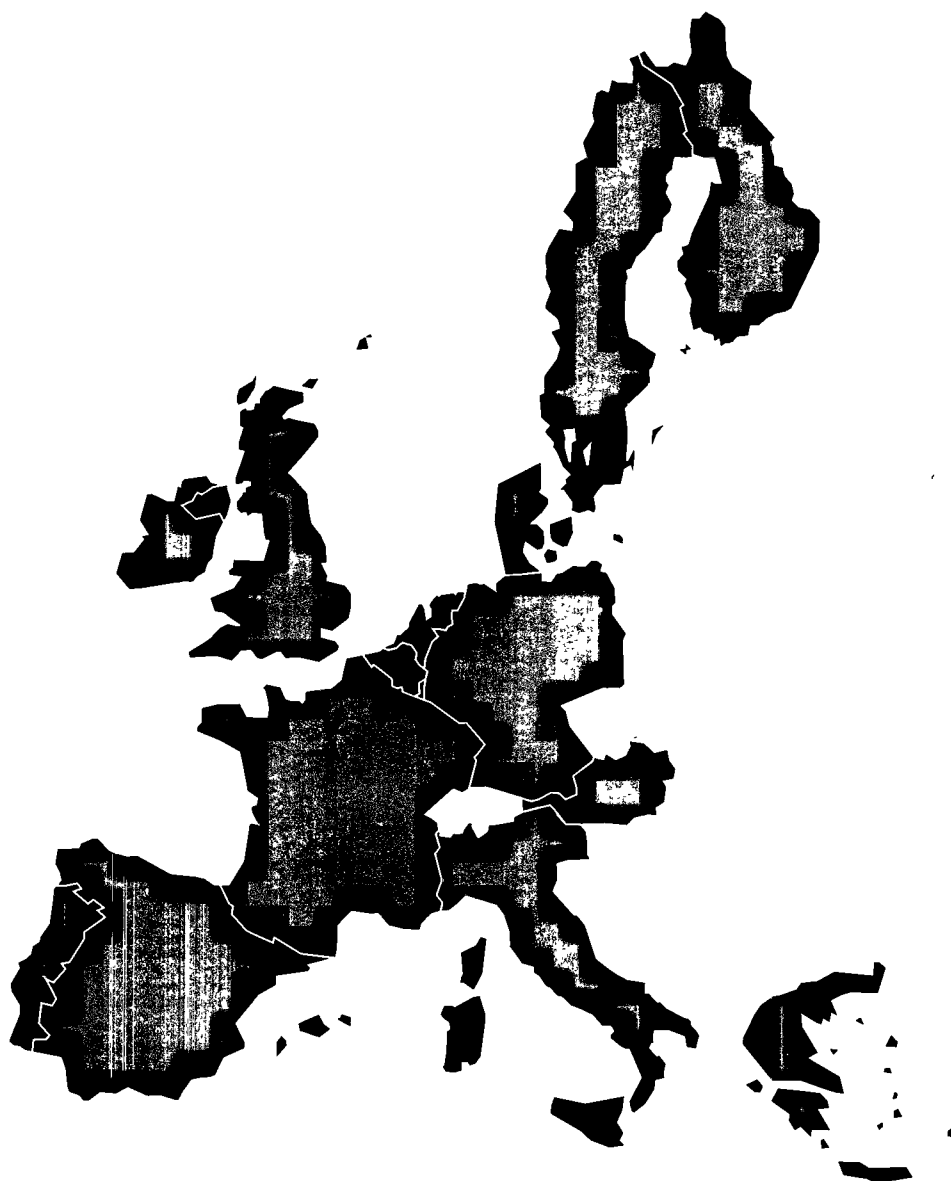


# Employment Observatory

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Summer 1997



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European Commission

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Belgium	BEF	40.15
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Germany	DM	1.95
Greece	GRD	309.79
Spain	ESP	164.73
France	FRF	6.58
Ireland	IEP	0.75
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Luxembourg	LFR	40.15
Netherlands	NLG	2.19
Austria	ATS	13.69
Portugal	PTE	219.48
Finland	FIM	5.86
Sweden	SEK	8.81
United Kingdom	GBP	0.69

# EMPLOYMENT OBSERVATORY **Trends**



The Journal of the European  
System of Documentation, Evaluation  
and Monitoring on Employment Policies  
(SYSDÉM)

No. 28, 1997

*Trends* provides a comparative and in-depth overview of selected policies and developments in the labour markets of the Member States on the basis of articles provided by the SYSDÉM correspondents. It appears twice a year and is published in English, French and German.

