



## Not in the labour force: reasons and transitions

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*In 2015 were nearly 3.8 million people aged 15 to 75 in the Netherlands not active on the labour market. That means they do not have paid work but are also not seeking work and / or not available to start at short notice. Old age, illness or disability and following education are the most common reasons for not participating. Each quarter on average nearly 10 % from the people not in the labour force are a quarter later at work or seeking work and available to start working. These people thus become part of the labour force. The transition rates of people moving to the labour market show a correlation with the reason mentioned earlier for not participating on the labour market. For example, the transition rate under the ill and disabled was relatively small, while it was relatively large among the discouraged jobseekers. Those who follow education, show the greatest inflow into the labour market.*

### 1. Introduction

An important objective of Dutch labour market policy is to increase the employment rate. Also within the European Union this is a priority. In 2010 goals were set at an European level on the desired growth in employment. However, due to economic downturn, the employment rate among 15- to 75-year olds in the Netherlands actually dropped from 66.7 % in 2010 to 64.9 % in 2014. From mid-2014 it slightly increased again. In 2015, 65.4 % of the population aged 15 to 75 had a job. In the Netherlands this concerns 8.3 million people: 4.5 million men and 3.8 million women. In addition, more than 600 thousand people were unemployed; they did not work, but were seeking work and available to start working. If we include the unemployed also in the “participation rate”, the so-called labour force participation rate amounted to 70.2 % in 2015. This percentage is virtually identical to that of 2010, so also no growth compared to 2010.

Apart from demographic effects, an increase in labour force participation has to come from the 3.8 million people aged 15 to 75 who do not belong to the labour force: they have no job and are not seeking work or are not available to start at short notice. This article discusses the reasons for these people not to participate and for each reason the transition rates into the labour market.

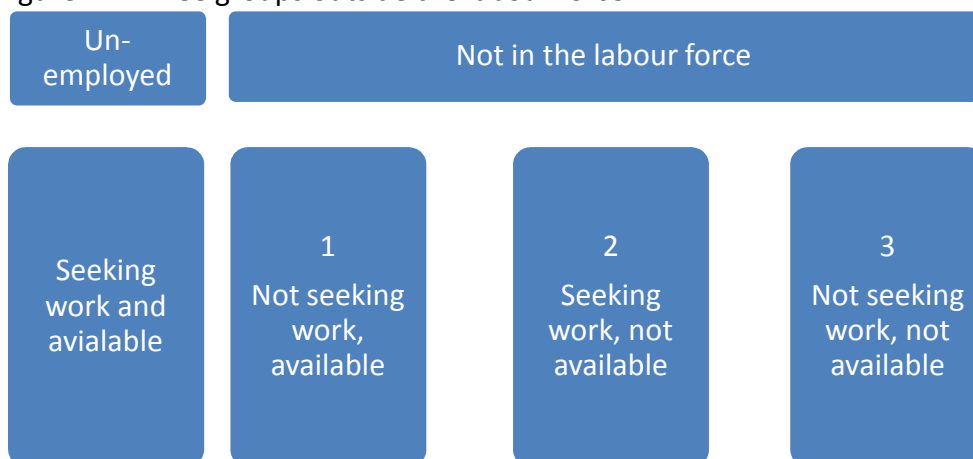
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<sup>1</sup> Translation of: Souren, M. (2016). Redenen om niet actief te zijn op de arbeidsmarkt. CBS Sociaaleconomische trends, 2016-05.

## 2. Method

The data are extracted from the Dutch Labour Force Survey (LFS). In the LFS the labour market position and the transitions between these positions are determined. In this article, people not in the labour force are divided into three group based on the criteria used to determine unemployment: seeking work and availability. People that fulfil at least one of these two criteria (group 1 and 2 in figure 2.1) are considered to have a larger attachment to the labour market than people that do not fulfil one criterion (group 3 in figure 2.1). If a respondent does not fulfil a criterion, also the reason for that is asked. People not looking for work are also asked if they wanted to work and all respondents are finally asked how they would describe themselves. This information is all together used to determine the reason for people not to be in the labour force.

Figure 2.1 Three groups outside the labour force



### Reasons

To determine why someone is not counted as part of the labour force, the following is applied: if the person does not meet only one criterion, the corresponding reason for that specific question is used. When someone does not meet both criteria, first is determined whether the person wanted to work and if not what the main reason was for that. If the person wants to work or the reason is unknown, the reason for not being available or not to be seeking work are used. Finally, if the reason is still unknown, the description that the person finds most suitable for him or herself is used. The answering categories used are: retired (reason = high age), housewives / men (reason = caring), pupils and students (reason = education), incapacitated (reason = illness/disability) and voluntary work (reason = volunteering).

