

Trends in economic inactivity across the OECD

The importance of the local dimension
and a spotlight on the United Kingdom

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By: Jonathan Barr, Elena Magrini, Michela Meghnagi

As unemployment rates have reached historical lows across many OECD countries, it is important to focus on the economically inactive – that is people who are neither in a job nor seeking work. This paper reviews recent trends in economic inactivity across the OECD, focusing on places and people. The paper demonstrates the importance of moving beyond national averages to understand which regions and cities have higher levels of economic inactivity. It then looks at regional economic inactivity trends across cities in the United Kingdom (UK).

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1. Recent trends in economic inactivity with a focus on people and places

Introduction

This paper reviews recent trends in economic inactivity across the OECD, focusing on places and the people who live there. The objective of the paper is to highlight the importance of the economically inactive as a potential source of labour supply both to offset future skills shortages but also to promote inclusive growth across all OECD regions and cities. By analysing the personal characteristics of the economically inactive as well as their geographical distribution within countries, national and local policy makers can better understand where to target programme interventions.

The paper starts by outlining recent economic inactivity trends across the OECD, including which population groups are more likely to be inactive. The paper then demonstrates the importance of moving beyond national averages to understand which places have higher levels of economic inactivity. It then looks at regional economic inactivity trends across cities in the United Kingdom (UK). Finally, the paper presents some considerations for policy and programme development to support different types of local labour markets.

What is economic inactivity and why is important?

Economic inactivity rates help to paint a broader picture of regional labour market performance

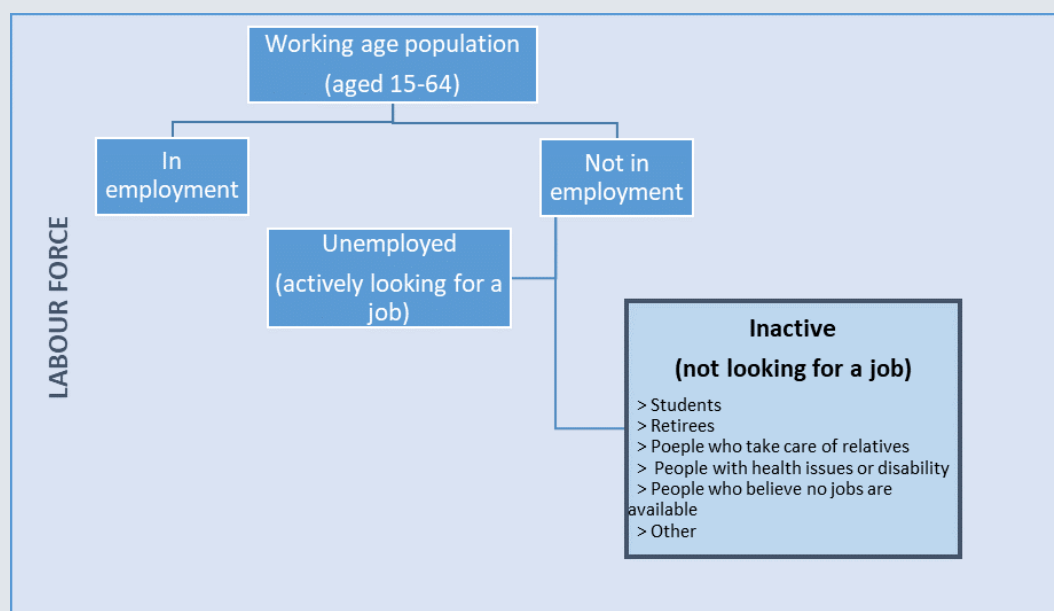
In the years after the global crisis, extensive attention has been paid to people who lost their jobs. Many OECD countries introduced a wide range of employment reforms designed to get people rapidly back into work (OECD, 2018^[1]). As of 2018, unemployment stood at 5.3%, across the OECD, which is below the pre-crisis level of 5.9% and one of the lowest rates in the last 20 years. The average employment rate, which looks at the extent to which available people are working was 68.6% in 2018 – up from 66.3% in 2008.

While these headline figures show a positive trend towards full employment, the labour market is much more complex. Automation and new emerging technologies will continue to transform employment opportunities across the OECD (OECD, 2019^[2]). Coupled with other megatrends, such as an ageing workforce and many employers reporting skills shortages, it is increasingly important to activate untapped sources of labour supply. This is why monitoring economic inactivity, which measures the percentage of the working-age population who are neither in a job nor seeking work is needed (see Box 1.1).

Box 1.1. Who are the economically inactive?

A person is economically inactive if he or she is not in the labour force, meaning not working or looking for a job during the reference period. Measuring inactivity, in combination with traditional labour market indicators such as employment and unemployment rates, can help to assess labour market inclusiveness in a more comprehensive way. The inactivity rate is the proportion of inactive persons in the total population of the same age group. This indicator is the opposite of the labour market participation rate which is the share of the population in an age group who are in the labour force. Within labour force surveys, the economically inactive are generally classified into the following categories: i) **students**, ii) **retirees**¹, iii) **people who take care of relatives**, iv) people who **have health issues** or disability and v) people who **believe there are no jobs available**, iv) people who are not looking for a job for **other reasons** (see Figure 1.1).

Figure 1.1. Classifying the economically inactive



Source: (ILO, 2016^[3]).

¹Being retired refers to people who have decided to retire regardless of their age and it does not include automatically people who are above the retirement age. For example older workers (i.e. people aged 55 and above) who are not in the labour force for health reasons would not fall into this category.

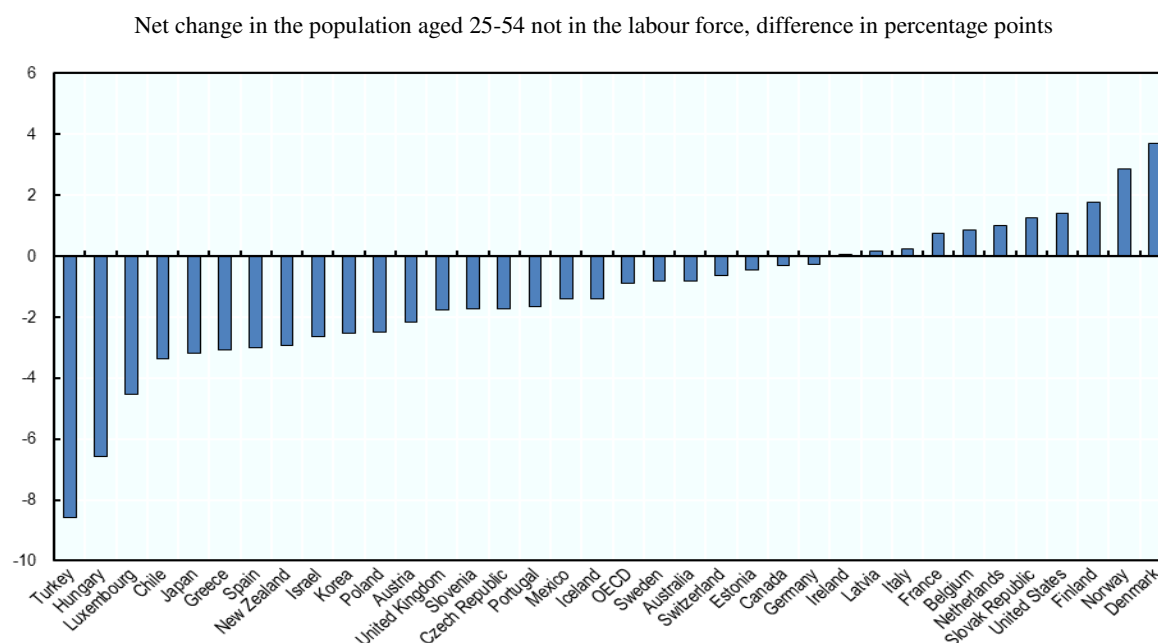
Trends in economic inactivity across population groups

Many OECD countries have seen an overall decrease in economic inactivity

Before considering the place-based dimension of economic inactivity, it is helpful to recall some overall trends. Between 2008-17, economic inactivity has decreased in most OECD countries. Figure 1.2 shows the net change in economic inactivity among the population aged 25-54 years from 2008-17. It is important to focus on this prime working age population given that they are less likely to be inactive by choice – as opposed to students and retirees. Eleven OECD countries saw a net increase in economic inactivity – of which six saw a net increase above one percentage point. These countries include Denmark, Norway, Finland, the United States, Slovak Republic and the Netherlands.

The reasons for these increases are likely to differ across countries. Looking at existing research, for Norway, it appears the primary reason relates to the low labour market participation rate of young people, especially those with low education levels and a migration background (OECD, 2018^[4]). In the Slovak Republic, it can be explained by the low participation of women and people from the Roma population (OECD, 2019^[5]). In Denmark, Finland and the Netherlands, increasing inactivity could be related to the recent inflows of migrants and the challenges when integrating them in the labour market (OECD, 2019^[6]) (European Commission, 2017^[7]). Finally, in the United States, economic inactivity has increased mainly among low qualified prime-aged men that often report issues related to physical and mental health as well as an overall decline in their job prospects (See Box 1.2).

Figure 1.2. Trends in economic inactivity, OECD countries, 2008-2017



Source: OECD (2019), "Labour Market Statistics: Labour force statistics by sex and age: indicators", OECD Employment and Labour Market Statistics (database), <https://doi.org/10.1787/data-00310-en>.

Box 1.2. Rising economic inactivity among prime-aged men in the United States

Long-term trends in the United States show that both employment and labour market participation rates increased between 1960-2000, thanks to the higher labour market participation of women. However, since 2000, there has been a decline in labour market participation that is only partially explained by the retirement of the “baby boom” generation. Prime-aged workers (i.e. those aged between 25-54) account for 35% to 40% of the overall decrease in labour market participation.

Regional variation in economic inactivity in the United States is the fifth highest across the OECD, ranging from 31.5% in North Dakota to 48.5% in West Virginia in 2017. Prime-aged men have a particularly high inactivity rate at 25% compared to 11% for women of the same age group. This gender gap is likely to increase in the future. For low-skilled men, this trend relates to the decline of the manufacturing sector and a consequent change in overall labour market status and earnings. This group also shows lower levels of life satisfaction and poorer physical and mental health in comparison to other population groups.

Source: (Pinto and Graham, 2019^[8]) (The US Council of Economic Advisers, 2019^[9]) (OECD, 2018^[10])

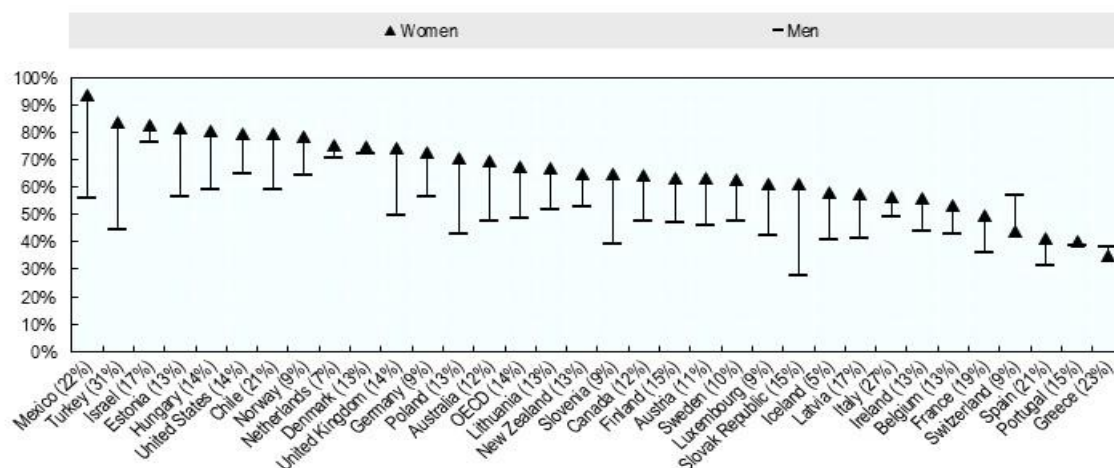
Young people, the low-skilled, and women are more likely to be economically inactive

Recent OECD research shows that for inactive people, the probability of finding employment is around 20%, which is less than half of the probability of the population classified as unemployed (Garda, 2016^[11]). Breaking down individual circumstances for inactivity can provide useful insights for policy makers to identify target groups for future local labour market activation strategies. Around one in three inactive individuals across the OECD is aged 15-24 years. In a number of countries including Sweden, Lithuania and Israel, young people represent almost half of the total inactive population in the country. Generally, young people who are still in education are likely to enter the labour market after their studies are completed.