SYSDÉM is one of the networks of the European Employment Observatory (EEO) and is administered on behalf of the European Commission (DG V) by I.A.S., Institute for Applied Socio-Economics.

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The articles in *Trends* reflect the opinions and analyses of the SYSDÉM correspondents and do not necessarily represent the opinions or views of the European Commission. The signed articles are the sole responsibility of the author(s).

## Foreword

While a “theme-centered” structure was already apparent in recent issues of “Trends”, the new approach has now been firmly established with this issue.

The secretariat\* has chosen, in close communication with the European Commission and the correspondents, the topic of activation, which is one of the five action areas decided on at the Council meeting of Essen as basic elements of an European Employment Strategy.

The idea was to present information from each of the 15 Member States in a comparative manner, to which end the secretariat developed a frame of reference for the individual papers. However, just as every country has its particularities, so do the country reports, and while they all discuss the same theme, they present it from different angles. In order to provide a comparative overview (with all its limitations), the secretariat has drafted a summary paper on the basis of data collected by the OECD, the European Commission and some of the findings of the country reports. However, the main information and analysis is contained in the country reports, for which their respective authors are responsible. As the French and the British contributions were finalised before the newly elected governments introduced any changes in activation policies, such recent developments are not reported here.

Together, we hope that the summary and the reports will give a comprehensive overview on “activation”, thus establishing “Trends” as the more analytical of the two journals of the European Employment Observatory, complementing “Policies”, the report system of the “Mutual Information System on Employment Policies” (MISEP).

\* The European Commission has awarded the contract for the management of the European Employment Observatory (EEO; see back cover of this issue for explanation of EEO) to the I.A.S., Institute for Applied Socio-Economics, Berlin, from 1997 onwards.

## Activation of Labour Market Policy in the European Union – Comparative Summary\*

The period between the second “oil shock” in the early 1980s and 1990 saw an economic recovery which at last impacted on the labour market, creating jobs and reducing unemployment. For an observer positioned in the late 1980s, it might therefore have been possible to think that the policies of deregulation started in this period would support market forces and eventually restore equilibrium even in labour markets. This belief was, however, quickly shattered in the ensuing period, which brought back even higher unemployment levels and slack economic and employment growth in the European Union.

In the wake of this renewed deterioration, since about 1993 there has been a renewed interest in active policies to combat unemployment, witnessed by an array of important reports and policy proposals, among them the White Paper on “Growth, Competitiveness and Employment” of the European Commission, followed by the resolutions adopted at Essen, attempts towards a European Confidence Pact on Employment, the OECD “Jobs Study” and the conclusions of the G7 employment

summit in Lille, not to mention national activities, some of which marked the implementation of these proposals.

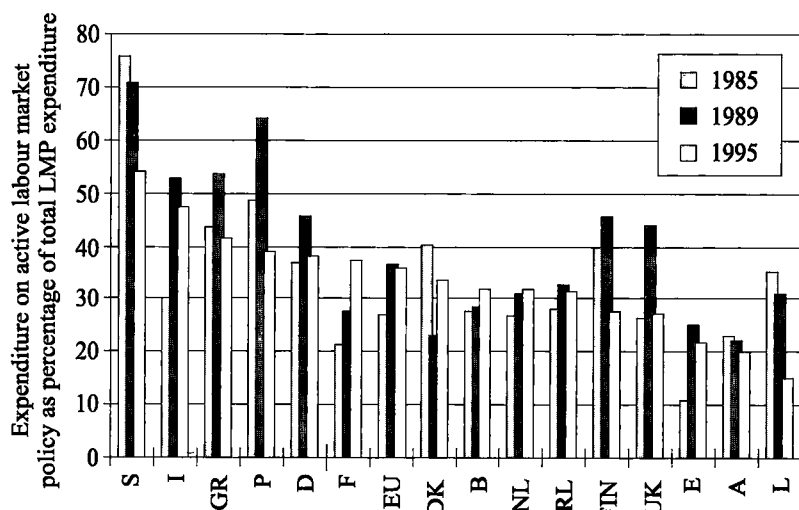
While all these reports agree on the necessity of more intervention in the labour market, they vary considerably in their policy proposals. With regard to active policies, the European Commission takes a clear position: the fourth of the five action areas agreed upon in the Essen Council meeting in late 1994 calls for greater effectiveness and for an activation of LMP, which is henceforth to constitute a major element of a “European Employment Strategy”.

