

## 5.2 ACTIVE LABOUR MARKET INSTRUMENTS TARGETING YOUNG PEOPLE AND THE YOUTH GUARANTEE PROGRAMME

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Recognising the long-term risks of youth unemployment, European Union countries established the Youth Guarantee (YG) scheme in 2014. Under the YG scheme, Member States have committed themselves to providing young people under the age of 25 with a specific, good quality offer from the organisation implementing the scheme (this is usually the public employment service) shortly after completing their studies or losing their job, starting in 2015.<sup>1</sup> The meaningful opportunity offered could be, for instance, a job supported by wage subsidies, training, participation in programmes promoting traineeship or entrepreneurship (*Tóth–Temesszentandrás, 2019*).

Most of the above mentioned labour market measures were on offer by the Hungarian labour offices before the YG scheme. The novelty of the YG primarily lies in the fact that the state guarantees that it will provide early, meaningful and personalised assistance to all young people not in employment, education or training (NEET), for the implementation of which EU funds will provide significant financial instruments. Most of the programme elements of the YG system are operated by employment services for registered jobseekers. In this subchapter, we evaluate these programme elements, we do not analyse traineeship and entrepreneurship programmes offered by other organisations.<sup>2</sup>

The results of the YG scheme can be evaluated on three levels. The first question is whether the employment services succeed in reaching and bringing the NEET youth into contact with employment services. The next question is in what proportion and within what timeframe young people already registered as jobseekers at the employment services<sup>3</sup> are given an offer, and whether their inclusion in the most appropriate active labour market programme will be successful. The final question of the effectiveness of the YG scheme is the extent to which the programme's tools improve the longer-term labour market prospects of young people.

For the time being, we do not have sufficient data available to examine the employment effects of the YG programme elements, therefore we do not deal with the impact assessment of the individual measures here either.<sup>4</sup>

In terms of the first level, reaching the NEET youth, the programme did not show significant results. The Council recommendations preparing the introduction of the YG prioritise addressing vulnerable, inactive young people facing multiple barriers by developing effective information strategies and strengthening cooperation with relevant partners (*EU, 2013*).

<sup>1</sup> At the start of the programme in 2015, the commitment in Hungary was for an offer within six months after registration, currently an offer must be made to young jobseekers within four months.

<sup>2</sup> The employment service operates the GINOP 5.2.1. and the VEKOP 8.2.1. programmes. The internship programme (GINOP 5.2.4.) is implemented by vocational training centres, and the programmes supporting entrepreneurship (GINOP 5.2.3., 5.1.9., 5.2.7.) are implemented by consortia of professional organisations.

<sup>3</sup> The employment service has been part of government offices since 2015, and its branches operate as the employment department of the district offices.

<sup>4</sup> The Youth Guarantee Programme is being evaluated at an early stage in a study by *Hétfa* Research Institute (*Ágnes Szabó–Morvai et al, 2015*).

Prior to the introduction of the Youth Guarantee Programme, the employment service reached nearly 60 percent of those NEET youth who would like to work, but certain barriers (such as weak motivation or lack of qualification) make it difficult for them to get a job, so they would be particularly in need of the assistance the programme could provide.<sup>5</sup> The rate of registrants in this group increased from 48 percent observed before the introduction of the programme to 58 percent in the first year, however in the following two years, it fell below the previous levels (see *Figure 5.1.5* in the previous subchapter). In the group of young people who are not hindered in their job hunt, the rate of registrants is 10–15 percent higher and has decreased less since the introduction of the programme. This indicates that the programme did not, or it only temporarily strengthened the partnerships or the inclusion tools which made it possible to reach inactive young people. A similar conclusion was reached by *Szabó-Morvai et al* (2015) based on data from the first months following the introduction of the programme, and this is supported by the interviews conducted in the labour organisation in the spring of 2019 (Budapest Institute, 2019).

On the second level, we analyse the timing and the types of programmes that the registered unemployed youth entered and evaluate the targeting and the relevance of the programmes. Based on the data of young people under the age of 25 entering active labour market programmes, the distribution of labour market programmes has significantly changed in recent years.