A more worrying group is young people who are neither employed nor in education or training – the so-called NEETs. Across the OECD, 14% of young people aged 18-24 are classified as NEETs. There are strong gender differences within NEETs in terms of economic inactivity. Among women, 65% of NEETs are inactive (i.e. not looking for a job and therefore not counted as in the labour force) with shares reaching 90% in countries such as Mexico and Turkey (see Figure 1.3) (OECD, 2018^[12]).

Figure 1.3. Share of NEETs who are not looking for a job by gender, OECD countries, 2017

Young people neither employed nor in education or training aged 18-24, values in percentage



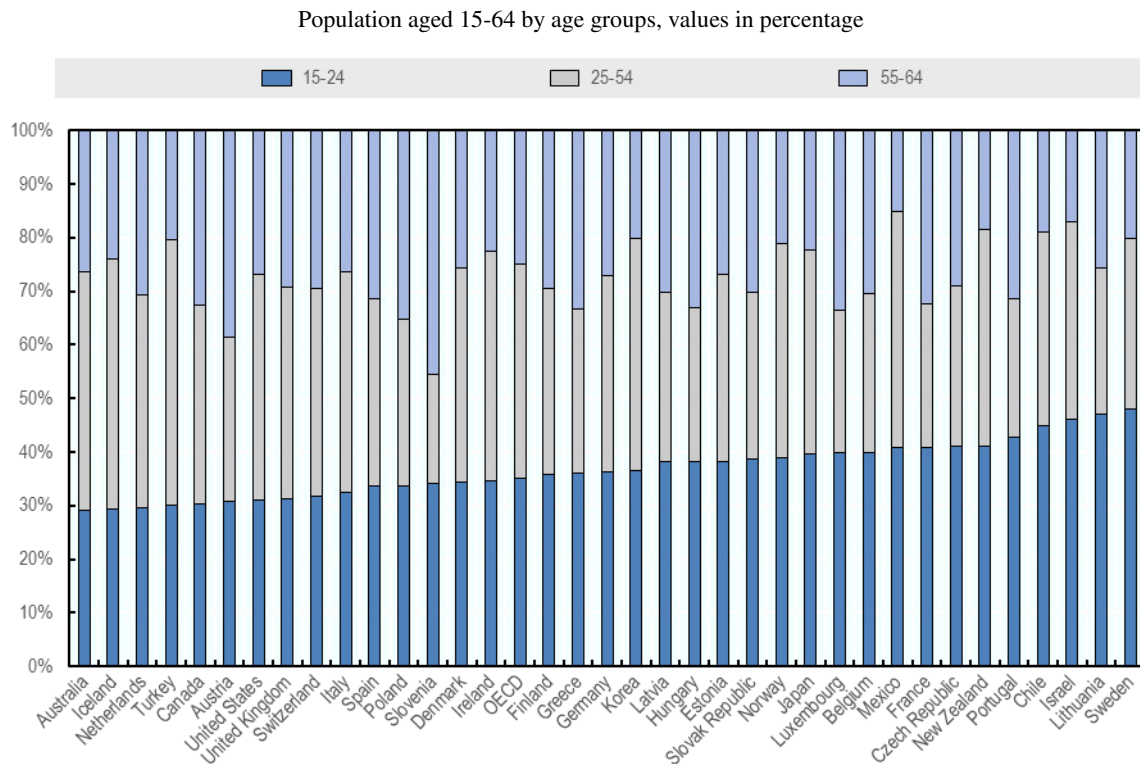
Note: NEET refers to young people neither employed nor in education or training. The percentage in parentheses represents the share of 18-24 year-olds that are NEETs. This figure shows NEETs who are not looking for a job and are therefore classified as inactive

Source: OECD (2018), Education at a Glance 2018: OECD Indicators, OECD Publishing, Paris, <https://doi.org/10.1787/eag-2018-en>

Prime-age workers (i.e. people aged 25-54) represent on average 40% of the inactive across the OECD (see Figure 1.4). Above average shares of inactive prime-aged workers are registered in a number of countries including Australia, Iceland, Ireland, Italy, Korea, Mexico, Turkey and the United States. In all these countries, with the exception of the United States and Iceland, the inactivity rate of prime-aged workers is much higher for women than for men.

On average, one in four economically inactive people across the OECD are aged 55-64. Countries such as Slovenia, Austria and Poland have more than a third of the inactive population in this age group. In these countries, the low labour market participation of people at the end of their career is typically related to the easy access to pension or disability benefits in comparison to other OECD and European countries (OECD, 2015^[13]) (OECD, 2016^[14]).

Figure 1.4. Composition of the economically inactive population by age group, OECD countries, 2017

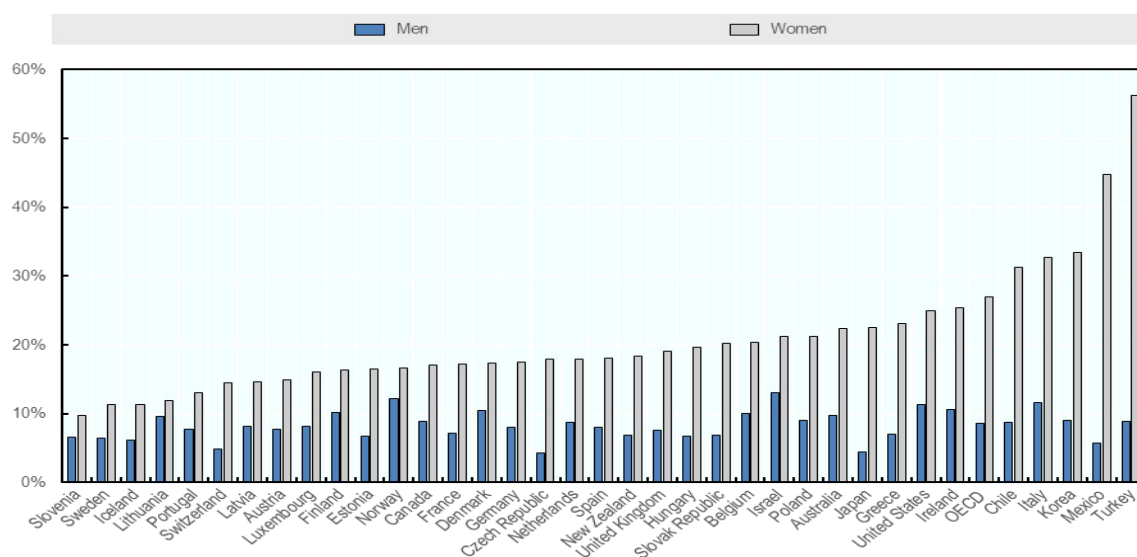


Source: OECD (2019), "Labour Market Statistics: Labour force statistics by sex and age: indicators", OECD Employment and Labour Market Statistics (database), <https://doi.org/10.1787/data-00310-en>.

As shown in Figure 1.5, women have higher shares of inactivity than men in all OECD countries. The overall inactivity rate for men ranges from a low of 4.3% in the Czech Republic to a high of 13% in Israel. The variation in the rate for women is notably higher, and ranges between a low of 9.7% in Slovenia to a high of 56% in Turkey. In addition to cultural reasons for low female participation, women face additional challenges in participating in the labour market especially when they have young children. In the vast majority of EU countries, women aged 25-54 with children under six years tend to have higher inactivity rates than those without or with older children. The opposite is true for men. In a number of countries, women may face multiple disincentives to labour force participation, ranging from high childcare costs to the impact of taxation for second earners on family income. This means that when women take care of young children, men are more likely to be in employment and often represent the only income earner. Differences across countries can also be explained by the role of governments and employers in helping parents achieving work-life balance through targeted financial incentives and more flexible employment opportunities (Thévenon, 2013_[15]) (OECD, 2011_[16]).

Figure 1.5. Inactivity rate by gender, OECD countries, 2017

Prime-age population aged 25-54, values in percentage

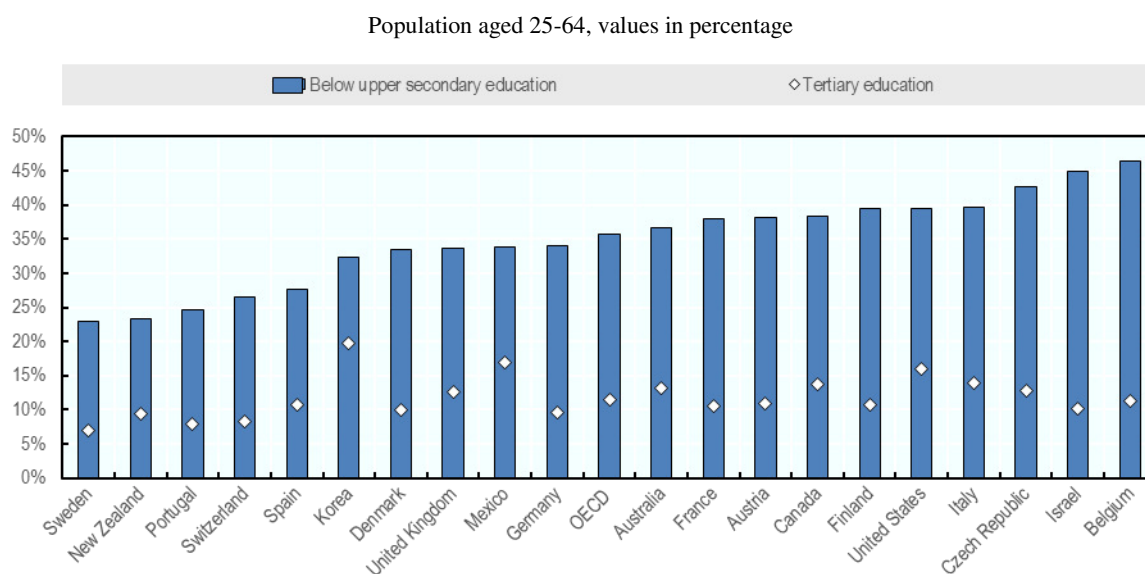


Source: OECD (2019), "Labour Market Statistics: Labour force statistics by sex and age: indicators", OECD Employment and Labour Market Statistics (database), <https://doi.org/10.1787/data-00310-en>

Higher levels of skills and previous work experience reduce the risk of being inactive