### Active Labour Market Policy in the European Union

The idea that being “active” is preferable to being “passive” and that the mere drawing of benefits without any real possibilities to work might even render individuals more passive is now largely accepted. Therefore, an “activation” of labour market

\* By Peter Auer, acting EEO programme manager. The author would like to thank Stefan Speckesser for his valuable contribution.

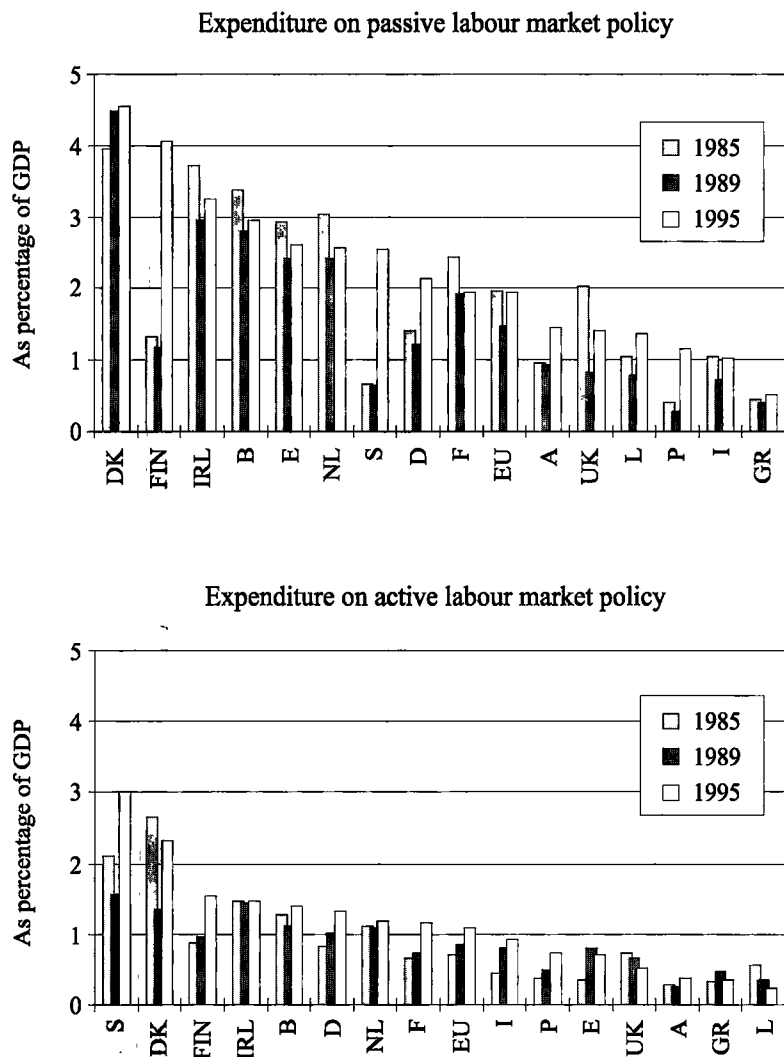
Figure 1: Labour Market Policy Activity Rate, 1985, 1989 and 1995\*



\* Or last available year.

Source: OECD Employment Outlook, several volumes; own calculations.

Figure 2: Labour Market Policy Spending 1985, 1989 and 1995\*



\* Or last available year.

Source: OECD Employment Outlook; own calculations.

policy (LMP) is on the agenda of policy-makers throughout Europe. In financial terms, this entails a shift in spending from passive LMP towards active LMP. One of the aims of a "European Employment Strategy" is precisely this: an increase in spending on active LMP as a proportion of the total spent on LMP, bringing about a shift in the present two-thirds for passive and one-third for active LMP. A second aim in that regard is to adopt more efficient and cost-effective ALMP measures.

According to figures published by the OECD<sup>1</sup>, between 1985 and 1994/95 the LMP activity rate in the EU (measured as spending on active pol-

icies in total spending on LMP) increased by around 10 percentage points, rising from around 27% to 36%.

While there was a decline in the activity rate between 1989 and 1995 (due to increased spending on unemployment benefits following a rise in unemployment), the share of GDP spent on active labour market policy (ALMP) has continuously grown since the middle of the 1980s: average active LMP spending stood at 0.72% of GDP in 1985, rising to 0.85% in 1989 and to approx. 1.10% in 1994/95.