Based on individual level data of registered jobseekers, we examined where young people entering the labour register between January 2015 and June 2017 end up in the first six months after entry (*Figure 5.2.1*). According to this, since 2015, the chances of a young person entering the register to get into an active measure within half a year increased, and at the same time the probability of a young person entering public works or not to participate in any programme while remaining in the register decreased. More than half of all entrants are removed from the register within six months without entering either public works or an active programme. They either found work without help or became inactive.

The distribution of the active programmes by type is shown on *Figure 5.2.2*. Based on this, in addition to the dynamic increase of wage subsidies<sup>6</sup> of almost 70 percent, the number of entrants to training programmes stagnated between 2015 and 2018, so the weight of training within active programmes decreased overall.

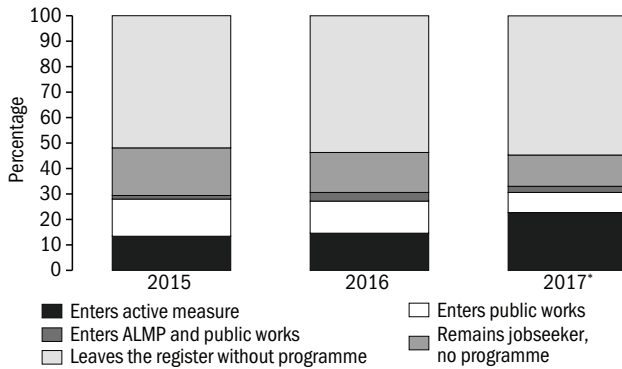
The fact that the labour market environment in Hungary has changed significantly in recent years also plays an important role in the transformation of the distribution of labour market instruments: besides the dynamic expansion of employment, unemployment, including youth unemployment, has also decreased. In any case, the reduction of the public works programme and the increase in the rate of wage subsidies are positive developments, as

<sup>5</sup> Based on LFS data, see subchapter 5.1 for more details. We classified in separate groups those who could not work due to illness or family ties: the rate of registrants in this group is barely 5 percent.

<sup>6</sup> Wage subsidies do not include subsidies provided by the Job Protection Act, the latter is discussed in subchapter 5.4.

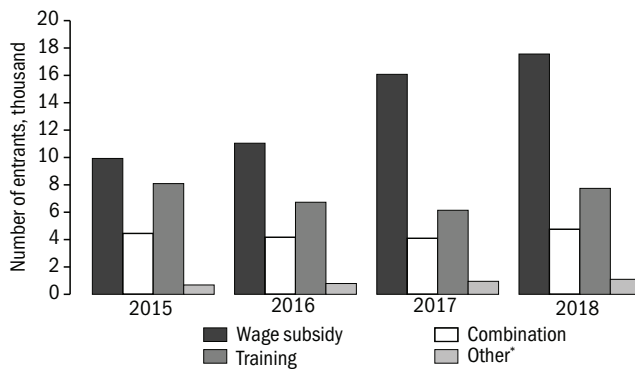
the recipients of wage subsidies work in the open labour market at a higher wage level than in public works. International analyses show that wage subsidy schemes providing employment in the private sector could improve post-programme employment opportunities to a greater extent than public employment schemes<sup>7</sup> (Card *et al*, 2018). The results of early analyses of the Hungarian public works scheme also demonstrate that public employment does not aid long-term employment (Cseres-Gergely–Molnár, 2015, Köllő–Scharle, 2012). At the same time, based on the significant increase in employment and the increase in labour shortages, it is likely that the wage subsidy instruments supported, in part, the employment of young people who could have found employment without support.

**Figure 5.2.1: What happens to young people under the age of 25 registered as jobseekers in the first six months after registration?**



\* Until 30 June 2017. The horizontal axis shows the year of registration.  
 Source: Own calculation based on the Admin3 database of *Institute of Economics* Data bank. We would like to thank *István Boza* for his help in processing the database.

**Figure 5.2.2: The number of entrants into the Youth Guarantee Programme by active instruments**



\* Housing subsidy, entrepreneurship subsidy.  
 Source: *Ministry of Finance*.