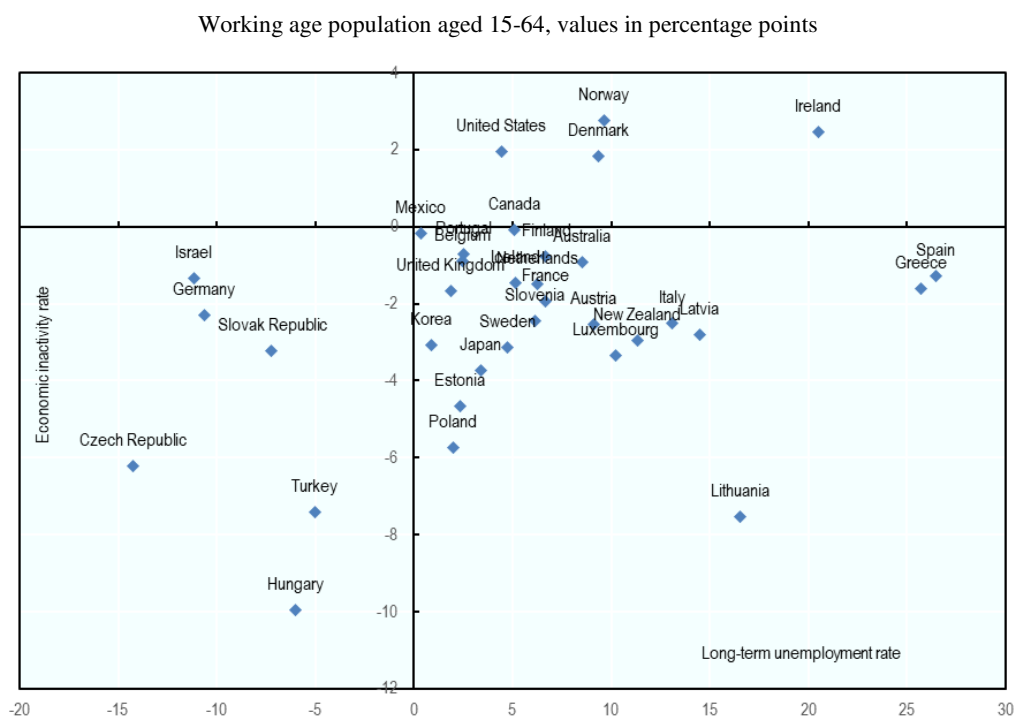
People with higher levels of skills are less likely to be inactive and this is true for both sexes and for all age groups. Across the OECD, the economic inactivity rate is 24 percentage points higher for people with low education levels (i.e. below upper secondary education) in comparison to those having attained tertiary education (See Figure 1.6). Being in education for longer helps people gain a wider range of skills that make them more adaptable and successful in a rapidly changing labour market. The work history of a person also influences the likelihood of inactivity. Among inactive prime-age workers, around 30% have never worked and 46% have last worked more than two years ago. Unlike people with serious health issues and those who take care of relatives, this group is likely to include people who have been unemployed for a long time and have become discouraged workers. Figure 1.7 shows the relationship between economic inactivity and long-term unemployment rates between 2008-17. In several OECD countries, there are high rates of economic inactivity alongside high rates of long-term unemployment. This demonstrates the potential scarring impacts of being unemployed for longer periods of time.

Figure 1.6. Inactivity rate by education level, selected OECD countries, 2017



Source: OECD (2019), "Education at a glance: Educational attainment and labour-force status", OECD Education Statistics (database), <https://doi.org/10.1787/889e8641-en>

Figure 1.7. Changes in economic inactivity and long-term unemployment, OECD countries, 2008-2017



Source: OECD (2019), "Labour Market Statistics: Labour force statistics by sex and age: indicators", OECD Employment and Labour Market Statistics (database), <https://doi.org/10.1787/data-00310-en>

Trends in economic inactivity across OECD regions

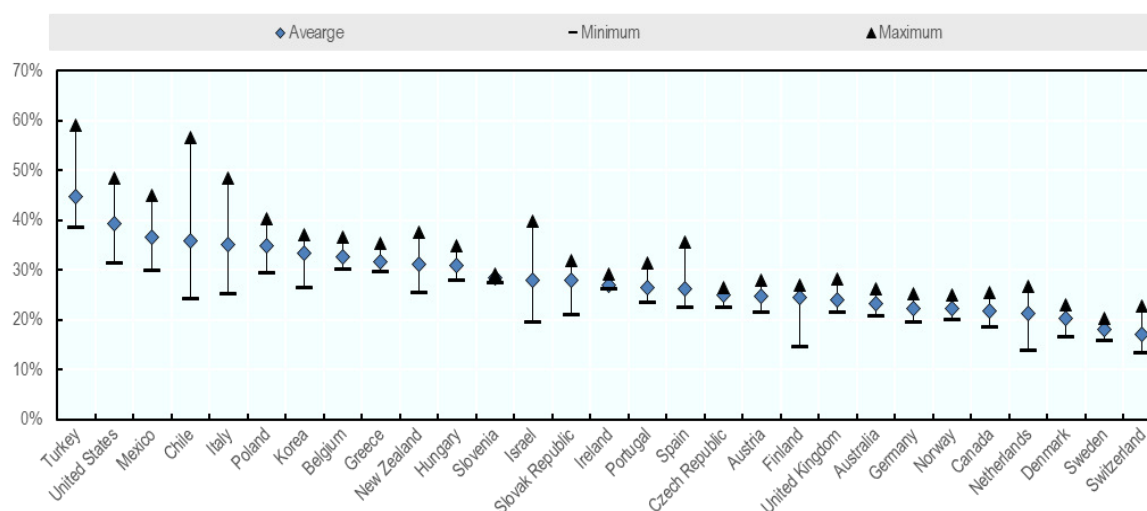
Many OECD countries have large regional variations in their rates of economic inactivity

Addressing economic inactivity can be challenging for policy makers as the different factors determining inactivity can be concentrated in specific regions or cities. For example, for students, retirees or people taking care of relatives, inactivity can be an individual choice. In contrast, for people who stopped looking for a job because they believe that no jobs are available (e.g. discouraged workers), the reasons for inactivity can be related to the past and present economic performance of their local labour market as well as the types of jobs available.

Looking at data across 28 OECD countries, the average variation is 10.7 percentage points between regions with the highest and the lowest economic inactivity rates (see Figure 1.8). The variation is less than 5 percentage points in countries such as Slovenia, Czech Republic, Sweden and Norway, but it is above 20 percentage points in Chile, Italy, Turkey and Israel. There does not seem to be a strong correlation between the number of regions in each country and the degree of overall regional variation. For example, the Netherlands and the United Kingdom each have 12 regions but the gap in economic inactivity is 12.8 and 6.6 percentage points respectively.

Figure 1.8. Economic inactivity, OECD TL2 regions, 2016

Share of population aged 15-64 not in the labour force



Note: Data refers to the 15-64 population as regional data for the age group 25-54 was not available for all OECD countries.

Source: "Regional labour markets", OECD Regional Statistics (database), <https://doi.org/10.1787/7445d96-en>

Accounting for “hidden” unemployment increases regional disparities

Inactive people who have a desire to work are a critical source of labour supply within many OECD countries. In 2017, the share of the economically inactive who were willing to work was on average 19% across the European Union, representing around 16.6 million people. This figure is above 30% in countries such as Denmark, Italy, Austria and

Switzerland (Eurostat, 2019_[17]). Factoring this group of people into an analysis of unemployment rates across OECD regions reveals pockets of “hidden” unemployment.

Looking at traditional unemployment rates across the OECD, one can see fairly large variation between the bottom and best performing regions. It ranges from 0.1 percentage points in Slovenia to a high of 20 percentage points in Italy. The average unemployment rate gap between the bottom and best performing regions across 19 OECD countries was 6.1 percentage points (see Figure 1.9).

Accounting for inactive people who may be willing to work or have stopped looking for work for economic reasons (i.e. those individuals with health issues or disability²; those who take care of relatives because of a lack of access to care facilities for children or elderly people; those individuals who have taken early retirement³; as well as people who think there are no available jobs) within an assessment of overall unemployment shows even larger regional gaps. Looking at the example of Slovenia, the “hidden” unemployment variation increases to 0.7 and 37.9 percentage points in Slovenia and Italy respectively. In countries such as Finland and the United Kingdom, the gap between regions with the lowest and highest unemployment rates adjusted for “hidden” unemployment is more than three times as high as the regional gap when looking at the traditional measure of unemployment (see Figure 1.10).

With the exception of Greece, the gap is bigger when looking at unemployment rates adjusted for “hidden” unemployment because regions with the highest levels of unemployment rate also tend to have higher levels of people who may be willing to work or have stopped looking for work for economic reasons than regions with lower unemployment rates. This important piece of analysis shows even higher levels of disadvantage in some OECD regions when assessing their regional employment performance.

² Previous OECD work shows that among people with health issues or disability, some individuals would be able to work if work arrangements (i.e. flexible work hours, teleworking, etc.) were compatible with their health condition. A comprehensive review of best practices to improve labour market participation of people with health issues and disability can be found in (OECD, 2010_[40])

³ The choice of including people who take care of relatives and early retirees is based on the assumption that the decision to work within the home is frequently an economic decision made on the basis of a comparison of care costs to the shadow wage that could be expected upon a return to the labour force. Similarly, the choice of retiring before the legal age can be based on economic reasons.

Figure 1.9. Regional variation of unemployment rates, TL2 regions in selected European countries, 2017



Note: The unemployment rate is computed as the number of unemployed people as a percentage of the labour force.

Source: Authors elaboration on EU Labour Force Survey data

Figure 1.10. Regional variation of unemployment rates adjusted for “hidden” unemployment, TL2 regions in selected European countries, 2017



Note: In this section, the unemployment rate adjusted to account for “hidden” unemployment is computed as the number of people unemployed plus those who are inactive for economic reasons (i.e. people with health issues or disability; people who take care of relatives reporting that no care facilities were available; people who are early retirees; people who stopped looking for a job because they believe that no jobs are available; and people who do not work for other reasons) as an overall percentage of the labour force plus the inactive for economic reasons as described above. The denominator in this calculation differs from the traditional unemployment rate because it also include those individuals who are inactive for economic reasons – not only those in the labour force.

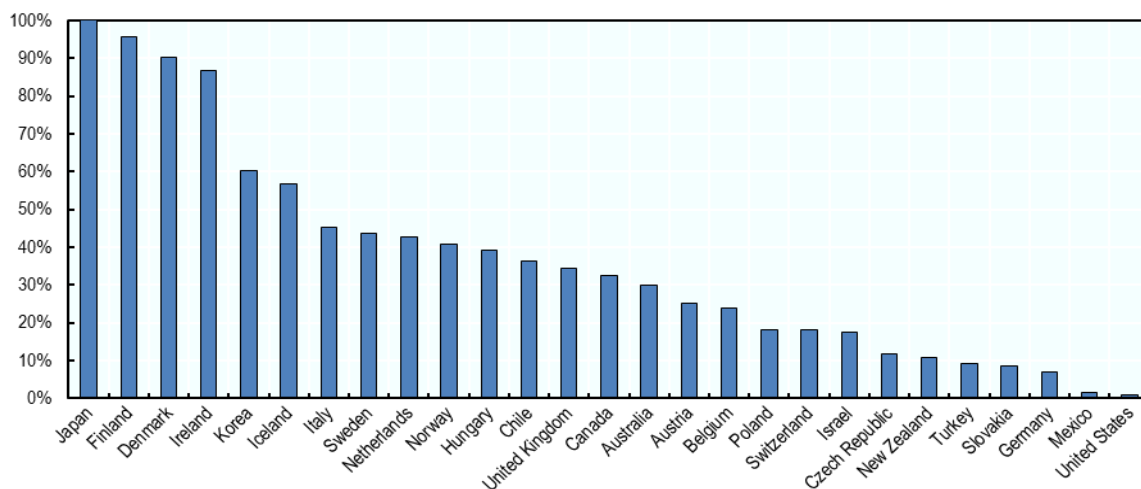
Source: Authors elaborations from EU Labour Force Survey data.