There are, however, great differences in activity rates and spending

across the member countries of the European Union (cf. Figures 1-3).

Besides showing that LMP has become more active since 1985 and that more is now being spent on active LMP, Figure 3 clusters countries along two dimensions and shows that in 1995 there are only two countries exhibiting both high or medium LMP activity rates and high spending (Sweden followed by Denmark). Five countries (Belgium, France, Germany, Ireland and the Netherlands) have medium activity rates and medium spending intensity, two (Greece and Italy) combine low spending with high LMP activity rates (which is due largely to the low wage-replacement rates for the unemployed there) and four (Austria, Luxembourg, Spain and the United Kingdom) low spending and low activity rates.

Between 1985 and 1995 many countries have enhanced their position and moved either upwards or to the left of the graph, indicating an "activation" of LMP spending. As far as the distribution across different spending categories is concerned, a pattern emerges: between 1985 and 1989 average EU spending (expressed in GDP percentages) increased on training and declined on employment subsidies, whereas between 1989 and 1995 subsidised employment rose again, while training outlays continued to increase as did spending on the employment service.

1 In the subsequent pages we rely on figures on spending and participation reported by the OECD, the only figures available for comparisons between countries. Given the uncertainties regarding the definition of activation, such figures must, however, be analysed carefully: for example, an "active" employment service, placing many unemployed in regular work and thus "activating" them efficiently, might cost less money, resulting in both low spending and activity rates. There are also several other difficulties: national and international data such as the OECD data do not always coincide, as measures are classified differently, and sometimes unexplained discrepancies appear; this is apparent when comparing the national data reported by the correspondents and our OECD data-based analysis. There is therefore still a need for better data on LMP. In the absence of a better alternative, then, for this comparative summary OECD data will be used.

**Figure 3: Spending on Active Labour Market Policy and Activity Rate in the EU Countries, 1985 and 1995\***

		Expenditure on Active Labour Market Policy**					
		high (> 2% of GDP)		middle (1–2% of GDP)		low (< 1% of GDP)	
Activity Rate***	high (> 40%)	S	S			GR	GR
						P	I
	middle (30–40%)		DK	B	F	D	
				D	IRL	I	P
				NL		L	FIN
	low (< 30%)			B		A	A
				DK	FIN	F	L E
				IRL	NL	E	UK

\* Data referring to the last available year (1994–5; data for I 1992, IRL 1991 as last available); 1985 values in italics.  
 \*\* As percentage of GDP.  
 \*\*\* Expenditure on ALMP as percentage of all expenditure on LMP.

Sources: OECD Employment Outlook 1996; OECD Labour Force Statistics; own calculations.

In 1995, in 13 member countries of the EU (no figures are available for Luxembourg and Austria) an average of about 6% of the labour force entered ALMP programmes (Figure 4; not controlling for multiple entries) over the year. Six countries are well above this average and seven below, with, at the extremes, Greece with only around 2% and Denmark with around 19%. If we relate the flow of entry into programmes to the stock of the unemployed, we see that a number equivalent to almost three times the prevailing level of unemployment participated in ALMP programmes in Denmark, whereas the number of Spanish entrants amounted only to 12.5% of the average stock of the unemployed (see Figure 5)<sup>2</sup>.

To sum up at the purely quantitative level, on the basis of OECD data some of the main features of active labour market policies can be shown and a certain trend towards “activation” as well as a renewed interest in demand-side schemes identified. However, this analysis remains very limited in the absence of indicators such as programme duration and indicators of programme quality. And it does not deal at all with the question of the impact of ALMP measures. Evaluation research – there is ample documentation of this research in the different country reports – shows that the impact of programmes in terms of labour market integration and earnings is rather weak because of deadweight, substitution and displacement effects. Thus, it is important not only to expand ALMP in quantitative terms but also to increase the impact of programmes.

### Activation policies

Many new efforts are being made in the Member States to “activate”

2 Again, while the ratio of ALMP participants to the number of unemployed shows better the magnitude of programmes, the data is limited by the fact that we have to compare flow data (ALMP entries) with stock data (unemployment) and that programmes in some of the countries also include employed persons. In such cases, the value of the ratio is overestimated.