<sup>7</sup> In fact, the employment impacts of the latter are typically negligible or negative.

Regarding the targeting of the programmes, we examine the extent to which vulnerable and low-educated groups in the labour market benefited from the expansion of active labour market programmes. In order to answer this question, we used a linear probability model to examine what factors influence whether the young people who registered as jobseekers between 30 June 2015 and 30 June 2017 are enrolled in the Youth Guarantee Programme within half a year. The results are shown in *Table 5.2.1*.

**Table 5.2.1: Regression estimate of the factors determining the entry of registered jobseekers under the age of 25 into the Youth Guarantee Programme**

	Year of entry to unemployment registry			
	2015-2017 <sup>a</sup>	2015	2016	2017 <sup>a</sup>
Male	-0.003 (0.002)	-0.010*** (0.003)	0.004 (0.004)	0.000 (0.007)
Max. primary education	-0.102*** (0.003)	-0.092*** (0.004)	-0.109*** (0.004)	-0.122*** (0.008)
Below the age of 20	-0.003 (0.003)	0.004 (0.004)	-0.007 (0.005)	-0.018** (0.009)
Number of unemployment spells	-0.018*** (0.002)	-0.012*** (0.003)	-0.013*** (0.004)	-0.038*** (0.009)
With no work experience	0.095*** (0.003)	0.092*** (0.004)	0.086*** (0.005)	0.126*** (0.009)
Constant	0.252*** (0.006)	0.248*** (0.008)	0.211*** (0.011)	0.348*** (0.020)
Number of observations	104,582	51,866	38,126	14,590
R <sup>2</sup>	0.039	0.049	0.032	0.052
Average probability of entry	0.21	0.20	0.21	0.28

<sup>a</sup> Until 30 June 2017.

Standard errors in parenthesis.

Dependent variable: binary variable with a value of 1 if the registered jobseeker below the age of 25 enters an active measure of the programme within half a year after registration.

Significant on \*\*\*1 percent, \*\*5 percent, \*10 percent level.

Source: Own calculation based on the Admin3 dataset of *KTI KRTK*.

The regression results show that those with no more than primary education and those re-entering the register are less likely to be included in an instrument of the Youth Guarantee Programme, and this disproportion did not decrease between 2015 and 2017. As a consequence, the labour market instruments are less likely to reach those young people who inherently have worse employment opportunities. This is probably mainly due to the fact that the low-skilled are more difficult to place in the labour market, even with wage subsidies.

In light of the results, the currently low and stagnant rate of training can be considered unfavourable, and more intensive involvement of young people with low educational attainment in training could presumably improve the situation. However, under the Young Guarantee Programme, young jobseekers can participate primarily in vocational training courses that directly pro-

mote employment, and training focusing on the development of basic competences is not included in the elements of the Programme in a significant portion of the districts. In the case of unskilled young people, in addition to the lack of vocational training, in many cases the lack of basic skills hinders employment. Furthermore, based on international experience (e.g. *Kluve et al.*, 2019), the involvement of low-skilled, disadvantaged young people can be improved by more intensive use of personal counsellors and mentors, who can help young people choose an appropriate programme after registration based on personal abilities and needs.<sup>8</sup>

Therefore, overall the data show that active instruments, including wage subsidies, reach an increasingly high proportion of young people registered as jobseekers within an increasingly short period, in which, however, in addition to the Youth Guarantee Programme, the growth of demand for labour and the decrease in unemployment played a role as well. NEET youth further away from the labour market are less likely to be included in the register, while low-skilled people are less likely to be included in the scheme's active instruments than their better-off peers. Thus, in order to improve the Youth Guarantee Programme, greater efforts should be made to reach young people in need, and training programmes that improve general competencies and mentors should be used in greater proportion.

8 Although significant financial resources are available in the Youth Guarantee Programme, the regulation of the programme does not allow employment offices to account for internal mentors (PES-employees) within the programmes, so it can only be done through public procurement with the help of external suppliers, which is lengthy and usually involves a significant administrative burden.

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