Living close to a city tends to provide better access to jobs for those who may be economically inactive

Metropolitan areas are key drivers of economic growth and innovation producing around 60% of the total GDP within the OECD area (OECD, 2018^[18]) and contribute significantly to job creation. In countries such as Japan, Finland, Denmark, and Ireland, more than 85% of jobs were created in the capital region between 2006 and 2016 (see Figure 1.11) (OECD, 2018^[19]). For inactive people who live far from these more dynamic labour markets, it can be challenging to find a job which is close to where they live.

In addition to new jobs being created, the concentration of higher skilled jobs as well as knowledge-intensive services make cities less vulnerable to the negative effects of structural adjustments in the local labour market that are likely to take place due to automation. A recent study conducted in 21 OECD countries shows that the share of jobs at high risk nears 40% in some regions and is as low as 4% in others. As shown in Figure 1.12, in 14 out of the 18 countries the capital region is the one with the lowest shares of jobs at risk of automation. In regions where jobs will be transformed or destroyed by technological progress, it is possible that the low skilled are more likely to become economically inactive (OECD, 2018^[19]).

Figure 1.11. Share of net job creation in capital regions relative to total job creation, OECD TL2 regions, 2006-2016

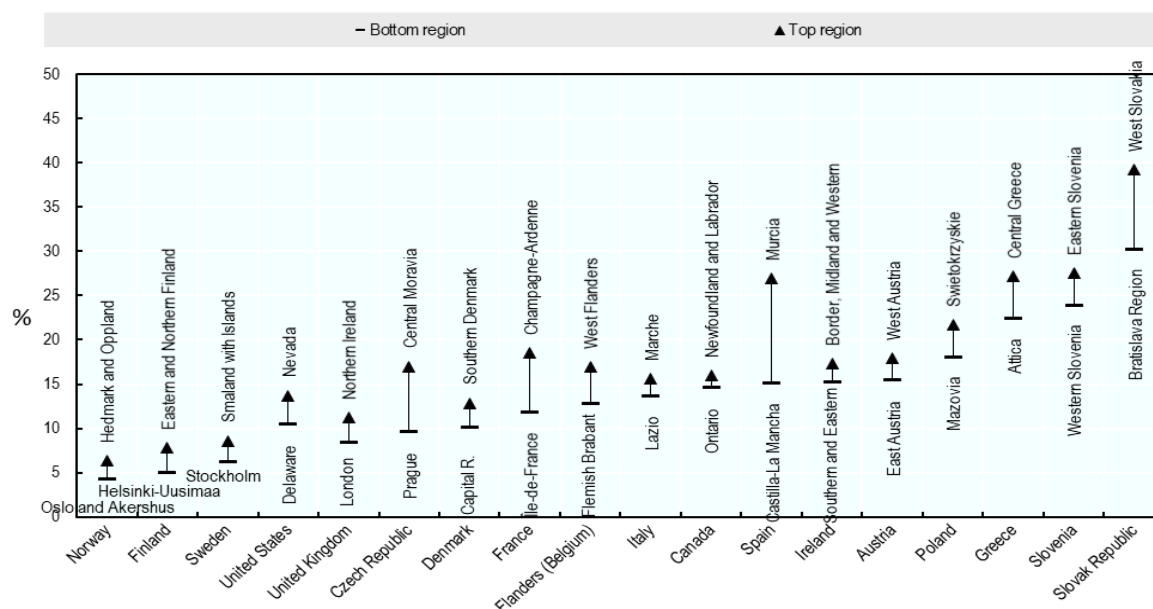


Note: Capital regions in Portugal, Spain and Slovenia lost jobs over the 2006-2016 period. Due to data availability, the values for Chile, Israel and Mexico correspond to the 2006-2014 period.

Source: OECD (2018), Job Creation and Local Economic Development 2018: Preparing for the Future of Work, OECD Publishing, Paris, <https://doi.org/10.1787/9789264305342-en>.

Figure 1.12. Risk of automation across OECD TL2 regions, 2016

Percentage of jobs at high risk of automation, highest and lowest performing regions



Note: High risk of automation refers to the share of workers whose jobs face a risk of automation of 70% or above. Data from Germany corresponds to the year 2013. Except for Flanders (Belgium), for which subregions are considered (corresponding to NUTS2 level of the European Classification).

Source: OECD (2018), Job Creation and Local Economic Development 2018: Preparing for the Future of Work, OECD Publishing, Paris, <https://doi.org/10.1787/9789264305342-en>.

2. A deep dive into regional economic inactivity trends within the United Kingdom

How does economic inactivity vary within the United Kingdom?

In 2017, 22% of the working-age population in the United Kingdom (UK) was economically inactive.⁴ However, in Northern Ireland the share of the working-age population that was economically inactive was much higher, at 27%, and in the North East and Wales it was at 25%. In contrast, economic inactivity was much lower in the South where both the South East and South West had economic inactivity rates of 19%. Of the economically inactive aged 16-64, 58% live in cities. This share is slightly above the share of both the overall working age population (55%) and the total population of the UK (56%) living in cities. The variation between cities is much bigger than that between regions. While in Dundee economic inactivity was at 32% and in Blackburn and Belfast at 31%, it was only 11% in Crawley, 15% in Worthing and 16% in Swindon.

As it appears from Figure 2.1, there is significant geographical variation in terms of economic inactivity, with cities in the Greater South East generally having lower economic inactivity rates than cities elsewhere in the country. For example, London and Slough, despite being located in the Greater South East, have higher economic inactivity rates than one would expect by looking at this group of cities only (21% in London, 22% in Slough respectively). Conversely, the two northern cities of Preston and Burnley stand out for their lower levels of economic inactivity (19% and 20% respectively) compared to other cities in the region. These results might be explained by the fact that there are a number of factors at play when it comes to economic inactivity and they are not all related to the economic performance of places. The next section of this paper unpacks these different reasons isolating economic factors from the rest of the picture.

Box 2.1. Defining cities in the UK

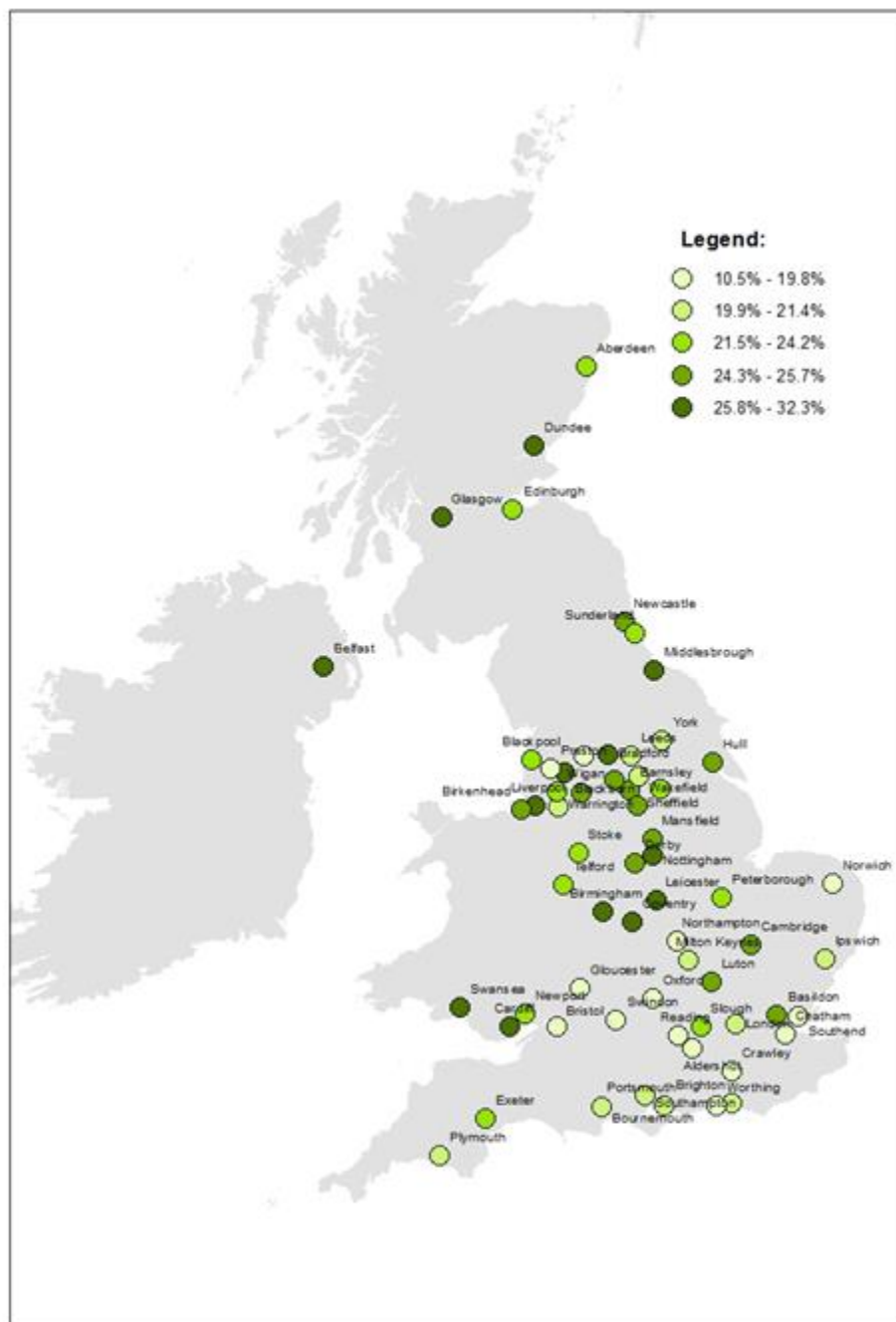
The analysis undertaken in this report compares Primary Urban Areas (PUAs) – a measure of the built-up areas of a city, rather than individual local authority districts or combined authorities. A PUA is the city-level definition first used in the Department for Communities and Local Government's State of the Cities report. The definition was created by Newcastle University and updated in 2016 to reflect changes from the 2011 Census.

The PUA provides a consistent measure to compare concentrations of economic activity across the UK. This makes PUAs distinct from city region or combined authority geographies. A full definitions table and a methodological note on the recent PUA update are available at this page: www.centreforcities.org/puas.

⁴ Data on economic inactivity in the UK is collected through the Annual Population Survey. According to the survey a person is economically inactive if he or she is “without job and has not sought work in the last four weeks and/or is not available to start work in the next two weeks”.

Figure 2.1. Economic inactivity rate in UK cities, 2017

Share of population aged 16-64 not in the labour force



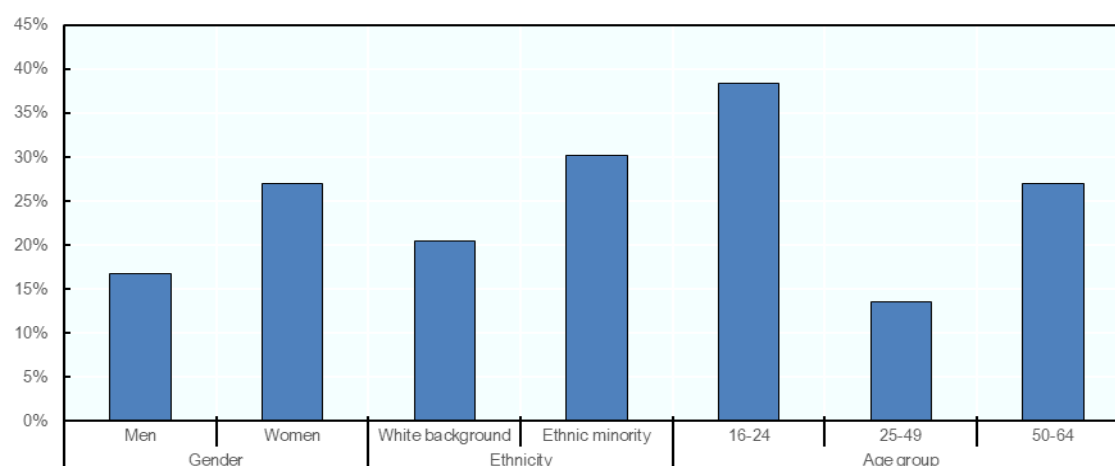
Source: ONS, Annual Population Survey, 2017

Who are the economically inactive in the UK?