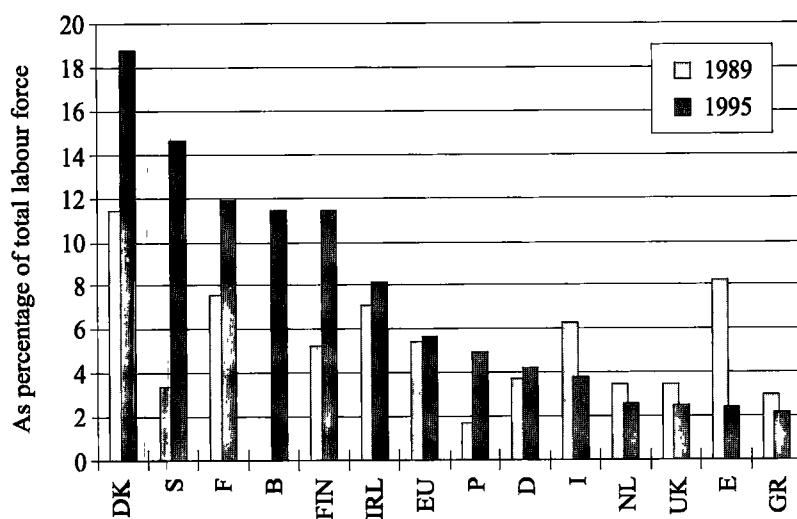
This might indicate that after a period characterised by an emphasis on supply-side measures, demand-side (job-creation) measures are staging a comeback. This is partially linked to the growing number of long-term unemployed for whom employment programmes are sometimes more appropriate than training programmes. Again, there is great variation between countries: subsidised employment, for example, playing only a minor role in the United Kingdom, accounting for about a third of the ALMP budget in Sweden and Germany and half of the budget in Belgium and Finland in 1994/95.

So far the analysis has considered only the financial dimension and has been purely input-based. While it shows the efforts of different countries in financial terms, it does not allow a proper country “benchmark-

ing”. In order to do that, not only input indicators, but also results indicators are needed.

Such a “result” indicator is the number of entries into labour market programmes. However, this indicator is limited too: although it tells us something about the number of persons “activated” through ALMP and also gives indications as to the relationship between spending and participation in measures, and is therefore a crude cost-effectiveness benchmark, it is of only limited value for country rankings and comparisons as it does not control for duration of participation, nor for the quality of programmes. Data on yearly averages of the number of people in programmes in stock terms are more telling (as they control at least for duration of measures), but such figures do not yet exist on a comparative basis.

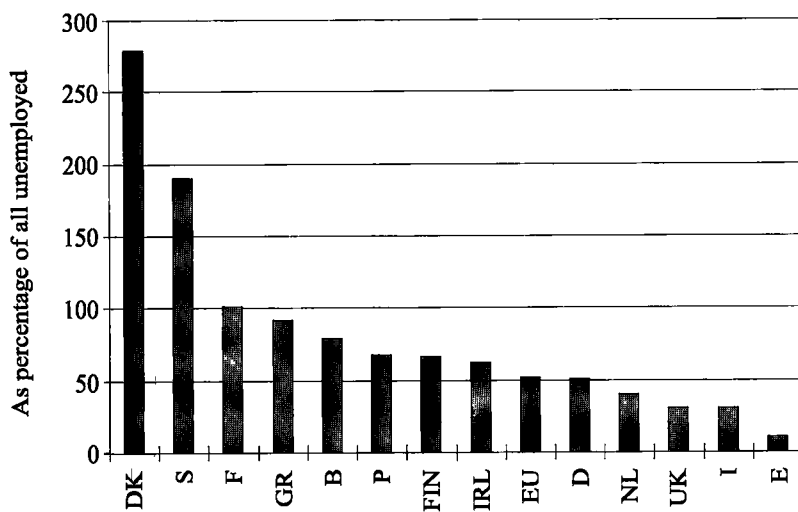
**Figure 4: Entries to ALMP Programmes as Percentage of Total Labour Force, 1989 and 1995\***



\* Or last available year.

Sources: OECD Employment Outlook; OECD Labour Force Statistics; own calculations.

**Figure 5: Entries to ALMP Programmes as Percentage of All Unemployed, 1995\***



\* Or last available year.

Sources: OECD Employment Outlook; OECD Labour Force Statistics; own calculations.

LMP and the unemployed, as reported by the SYSDM correspondents in their respective country studies. Some of the material and ideas contained in these reports are used in the subsequent section, which deals with some of the more specific aspects of activation policies in the EU.

