cost of childcare and long-term care services (for example in Bulgaria, Czechia, Greece, Poland and Slovakia) and/or high marginal tax rates for secondary earners (for example in Belgium, Germany and Denmark). The example below presents the current challenges in Germany to keep older workers in employment.

Germany: the trick to keep older workers in employment

In Germany, older people who become unemployed have difficulties finding a new job. Older people receive higher benefits longer, which allows them to bridge the time until retirement. Many give up looking for a job entirely, especially when there is no obligation and the “bridging benefit” is generous.

Care for older people will increase substantially over the next years. As most people in Germany are cared for at home by relatives, this will probably result in higher inactivity rates. Increasing the supply of formal care can help reduce the reduction in employment.

Appropriate legal framework contributes to providing (or not) incentives for the labour market participation of the inactive groups. Conditionality of the available benefits determines their willingness to work. It also determines financial attractiveness of work versus remaining in inactivity and relying on income support. **Striking the right balance between a temporary conditional support and ensuring that income from work is higher than from unemployment benefit is essential to bring people (back) to the labour market.** Taking into consideration that the long-term unemployed are more likely to “slip down” to the inactivity, degressive unemployment benefit combined with a more intense

⁶ See [BusinessEurope’s recommendations on access to training for people that are inactive and unemployed.](#)



activation measures in case of a prolonged unemployment spell is an appropriate policy measure.

Making-work-pay policies are the main tool to attract more people to the labour market. In-work benefits (IWB) are one of the most effective policy options to enlarge the pool of available candidates. Well-designed minimum income schemes - conditional, means-tested and including activation component - are crucial to support those in need, while facilitating transition to employment. It is confirmed by the results of the recent "[Eurobarometer on fairness](#)": most Europeans think that unemployment is the "least favoured" social expenditure and would prefer more spending on health.

It is worth noting that – apart from **economic activity-friendly legislation** – there is also a human factor related to the decision about professional (in-)activity. For example, some families may decide that they want to provide care to their young or older family members themselves and are not interested in care provisions. Those who decide to retire early may value more free time than pursuing professional career or higher pension at a later stage. Such factors will create certain limits as to the results of the public activation policy. However, in the majority of cases supportive legal framework will contribute to reducing inactivity rate.

Last but not least, **access to diverse contractual arrangements**, especially at the beginning of the activation process, when the link between the beneficiary of the activation measures and the labour market is less stable, is important. It is usually a stepping stone to a more stable/long-term employment, but allows to acknowledge the challenging start both for the inactive taking up his/her "quasi-first" job and employer engaging such a candidate. Diverse contractual arrangements are also interesting options for those willing to work only part-time or only in specific periods. They also support those who want to start their own business.

There is also a need to implement **specific solutions for different sub-categories of the inactive**. The table on the next page presents both types of barriers and necessary measures to eliminate/reduce them.

<i>Reason for inactivity</i>	<i>Proposed measure</i>
<ul style="list-style-type: none"> Disability 	Flexible employment schemes Reasonable accommodation in organisation the workplace Concentrating on "workability" assessment rather than on individuals' limitations Support for employers to offer employment to people with disabilities, including appropriate legal regulations Dedicated (depending on the type of disability) up- and reskilling opportunities, including digital skills Offering telework/ remote work Appropriate support for job insertion and job retention



<ul style="list-style-type: none"> • Homemakers 	<p>Access to good quality and affordable care provisions (childcare/long-term care)</p> <p>Access to appropriate childcare provisions outside of school hours as well as during school holidays</p> <p>Ensuring that maternity and parental leaves (duration, allowance) are designed in a way that promotes return to work</p> <p>Availability of telework/remote work for those with caring responsibilities provided they are employed in a teleworkable job</p> <p>Flexible working time arrangements</p>
<ul style="list-style-type: none"> • (Early) retirement 	<p>Rationalizing entitlement to early retirement with the view to promote longer working lives and incentivize work</p> <p>Educational campaign explaining the benefits of working longer (higher pension, contributing to active ageing etc.)</p> <p>Enabling combining work with the statute of a pensioner, especially possibility to combine a work-related income and pension entitlement</p> <p>Flexible working time arrangements, including longer “off spells”, for example 1-2 months</p> <p>Appropriate adaptation of the workplace, providing adapted work equipment (for example, accommodating a hearing or sight impairment) and work organisation</p>
<ul style="list-style-type: none"> • NEETs 	<p>Effective outreach in cooperation with all relevant stakeholders, i.e. civil society organisation working with the vulnerable youth</p> <p>Dedicated up- and reskilling opportunities, including digital skills based on the future education attainment, even if “patchy”</p> <p>Medium-term support for job insertion and job retention, including through dedicated apprenticeships</p>
<ul style="list-style-type: none"> • Discouraged workers 	<p>Effective outreach in cooperation with all relevant stakeholders, i.e. civil society organisation working with the vulnerable youth</p> <p>Psychological assistance to prepare them for appropriate training or job search</p>

Source: own elaboration.