When looking at the demographics of people that are economically inactive in the UK, three main points stand out. Firstly, women are almost 60% more likely to be economically inactive than men. Economic inactivity for women in the UK is at 27%, compared to 17% for men. Secondly, ethnic minorities are 50% more likely to be inactive than individuals from white background⁵. They account for 20% of all the economically inactive in the UK and have an economic inactivity rate of 30% compared to 21% for people from white backgrounds. Finally, economic inactivity is almost three times higher among young people (i.e. those aged 16-24) than among people aged 25-49. People aged 50-64 years old are twice as likely to be inactive than people aged 25-49. Clearly, individuals can fall in more than one of these categories, and a young woman from an ethnic minority background is much more likely to be economically inactive than a young man from a white ethnic background. These trends hold in cities everywhere across the UK.

Figure 2.2. Economic inactivity rates by demographic characteristics, United Kingdom, 2017

Share of population aged 16-64 not in the labour force.



Note: Ethnicity is self-defined in the UK Census and is subjectively meaningful to the individual. The ethnic group includes five broad categories: White; Mixed/Multiple; Asian/Asian British; Black African/Caribbean/Black British and Other ethnic groups.

Source: ONS, Annual Population Survey, 2017

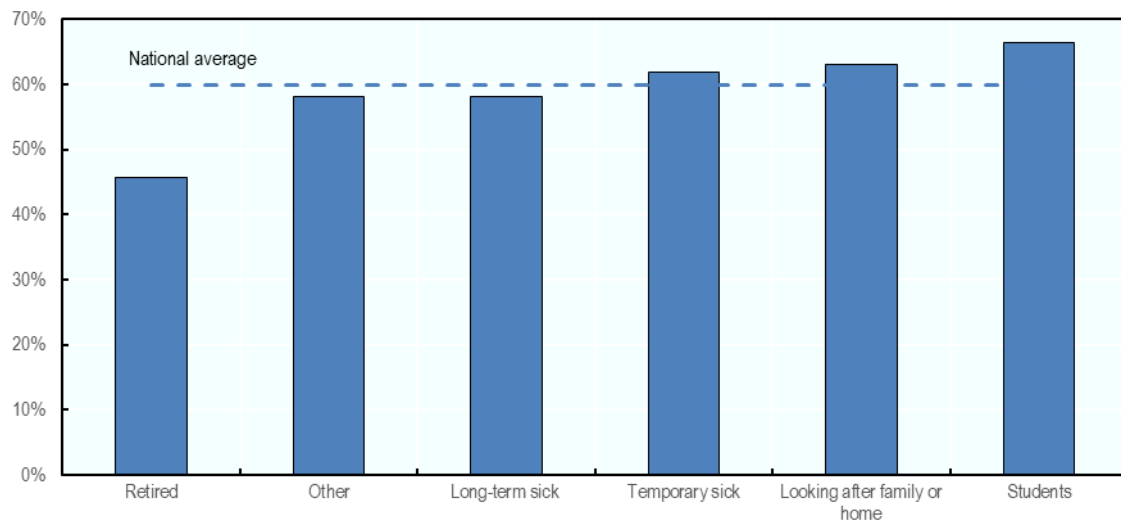
The reasons for economic inactivity

As highlighted before, people can be economically inactive for a number of different reasons. These reasons can differ from place to place, with some more likely to be urban issues than others. In particular, 66% of inactive students live in cities, while only 58% of people economically inactive reporting being sick live in cities. In contrast, early retirement is much less of an urban issue, with 46% of retired economically inactive living in cities.

⁵ According to the UK Office for National Statistics, ethnicity is self-defined and is subjectively meaningful to the individual. The ethnic group question on the 2011 Census had five broad categories: White; Mixed/Multiple; Asian/Asian British; Black African/Caribbean/Black British and Other ethnic groups.

Figure 2.3. Share of economically inactive people living in cities by reason, United Kingdom, 2017

Share of population aged 16-64 not in the labour force.



Source: ONS, Annual Population Survey, 2017

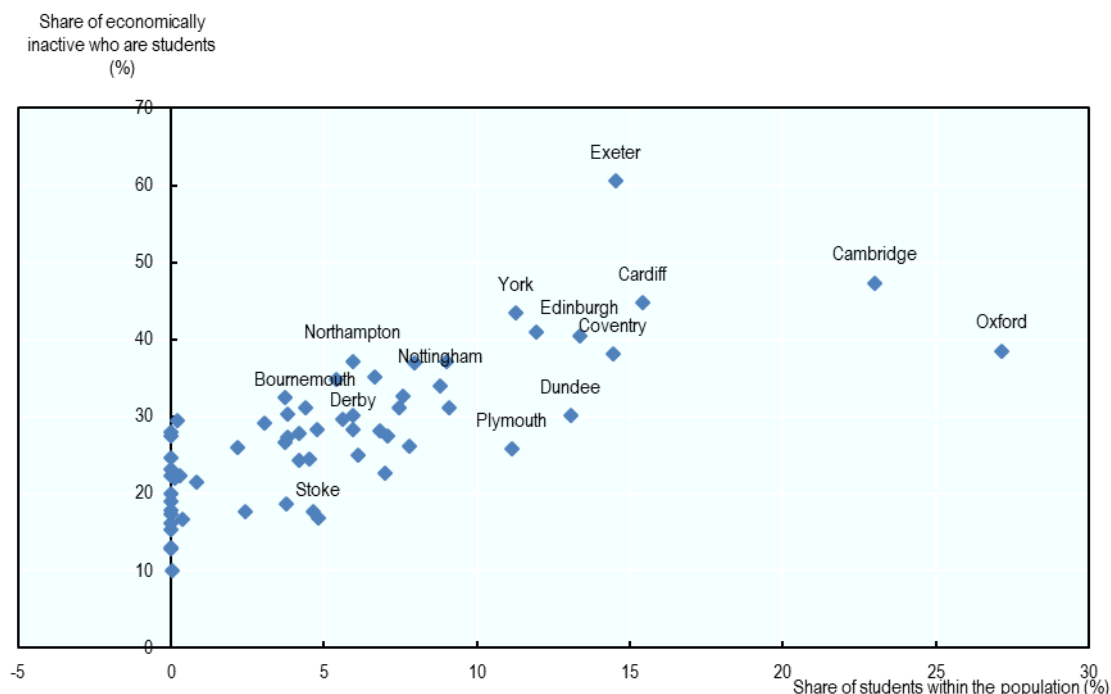
Economic inactivity driven by choice: students and retirees

Students and retirees contributed to the share of the working-age population that is economically inactive. It is reasonable to expect that students are well placed to enter the labour market they are qualifying for and that early retirees have most likely been able to leave the labour market because they are financially able to do so. These two factors help explain why particular places have higher inactivity rates.

In university cities, economic inactivity is mainly driven by the presence of students. The higher the student population of a place is, the more prominent studying is the reason for economic inactivity. As such, in Exeter almost two-thirds of the working-age population that is economically inactive are students, and in Cambridge and Cardiff over 45% of the economically inactive are students. In contrast, in Mansfield and Aldershot, two cities that do not have a university, the share of economically inactive that are students is much smaller and only represents 10% and 12% of the inactive population respectively.

Similarly, being retired is a much stronger factor in some places than others. However, within cities themselves there is significant variation with economic inactivity due to retirement reasons being particularly high in Aldershot (43%), followed by Worthing (30%) and Crawley (25%). Interestingly, these cities also have the lowest levels of economic inactivity across UK cities.

Figure 2.4. The relationship between student population and economic inactivity, cities in the UK, 2017



Source: ONS, Annual Population Survey, 2017

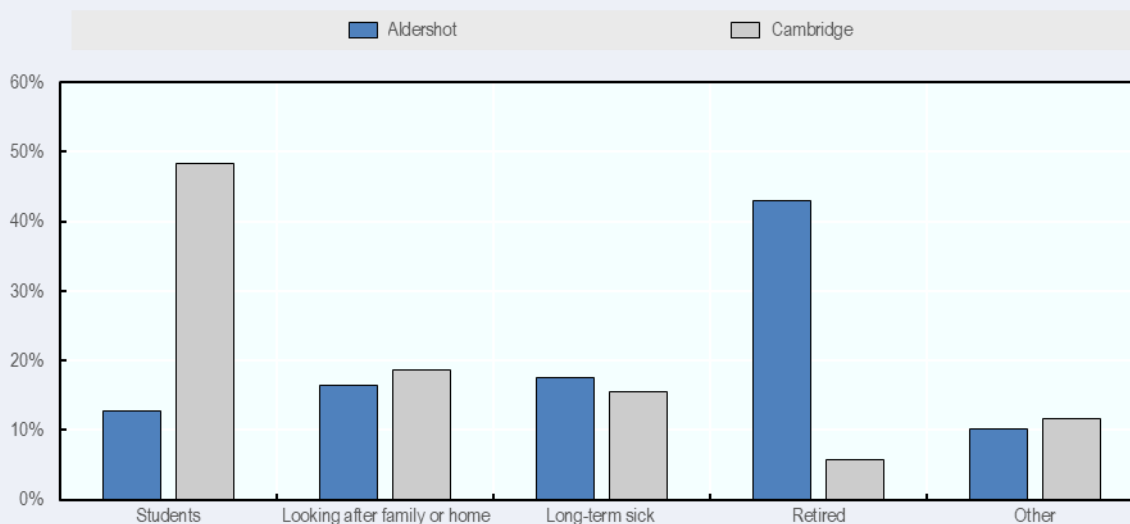
Box 2.2. Aldershot and Cambridge, where economic inactivity is mostly a choice

In Aldershot and Cambridge economic inactivity is mostly (56% and 54% respectively) driven by non-economic factors, but for different reasons. In Aldershot, a smaller city in the South East of England, the main factor behind inactivity is people being retired (43%) while in Cambridge – a city of international renown for its university – students make up almost 50% of all the economically inactive in the city.

These differences are reflective of the different types of population these places attract. On one hand, the higher share of economically inactive in Aldershot might reflect a higher presence of affluent households who decide to retire there. On the other, one in five residents in Cambridge is a student.

Figure 2.5. Inactivity rate by reason in Aldershot and Cambridge, 2017

Share of population aged 16-64 not in the labour force.



Source: ONS, Annual Population Survey 2017.