### **Inflow into the labour market**

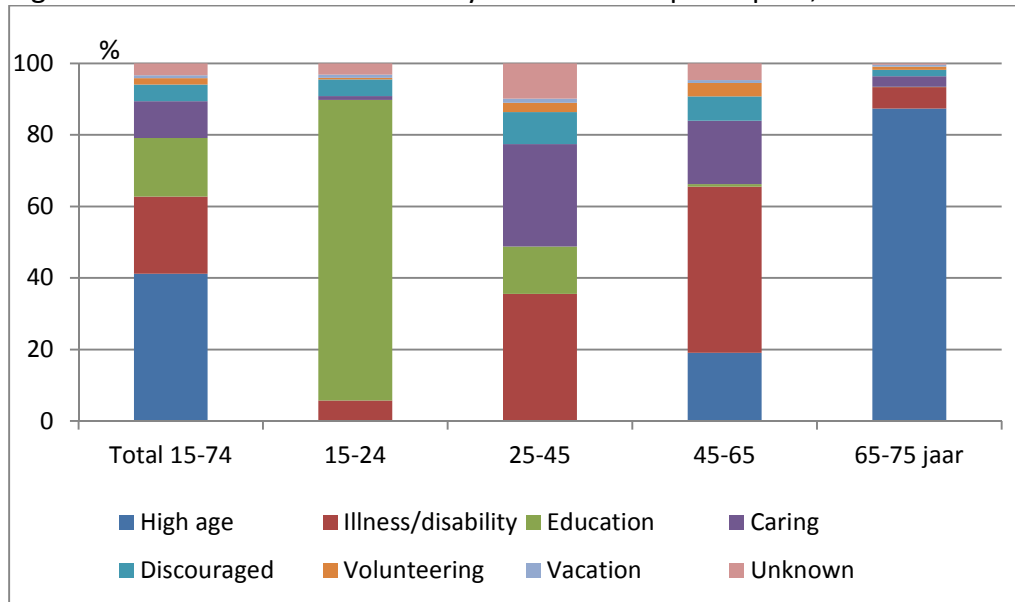
This article will show per reason the transition rates to the labour market. Respondents in the Dutch LFS are re-interviewed again after three months on their labour status and, if they are not working, on their search behaviour and availability. This way it is determined if they entered as unemployed or employed at the labour market or still are not participating. These so-called transition rates can provide an assessment of the potential for increase of the labour force participation per group with the same reason. The rates are calculated as an average of the four quarters in 2015.

### **3. Reasons for not participating on the labour market**

Almost eight out of ten non-working aged 15 to 75 years have one of the following three reasons not to participate in the labour market: high age or retirement (41 %), illness or disability (22 %), or education (16 %). The reasons mentioned show a strong correlation with the age of the respondents. Young people are often still in education and over 65 year olds do not work because of their high age. Also at 45- to 65-years old one out of five give old age as the reason not to participate. Among those not participating in the labour market because of a high age there are slightly more women than men, with almost half of them having a low level of education. Compared to the young and the elderly, the 25- to 45-year olds and 45- to 65-year-olds are more diverse in terms of reasons not to participate on the labour market. In this age illness or disability for work is with respectively 35 % and 46 % the most common reason for not participating in the labour market. Also caring for children or other family members is mentioned relatively often compared to the youngsters and elderly for whom it is almost never a reason not to participate. These carers are mostly women. Finally, approximately one out of ten in this age is doing voluntary work or is not seeking work because they expect no results from that. This latter group are also called discouraged jobseekers.

With regards to the demographics. The population not in the labour force is relatively old: 41 % is between 65 and 75 years, while 29 % are 45 to 65 years. By comparison, in the total population 37 % is 45 to 65 and 14 % between 65 and 75 years old. Furthermore, the non-working population is 59 % female.