Economic inactivity driven by other forms of activity

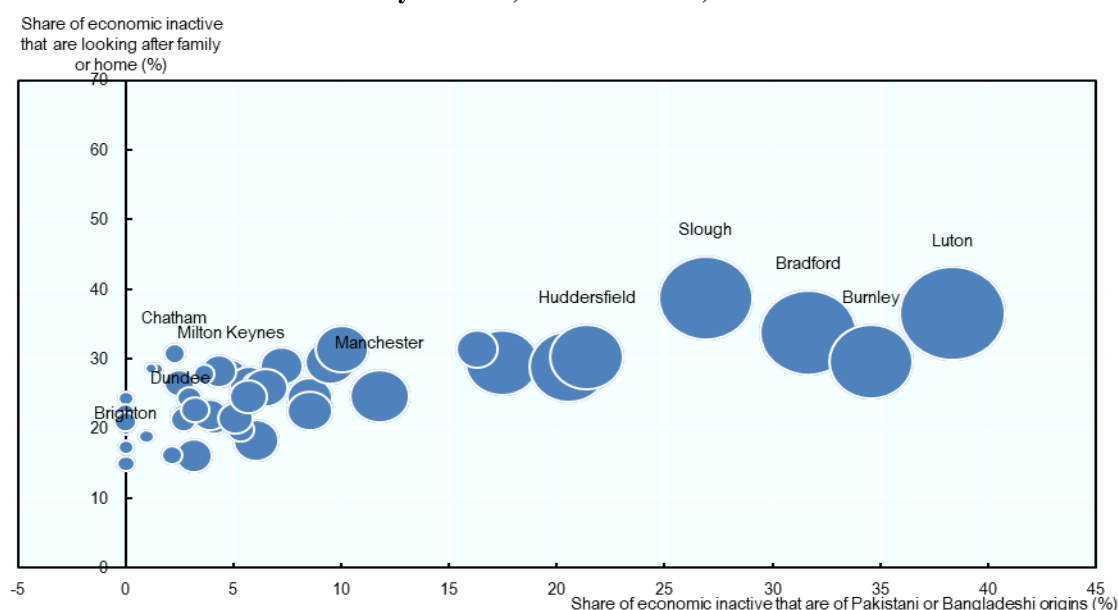
At the city level, the second most cited reason for economic inactivity is looking after family or home⁶. This is particularly a gender issue with 35% of females that are economically inactive looking after family or home compared to only 7% of males. While this group is technically inactive, they carry out important social and care activities outside the labour market.

Geographical variation in the share of economically inactive people that are looking after family or home may be linked to the overall proportion of ethnic minorities living in a city. Data shows that people from ethnic minorities are 50% more likely to be inactive than people from white backgrounds. Within ethnic minorities, this is particularly true for individuals from Pakistani and Bangladeshi groups, and especially women within these groups.⁷ As shown in Figure 2.6, cities with higher shares of people from ethnic minorities tend to have high shares of economic inactivity for people looking after family or home. In Slough, one of the cities with the highest share of the population from Pakistani and Bangladeshi backgrounds, 40% of economically inactive individuals are looking after family or home, and in Luton and Bradford, two other cities with large Pakistani and Bangladeshi populations, the share is 37% and 34% respectively.

⁶ This category includes 1) caring for children below school age; 2) caring for other children; 3) caring for dependent adult relative; and 4) other reason.

⁷ <https://www.ethnicity-facts-figures.service.gov.uk/work-pay-and-benefits/unemployment-and-economic-inactivity/economic-inactivity/latest>

Figure 2.6. The relationship between ethnicity and economically inactive who look after family or home, cities in the UK, 2017



Note: The size of the bubble indicates the share of total population that is from Pakistani or Bangladeshi origins.

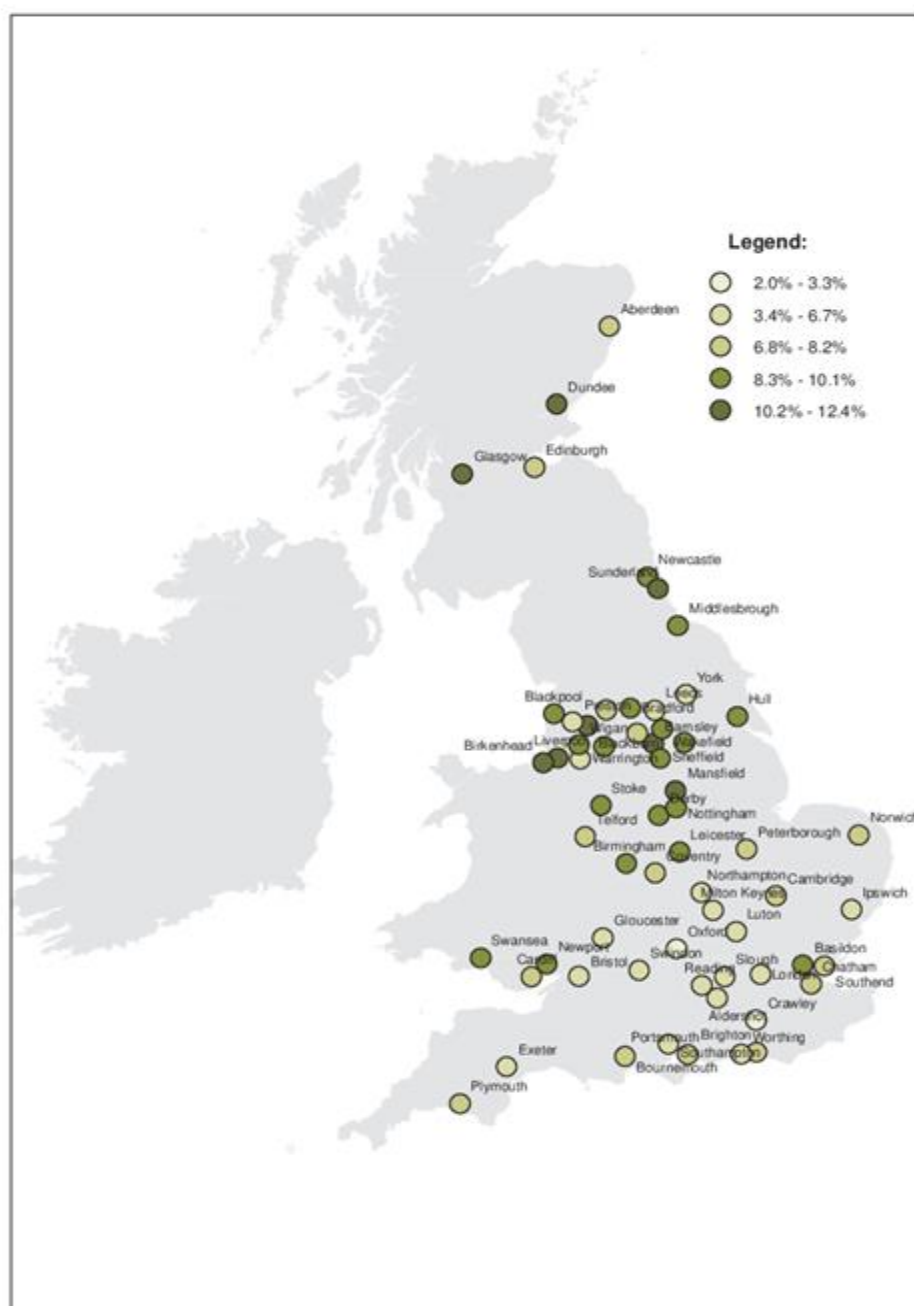
Source: ONS, Annual Population Survey, 2017

The effect of the ethnic background on labour market attachment seems stronger than the city's performance. For example, Bradford and Newcastle which are both in the North of England are cities with weak economies and high unemployment rates. Yet in Bradford, almost 35% of all the people that are economically inactive are active outside the labour market, either by looking after family or home. In contrast, in Newcastle that share is just above 20%. While they have similar economic performance, these cities differ in their demographic characteristics. In Bradford, almost 20% of the population is of Pakistani or Bangladeshi backgrounds and this group accounts for over 30% of all the economically inactive in the city. In contrast, in Newcastle, individuals from Pakistani or Bangladeshi backgrounds account for less than 2% of the working-age population, and just over 3% of the economically inactive. This is not just the case in cities with low economic growth. In the southern cities of Slough and Reading, where the economy is much stronger, it is possible to see similar patterns. People from Bangladeshi and Pakistani backgrounds account for almost 20% of the working-age population in Slough, and for more than 25% of the economically inactive in the city compared to approximately 3% of the population and less than 5% of the economically inactive in Reading. And in Slough, the share of economically inactive looking after family is much higher than in Reading – at 39% against 28% in Reading.

Economic inactivity and economic performance of cities

Being a student, retiring earlier and looking after family or home are not necessarily directly linked to the economic performance of the local area where people live and work. Based on this assumption, it is possible to compute an 'adjusted' economic inactivity rate which excludes from the calculation people who are students, retirees and looking after family or home. As shown in Figure 2.7, once the economic inactivity rate is discounted by these non-economic factors, a clear economic picture emerges, with a strong North/South divide.

Figure 2.7. Adjusted economic inactivity rate, cities in the UK, 2017

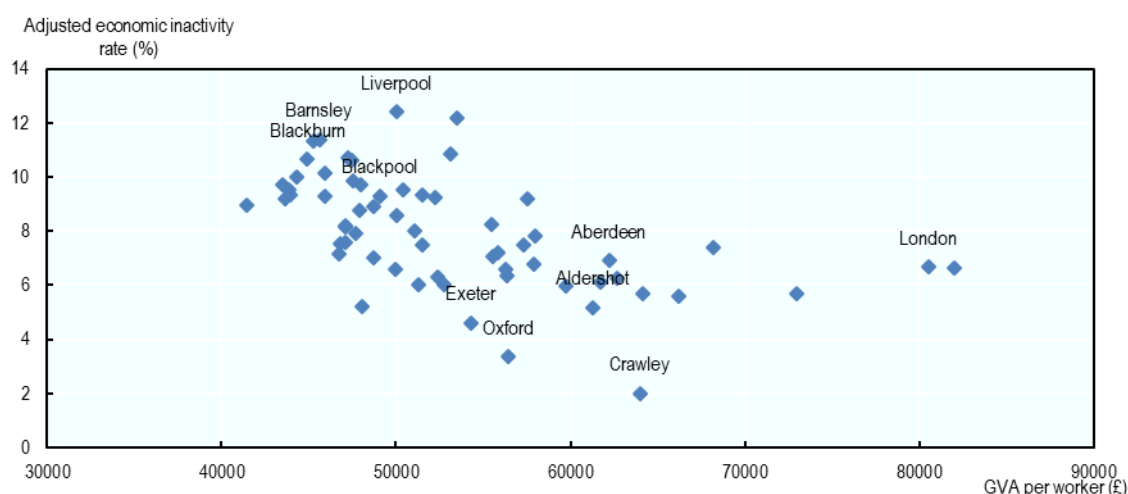


Note: The adjusted economic inactivity rate is computed by removing students, retirees and people looking after family or home from the calculation. However, it should be noted that the decision to work within the home could be an economic decision made based on a comparison of child care costs to the shadow wage that could be expected from returning to the labour force. The data for Belfast is not comparable to that of the rest of the UK and therefore it has not been possible to create the adjusted economic inactivity rate for the city.

Source: ONS, Annual Population Survey, 2017

As shown in Figure 2.8, Liverpool is the city with the highest adjusted economic inactivity rate at 12%, followed by Dundee, Barnsley, Mansfield and Sunderland. All the top 10 cities with the highest adjusted economic inactivity rates are outside the Greater South East, and have weak economic performance, as measured by productivity. In contrast, cities in the Greater South East tend to have much lower adjusted economic inactivity rates. In Crawley, the rate is just 2% and in Oxford and Exeter it is below 5%. These cities are also cities that have stronger economies and higher productivity.