Figure 3.1 Not in the labour force by reason not to participate, 2015

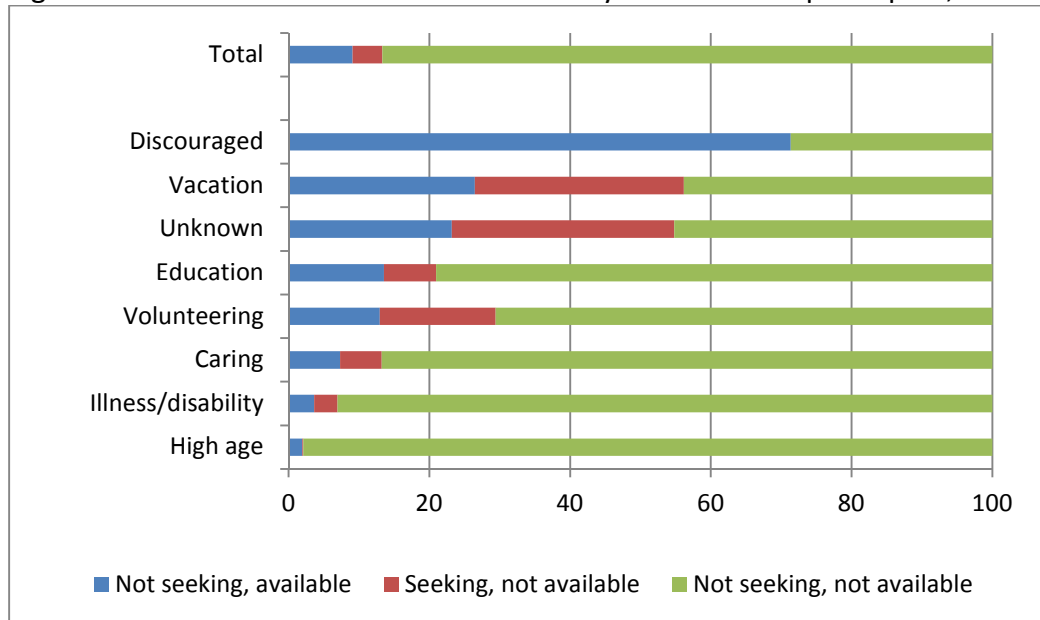


#### 4. Attachment to the labour market

People that are not part of the labour force because of old age or illness, show most often the smallest attachment to the labour market. Over 90 % has not been seeking work and is not available. The same holds for those caring for children or other family members (87 %). Relative. Of the people who do not participate on the labour market because of education nearly eight out of ten were not seeking a job and not available to start working. The other two out of ten are predominantly not seeking work but could start working on short notice.

When people are not active because of volunteering, vacation or any other reason, it is relatively common that they have looked for work but are not available to start working. Finally, seven out of ten discouraged jobseekers are available to start working. Per definition, in this group no one is seeking work.

Figure 4.1 Attachment to the labour market by reason not to participate, 2015



## 5. Inflow into the labour market

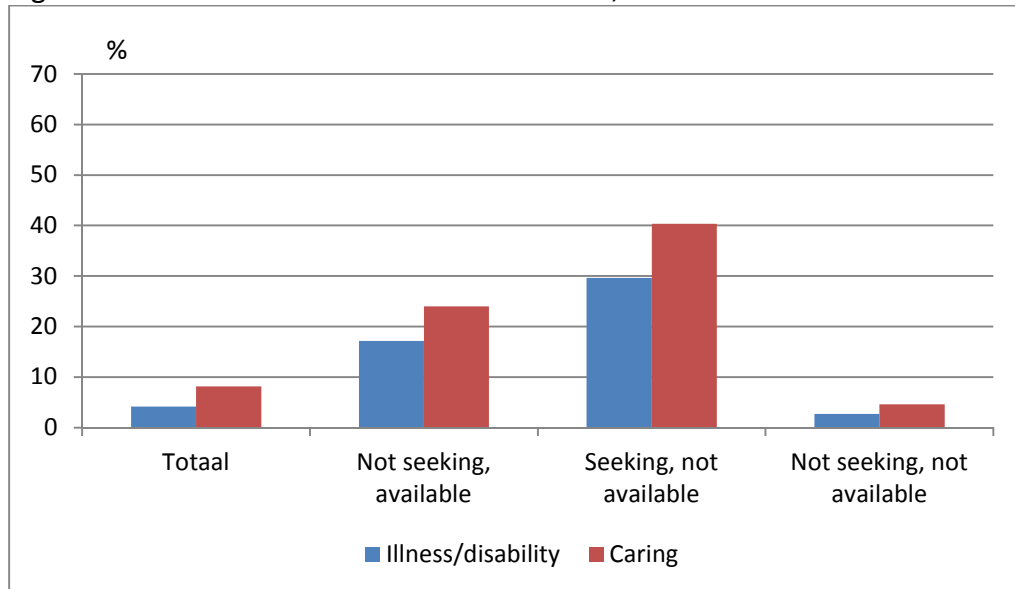
### Illness or disability

Illness or disability is a frequently mentioned reason for not participating in the labour market. Of the ill and disabled 93 % is not seeking work and cannot start working on short notice. Nevertheless, on average 3 % of them in 2015 was three months later active on the labour market, as unemployed or working. Of those who previously indicated they were not looking but could start working on short notice, the share that became active on the labour market three months later was with 17 % considerably higher. If they were only seeking work but were not available for work, the proportion flowing through was even 30 %.

### Care for children or other family members

In the group that in 2015 did not participate on the labour market because of caring for children or other family members, these transition rates were slightly higher than for the incapacitated. Of those who had not looked for work and could not directly start, was 5 % a quarter later part of the labour force. As with illness or disability the people who were seeking work but not available moved most often moved to the labour market, on average 40 %.

Figure 5.1 Transition rate into the labour force, 2015



### Discouraged jobseekers

Also for the other reasons not to participate it holds that the people with the least attachment to the labour have the lowest transition rate. Among the discouraged, the differences between those available or not are the smallest. For those who were not seeking work and were not available the transition rate was 14 %. Of those who indicated earlier that they could start on short notice, 22 % is a quarter later active in the labour market. The total transition rate was for discouraged jobseekers with 19 % higher than for the ill (4 %), and carers (8 %).

Although discouraged jobseekers are not counted as unemployed (bases on the predefined criteria) they often describe themselves as unemployed. Of the discourages jobseekers that become “active” again, one out of three called themselves unemployed. For the sick or disabled this was 25 % and for the carers 14 %.

### Education

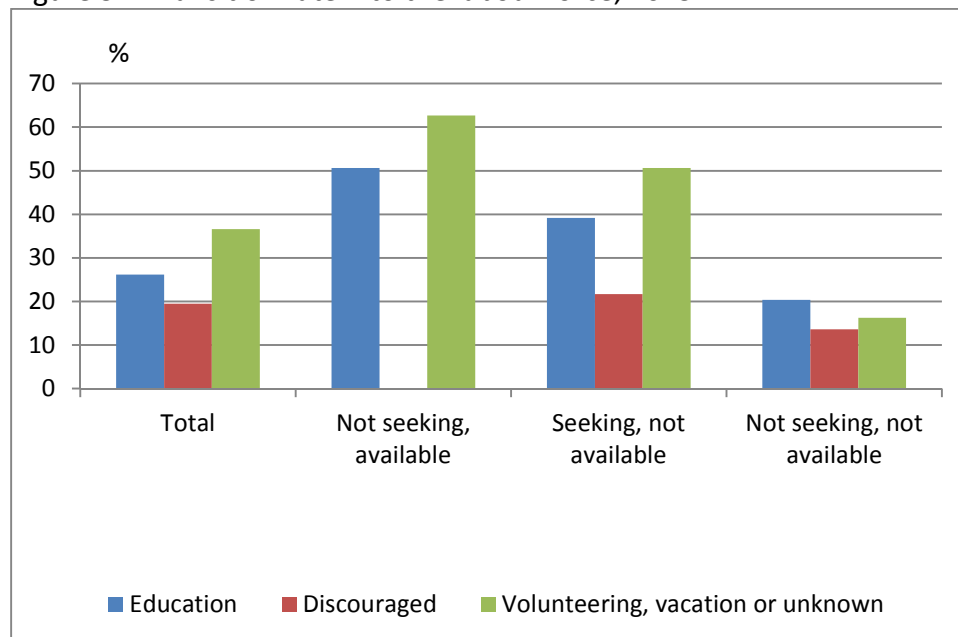
Among those not participating in the labour market because of following education, the transition rate is with 26 % relatively high. Of those who had been seeking work, but were not available to start, more than half was a quarter later “active” on the labour market. Among those who were able to start immediately, but were not seeking work, this share was 39 %. However, after the transition more than eight out of ten describe themselves still as pupil or student. Also for more than eight out of ten it concerns work for less than 12

hours a week. Unemployed mostly say that they are seeking a side job next to their studies.