Figure 2.8. The relationship between productivity and the adjusted economic inactivity rate, cities in the UK, 2017

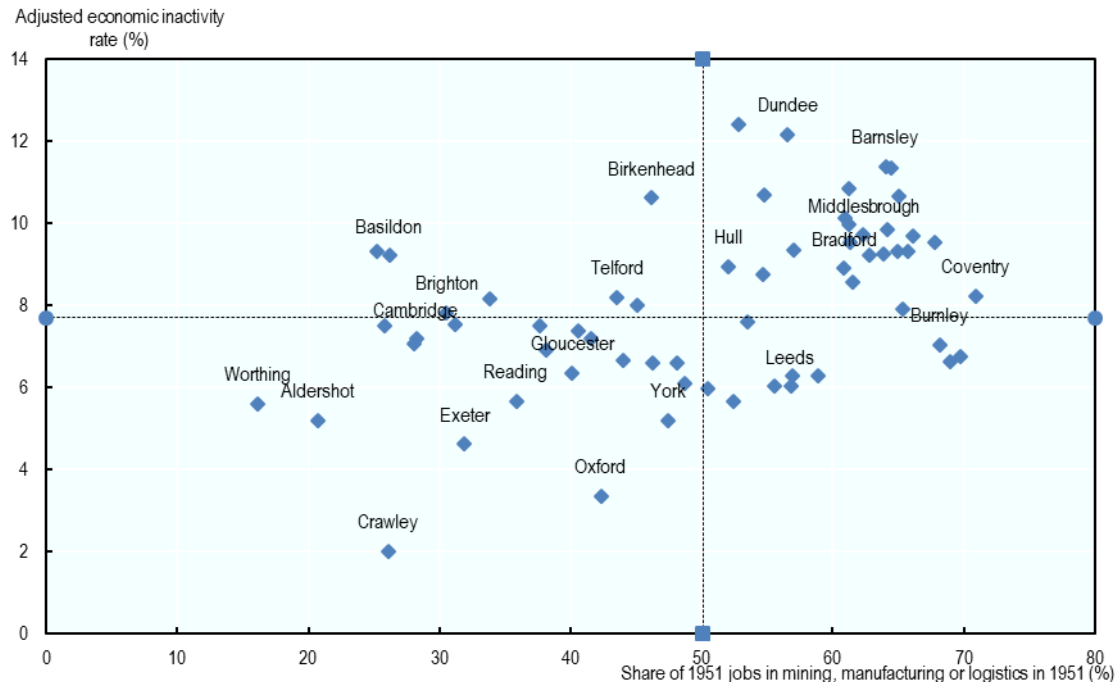


Note: The adjusted economic inactivity rate is computed by removing students, retirees and people looking after family or home from the calculation. However, it should be noted that the decision to work within the home could be an economic decision made based on a comparison of child care costs to the shadow wage that could be expected from returning to the labour force. The data for Belfast is not comparable to that of the rest of the UK and therefore it has not been possible to create the adjusted economic inactivity rate for the city.

Source: ONS, Annual Population Survey, 2017

Many cities with the highest adjusted economic inactivity rate have shown weak economic performance over the last 50 years mainly led by the decline in mining and manufacturing. In 25 of the 32 cities (78%) with an economic inactivity rate higher than the national average, the mining, manufacturing and logistics sectors accounted for more than 50% of all jobs in 1951. These places include for example Mansfield, Blackburn and Sunderland.

Figure 2.9. The relationship between the total jobs in mining, manufacturing and logistics in 1951 and the adjusted economic inactivity rate in 2017, cities in the UK



Note: The adjusted economic inactivity rate is computed by removing students, retirees and people looking after family or home from the calculation. The data for Belfast is not comparable to that of the rest of the UK and therefore it has not been possible to create the adjusted economic inactivity rate for the city

Source: ONS, Annual Population Survey, 2017 and University of Portsmouth, A Vision of Britain Through time.

Part of the reason why these places have such high adjusted inactivity rates today, in particular among their older population, can be traced back to the policy intervention in response to the strong job losses in the mining and manufacturing sectors caused by technological progress in the 1950s. The policy response from the government was two-fold. Firstly, it increased the number of public sector jobs in these areas and secondly, it moved a number of people who had lost their jobs on other social benefits. (Centre for Cities, 2018_[20])

This clearly emerges when looking at the economic inactivity data. Indeed, in all cities with a significant past in mining and manufacturing, both the share of economically inactive aged 50 to 64 years and the share of people that are economically inactive because of long-term sick is also much higher than in the rest of the country. In addition, these cities also have the highest share of 50-64 years old with no qualifications and a high share of the low-skilled population. Past trends in mining and manufacturing seem to have consequences on today's labour markets. OECD estimates show that there are regional differences in the United Kingdom, when looking at the percentage of jobs vulnerable to automation from 7% in the London region to 11% in Northern Ireland (OECD, 2018_[19]). Looking even more local, one in five jobs in urban Britain is currently at risk of automation and across cities, those that were most affected by the decline in mining and manufacturing in the past are likely to be more vulnerable to this new wave of automation and globalisation (Centre for Cities, 2018_[20]). The places with the highest share of jobs at risk of displacement by 2030 are also the places with the highest adjusted economic inactivity rate.

Box 2.3. The impact of age on economic inactivity

In places where this adjusted economic inactivity rate is higher, people aged 50 to 64 appear to be driving rates up. Overall, among the economically inactive in the country, 37% are aged 50-64. While this age group is generally more likely to be economically inactive in less urban areas, mainly because of early retirement reasons, within cities, it accounts for very different shares of the economically inactive population.

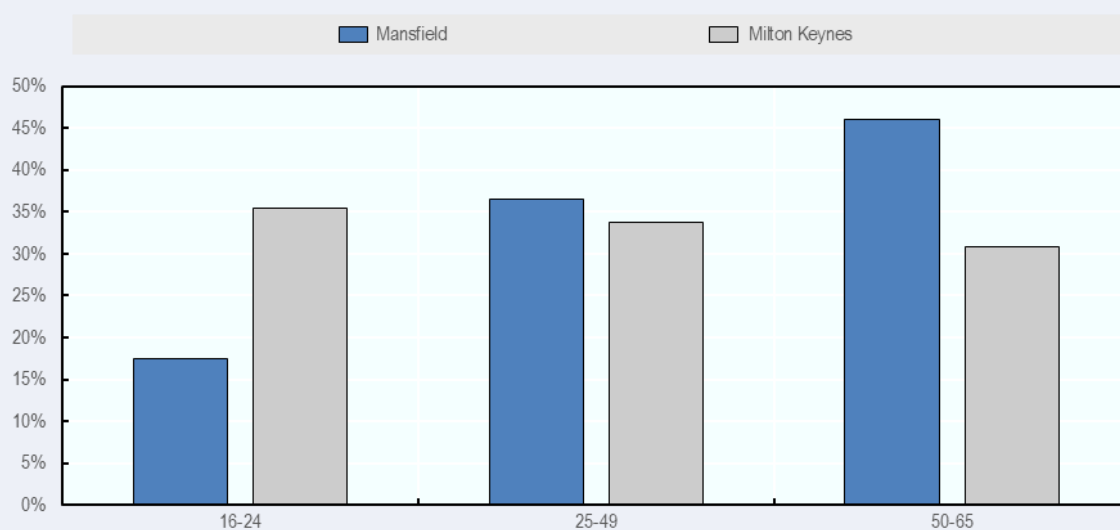
In Dundee, people aged 50-64 years account for 39% of all economically inactive, in Sunderland, Blackburn, Barnsley and Liverpool, they account for over 35% of the economically inactive working-age population. All these cities are among the cities with the highest adjusted economic inactivity rates. In contrast, in Crawley, Oxford and Northampton, people aged 50-64 account for less than 20% of the overall economically inactive working-age population.

Mansfield is a small city in the Midlands, one of the hardest hit by the decline of mining and manufacturing in the second half of the twentieth century. In between 1951 and 2011, the number of jobs in Mansfield in those industries declined by 65% and the city has never fully recovered from this decline. Today, it is one of the places with the highest share of low qualified people, low productivity and low share of high-skilled jobs.

Not surprisingly, Mansfield has one of the highest adjusted economic inactivity rates of all cities (11%). In particular, Mansfield has a much higher share of economically inactive that are 50 to 64 years old. Compared to Milton Keynes – another city with no university, to ensure comparability between the two, located in the Greater South East, not far from London – Mansfield has 50% more economically inactive that are 50 to 64 years old. This group accounts for 46% of all economically inactive in Mansfield, compared to only 31% in Milton Keynes.

Figure 2.10. Economic inactivity rate by age in Mansfield and Milton Keynes, 2017

Share of population aged 16-64 not in the labour force.

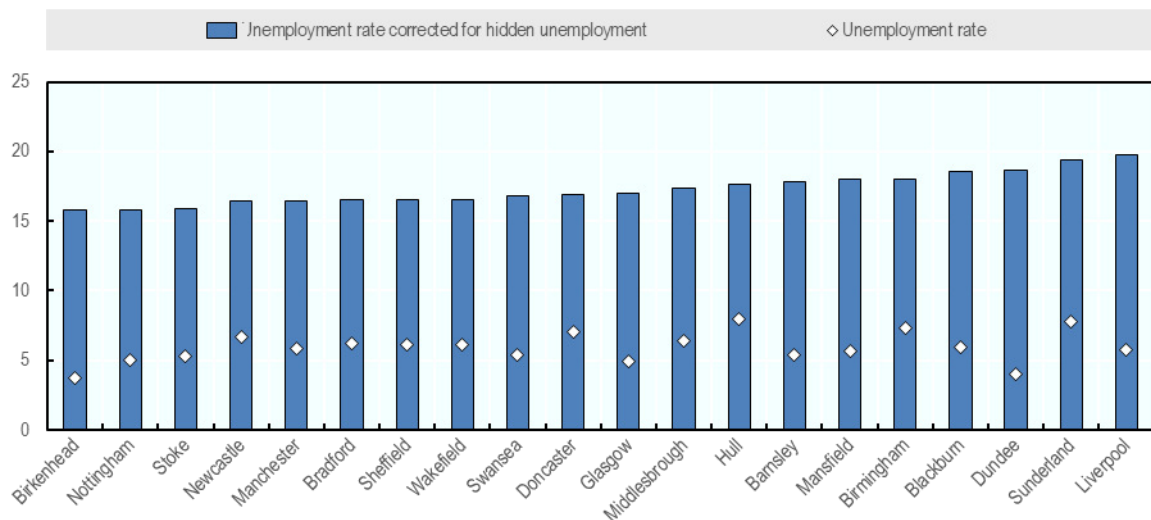


Source: ONS, Annual Population Survey 2017.

The adjusted economic inactivity rate appears to be related to the economic performance of a local area. If this indicator is combined with the unemployment rate, it can provide additional information on labour market health and inclusion. This suggests that while the UK has historically low unemployment rates, when accounting for those who are economically inactive for economic reasons as defined by the adjusted economic inactivity rate, the share of people who are not in employment but could potentially work would move be more than two times higher, moving from 4.6% to 13.2%.

This has particularly important consequences for cities with weaker economies, where unemployment rate when including “hidden” unemployment reaches nearly 20%. For example, in Sunderland, unemployment would more than double, from 8% to 19%. In Liverpool and Dundee, the figure would also be much higher, with unemployment increasing to 19% when accounting for “hidden” unemployment (see Figure 2.11).

Figure 2.11. Unemployment rate and “hidden” unemployment rate, selected UK cities, 2017



Note: Data on “hidden” unemployment rate presented in this figure is computed as the number of people unemployed and inactive for economic reasons (i.e. people who stopped looking for a job because they believe that no jobs are available and people who have health issues or disability) as a percentage of the labour force plus the inactive for economic reasons as defined above. The denominator in this calculation differs from the traditional unemployment rate because it also include those individuals who are inactive for economic reasons – not only those in the labour force. Due to data availability issues, the computation of “hidden” unemployment for UK cities is slightly different from the one used in the previous section outlining OECD regional comparisons. In particular, it was not possible to isolate the following categories: 1) people who take care of relatives reporting that no care facilities were available; and 2) people who are early retirees. The data for Belfast is not comparable to that of the rest of the UK and therefore it has not been possible to compute the indicator for this city.

Source: ONS, Annual Population survey, 2017

3. Developing policy responses to reduce economic inactivity for different types of people and places

Policies should be designed to address the reasons why people fall into economic inactivity. In some cases, it might be individual choice while in others, it could be a lack of employability skills, motivation, or suitable job opportunities. As highlighted in previous OECD research, the economically inactive face a number of barriers to the labour market, including a lack of work experience, the existence of generous benefit systems, which provide disincentives for job search, as well as structural changes in the labour market, which alter the local job opportunities available (Fernandez et al., 2016^[21]).