### Other reasons

The transition into the labour market is highest among people with a different than any of the aforementioned reasons, for example vacation, volunteering or any other reason why there is (temporarily) no need to work. Among those who have searched, but were not available, 63 % are a quarter later in employment. Also a relatively large part of these non-participants see themselves as unemployed. That was true for more than seven in ten for those who were seeking work but not available and almost eight out of ten of those which were only available but not seeking. Of those who were not looking and not available, almost half considered themselves as unemployed. Of this group the transition rate was relatively small with 16 %.

Figure 5.2 Transition rate into the labour force, 2015



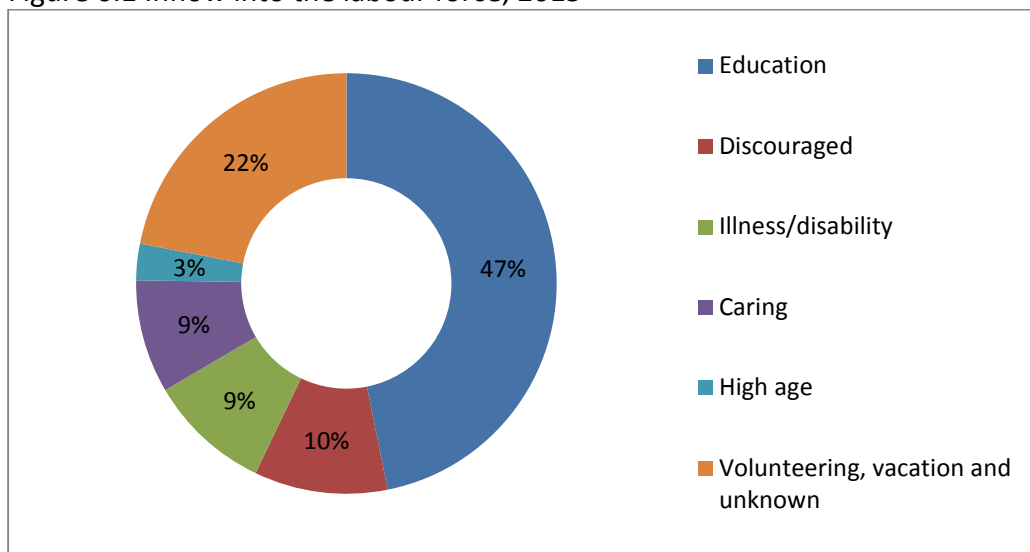
## 6. Inflow in the labour force by reason

The fact that the size of the labour force hardly changes implies that in- and outflow are in balance. In 2015, on average, each quarter around 360 thousand people moved from outside to inside the labour force and the other way around. The inflow on the labour market consisted for the most part, 47 %, of people who did not participate because of education. This concerned nearly 100

thousand people per quarter who went to work and over 70 thousand people who became unemployed. There are each quarter more young people who were in education and joined the labour market than young people leaving the labour market because of following education.

The two largest groups outside the labour force - reason: age and illness or incapacitated - contribute relatively little to the total inflow into the labour market: 3 and 9 % respectively. But together they make up a quarter of the flow out of the labour market. The discouraged jobseekers and the people who do not participate because of other reasons (including voluntary work and vacation), are relatively small groups in the non-working population. Nevertheless, their share in the total flow into the labour market are relatively high with 10 and 22 %.

Figure 6.1 Inflow into the labour force, 2015



## Summary

People who are not included in the labour force have different reasons for that. Among those who do not participate because of illness or disability the transition rate for moving into the labour market is relatively small, especially if one is not seeking work and is not available. If one of these criteria is met, the transition rate is already quite a lot bigger. Those who are seeking work but cannot start immediately have the largest share that is part of the labour force one quarter later. This pattern is also clearly visible for people with other reasons not to be active on the labour market.



People who attend education provide in absolute numbers by far the largest inflow on the labour market. They are a relatively large group outside the labour force and become on average also relatively often active on the labour market. However, it usually concerns small jobs in addition to the studies.

People who care for children or other relatives as a reason not to participate, are more or less equally large groups both in terms of numbers that are outside the labour force as in the total inflow into the labour market.

Those belonging to the small group with a different reason than training, care, discouragement, illness or high age to not participate, have the highest transition rate into the labour force. These people often see themselves as unemployed, but are temporarily unavailable for the job market or do not search. A quarter later, four out of ten are available and seeking work (and so unemployed) or have already found work.

Also discouraged jobseekers relatively often (two out of ten) make the transition to the labour market. It is however a small proportion of the total group outside of the labour force.