This section of the paper identifies some considerations for policy with some illustrative examples of programmes in selected OECD countries. It should be noted that this policy section is not meant to be comprehensive; the intention is to outline some key issues for further research.

Adapting local labour market responses to regions facing high levels of economic inactivity

Public employment services can help match inactive people to jobs at the local level. However, in many OECD countries, the inactive population may not be adequately served by employment services given that these people are usually required to be eligible for unemployment benefits before having access to active job search assistance. In general, working with the economically inactive requires more intensive case management services that focus on building employability skills and motivation to work as opposed to strictly focusing on placing people into a job (OECD/IDB/WAPES, 2016^[22]). More work and research is needed to understand how employment services can more effectively target their programmes and services, especially in those regions that have higher levels of economic inactivity.

While national policy clearly has a role to play in steering resources to these regions, local employment services require more capacity to respond to the numerous employment barriers faced by this group. National policies should acknowledge the challenges that many local public employment services face in trying to reach out to the inactive population and to address their often complex needs, a role that goes beyond the standard array of services (Eurofund, 2017^[23]). At the local level, public employment services serving the economically inactive need to focus more intensively on counselling and client-centred guidance (OECD, 2015^[24]). It is also critical that accountability and performance management frameworks from the national to the local level enable flexibility to adapt services to those individuals who are economically inactive (OECD, 2014^[25]).

Improving policy integration at the regional and local level

There is an opportunity for OECD countries to examine overall policy integration by better connecting social welfare, employment, and education systems at the regional and local level. Policy responses should focus on aligning local services to reduce the full range of barriers that keep people away from the labour market. As an example, some OECD

countries have merged employment and social welfare services to better serve the needs of the economically inactive. Job Centre Plus in the United Kingdom combines job placement and benefit administration with the goal of ensuring inactive people have greater access to job search assistance (Kuddo, 2012^[26]) (OECD, 2014^[27]). This is similar to Employment Ontario in Canada which combines the delivery of labour market and social assistance services in regional and municipal offices in a “one-stop shop” delivery framework.

Partnerships are a key governance tool to better connect the broad range of services that exist at the local level to help the economically inactive. In some cases, regions and cities may be able to take a stronger leadership role in coordinating and designing programme supports. The involvement of a wide range of stakeholders from different levels of government can help streamline services and ensure the economically inactive know where to go to receive assistance. The Working Well programme in Manchester, United Kingdom provides an example of a region that is trying to coordinate a range of employment and health services to get people into work.

Box 3.1. The Working Well programme in Greater Manchester

The Working Well programme in Greater Manchester was first introduced as a pilot in 2014 to provide holistic support to 5 000 people experiencing chronic and long-term unemployment, including those who had left the National Work Programme (e.g. the UK welfare to work programme). The programme combines physical and mental health support and advice on drug and alcohol problems, skills, education and housing. Each client receives their own “key-worker” (e.g. employment counsellor) to help them get the right support and develop their confidence and independence.

In November 2014, as part of a wider devolution agreement with Greater Manchester, the project was expanded from 5 000 to 50 000 people. Since its inception in 2014, Working Well have achieved employment outcomes for over 4 000 Greater Manchester residents.

Source: (Greater Manchest Combined Authority, 2019^[28]).

Reducing economic inactivity through skills development

A lack of relevant skills is one of the challenges that economically inactive people face when trying to enter the labour market. A wider range of cognitive and socio-emotional skills are needed to succeed in today’s labour market (Magrini and Clayton, 2018^[29]). The new OECD Job Strategy has highlighted the importance of creating good quality jobs and preparing people for a rapidly changing labour market (OECD, 2018^[30]). This is possible only by offering people, both those who are in the labour force and those who are inactive, continuous opportunities to develop their skills.

Educational attainment, beyond its impact on cognitive skills, further boosts labour market outcomes. An additional year of completed formal education is associated with an increase in the likelihood of being employed of about one percentage point and increases wages by 12% (OECD, 2018^[30]). Given some of the barriers faced by the economically inactive, such as child care and family responsibilities, skills development programmes need to be delivered in a more flexible manner. This includes providing more access to part-time and modular-based training, while also ensuring that the skills being taught directly translate into the labour market. Local governments can help develop a community-wide vision for training and skills. They can more easily engage with a number of local actors including

employers, colleges and training institutes, as well as unions to better shape training provision (OECD/ILO, 2017^[31]).

Regions and cities can also help people get closer to the labour market by directly managing and delivering skills development programmes. One possible policy consideration is to set up “Skills Compacts” to promote local collective responsibility for education and training. The goal of such compacts would be to bring together city leadership with local stakeholders including schools, vocational education and training providers, universities, businesses and the third sector — to commit to increasing learning opportunities within a community (Magrini and Clayton, 2018^[29]).

The Skills Compact model has been applied in Boston, United States, to improve the quality of education in the city by increasing coordination and the sharing of best practices among local stakeholders. Since its implementation in 2011, the Compact now covers more than 93% of all students in the city (Magrini and Clayton, 2018^[29]). The Compact is focused on practices related to effective teaching and learning, especially for young people who are more at-risk of becoming economically inactive, such as those with special needs and English learners. As another example, Northern Ireland has placed a significant focus on skills development within its overall strategy to reduce economic inactivity (See Box 3.2)

Box 3.2. Strategy to address economic inactivity in Northern Ireland (UK)

Northern Ireland has the highest rate of economic inactivity in the United Kingdom, and the gap with the national average has increased in recent years. To address this pressing issue, in 2015 the Ministers for Employment and Learning as well as Enterprise, Trade and Investment jointly launched the strategy Enabling Success.

This strategy aims to reduce inactivity by improving the skills of the inactive population, providing targeted training and employment incentives and supporting job creation. The involvement of a wide range of stakeholders including regional and local government representatives, employers, the voluntary and community sector, public bodies and expert advisers represent a key success factor.

The objective of the strategy is to achieve an employment rate higher than the rest of the United Kingdom by 2030 thanks to the activation of people who are currently out of the labour force. The target group includes people with limited health issues, single parents and people who take care of relatives, which corresponds to 64 000 people and approximately 20% of the total inactive population in Northern Ireland.

Source: (Department for Employment and Learning and Department of Enterprise, 2015^[32])

Addressing the unique barriers faced by disadvantaged groups in different local labour markets

This paper has demonstrated that certain population groups are more likely to be inactive: 1) older workers aged 55-64; 2) young people, especially those who are not in education or training (NEET); 3) women; and 4) the low skilled. It also showed that migrants or those from an ethnic minority background face a high probability of economic inactivity in the UK. This working paper is not intended to provide an exhaustive and detailed breakdown of the barriers facing each of these groups. There is a wealth of existing OECD research on national approaches to target labour market programmes to certain target groups,

particularly for youth and older workers. Each of these groups faces unique and complex barriers to participating in the labour market. Many inactive people may need extra time to prepare themselves for work so policy measures should be designed to encourage a longer transition to work for these groups.

In countries with an ageing population, existing OECD research has noted that governments should encourage older workers to stay in employment longer by strengthening public financial incentives, and providing upskilling opportunities to people aged 55 and above (OECD, 2013^[33]). For older workers, it is critical to encourage employers to retain and hire older workers and to promote the employability of workers in their mid- to late careers (OECD, 2015^[24]). In Sweden, the New-Start Jobs programme is aimed at people who have been receiving unemployment benefits, sickness benefits, sickness and activity compensation, or financial assistance for more than one year, among whom many are aged 50 and above. Sweden also has a programme to help redundant workers to find a new job and/or change jobs. This includes Career Transition Agreements which have been established as part of collective agreements between job security councils and the social partners.

For young people, especially those who are NEET, the challenge is that responsibilities for youth policies are typically spread across a range of branch ministries, while policy implementation may be located at different tiers of government (local, regional and national) (OECD, 2016^[34]). It is critical to reduce early school leaving, while also tapping into networks outside of schools, such as social and health services, public employment services and, possibly, NGOs. At a local level, all of these organisations can play an important role in addressing more severe or long-lasting problems that schools are incapable of dealing with on their own (OECD, 2016^[34]).

To promote greater female labour force participation, policy should aim to provide strong financial incentives to work, including support for childcare and flexible workplace arrangements. For female caregivers, a greater role of fathers in unpaid care would also help mothers to enter work or increase their working hours and to promote gender equality. (OECD, 2011^[16]).

For the low-skilled, wage subsidies may also represent an option for policy makers to help the economically inactive participate in the labour market. This type of incentive consists of reimbursing part of the salary or providing other financial support to employers who hire inactive people. The municipality of Amsterdam introduced ‘perspective jobs’ (*perspectiefbanen*), the aim of which was to help 115 long-term inactive people find employment over 2015 and 2016. To minimise the risk of competition, the scheme targeted jobs where shortages were expected – mainly in construction, technical jobs and ICT. Employers received EUR 8 500 wage subsidy per year for every person employed under this scheme for a maximum of two years, and a one-time EUR 3 000 ‘bonus’ if the temporary job is turned into a contract of at least six months (Eurofund, 2017^[23]).

For migrants or those from an ethnic minority background, it is clear that more needs to be done to promote foreign credential recognition, general employment counselling, language training, and mentoring. In the City of Toronto, Canada, the Toronto Region Employment Council aims to help migrants expand their professional networks. They do this by fostering collaboration among a range of partners across the City. The programmes places a strong focus on mentoring with the goal of better educating employers about cultural practices while also preparing immigrants for the job market through occupational-specific language training (Toronto Region Employment Council, 2019^[35]).

Lastly, within a region or city, it is important to address the travel barriers that some groups face when trying to access work opportunities. From a local economic development planning perspective, this means not only focusing on creating and attracting high-skilled workers, but also measures aimed at better connecting people with jobs geographically (see Box 3.3). A broader set of interventions is required for disadvantage groups, including improving infrastructure and transport options, especially for people living in rural areas or in larger metropolitan areas, where commuting patterns can be quite long.

Box 3.3. Improving transportation services to reduce inactivity in Israel

The spatial separation between Jews and Arabs means that social networks that often go with finding a job are not developed across the two population groups. Another spatial factor is the lack of regular bussing or worker transportation facilities that makes working outside the community non-viable, especially for Arab women.

The Ministry of Economy along with the Ministry of Transportation (MOT) have outlined a work programme for upgrading accessibility between Arab villages and centres of employment. These include road investments, extending public transportation lines and operating shuttle/worker transportation services to employment centres at subsidised rates. For example, the recent extension of bus transport lines to the Druze towns of Daliat El Carmel and Ussafiya means easier access to the employment centre at Yokneam, the Trans Israel highway and the University of Haifa.

Source: (OECD, 2015^[36])

4. Conclusion and next steps

This paper has highlighted key trends in economic inactivity across OECD regions and cities with a spotlight on sub-national variation within the United Kingdom. It has demonstrated the importance of assessing regional disparities when looking at the issue of economic inactivity as well as exploring individual characteristics that could lead to inactivity. The paper has also showed that accounting for “hidden” unemployment within the traditional unemployment rate increases regional disparities.

The policy challenge is that the economically inactive often fall through the cracks. Active labour market programmes are primarily targeted to recently unemployed people receiving unemployment benefits. At the regional and local level, a multi-pronged policy approach is often needed, which combines labour market, skills training, and other supports, such as assistance for child care, housing and public transport.

While this paper provides new data on economic inactivity at the subnational level, there is an opportunity to further investigate regional labour market characteristics that are likely to lead to higher levels of economic inactivity as well as what policies and programmes are best to help both people and places participate in the labour market.

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