The “activation of passive LMP” implies a financial shift from passive to active expenditure, but can also be taken to mean “activating the unemployed” by an array of measures from intensive placement activities, incentives to take up work and traditional “active” labour market policy

programmes to measures restricting access to transfer payments and applying sanctions against fraudulent benefit recipients. Basically, one can distinguish analytically between approaches based on incentives and those relying on sanctions, usually restrictions on access to passive transfer payments. Both are present in European employment policies, whereby the incentive strategy is prevalent. Yet policies of tightening access, reducing duration and wage-replacement rates for passive policies and enforcing sanctions for fraud and abuse have been applied to different degrees in almost all Member States and are on the increase. Proponents of these restrictive policies point to research findings showing, for example, that about 10% of benefit recipients are also in regular work (in Ireland) or that those sanctioned take up work quicker than regular (non-sanctioned) benefit recipients, as is suggested by a recent study in the Netherlands (see the respective articles in this volume). But mostly these policies are based on the intuitive belief that a (more or less substantial) proportion of the unemployed is shirking and that this needs to be countered by various means<sup>3</sup>.

The incentive approach, on the other hand, is based on the belief that it is only because of the absence of economic incentives (or even the existence of disincentives) that the unemployed do not take up work. This is often associated with the concept of an “unemployment trap”, which makes it less beneficial (in financial terms) for the unemployed to take up work than to remain on benefits because of the insignificant dif-

<sup>3</sup> A variant of this is fraud and (in some cases legal) “abuse” of benefits by employers, which, in the absence of an “experience rating” system as in the United States (those using the UI benefit system more often pay higher contributions), poses problems of equity. A “borderline” case is seasonal work: employers dismiss their employees in the slack season, thus enabling them to draw benefits, and rehire them in the following season, a practice which most probably reduces efforts to find work when unemployed.

ference between the wage-replacement rate for benefit recipients and (low) wages on the labour market. An incentive in the form of a top-up on low incomes from work (e.g. retaining benefits temporarily while working, now possible in the United Kingdom, France and Ireland) or a negative income tax or tax system exempting low income recipients etc. offer ways of freeing the unemployed from both the unemployment and the "poverty trap"<sup>4</sup> and "making work pay" (OECD 1996). Of course, also a lowering (or increasing) of entry wages enlarges the difference and is thus – according to some economists – an incentive to take up work. However, to the extent that these incentives leave the decision to the individual and do not at the same time organise the route into activity, they are only one of the possible solutions to this problem.

Another approach by "incentives" is to offer training and employment opportunities through active labour market policy measures (see above). While in some of these measures the incentive is also economic (e.g. by paying going wage rates for job-creation measures or topping up passive benefits), the more crucial factor here is organisation. Activation by active labour market policies requires a sufficient number of activation opportunities (and therefore an organisational capacity to create them, whether in private firms, in the public service or in intermediary organisations), an employment service capable of selecting the unemployed for the right programmes, and of course efficient programmes that genuinely "activate" the unemployed.

While ALMP can be seen as an incentive offered to the unemployed, who are free to choose whether or not they participate in a programme, this freedom is now usually constrained by the fact that refusal to participate might subsequently lead to the loss of benefits. Such more or less compulsory participation is more frequent in youth programmes than in adult programmes, and while the degree of enforcement varies between countries,

there is a growing overall trend towards such compulsion.

Thus incentives and sanctions usually go together: not accepting the carrot (a temporary job or training offer) leads to the stick (withdrawal of benefits), but the carrot is at least offered. In other words, the rights (income protection) and duties (to work or to be trained) are today more thoroughly defined and enforced than in the past. There are other approaches in which it is the stick rather than the carrot which is applied and no job or training opportunities are offered, but restrictions on benefit eligibility imposed. The underlying idea behind such sanction-based approaches is that the unemployed are unwilling to take up work, remain more or less voluntarily in the unemployment trap (which is seen by some as a feather bed) and will only come out of it if they are obliged to work on the regular labour market, are severely sanctioned, or if benefits are reduced and benefit duration shortened.

Clearly, these ideas are basically supply-side based and skip any reference to demand-side considerations such as an insufficient number of regular jobs available. Attempts to restrict qualifying conditions (the conditions which establish eligibility to benefits), shorten duration and cut the level of benefits in order to reduce coverage might be primarily due to financial considerations (tight budgets and deficits), but their political justification is linked to such ideas.

Which of the different approaches (pure incentives, incentives and organisation – with or without the stick – or a pure sanctions approach) can be seen in the different countries in Europe? In reading the reports prepared for this issue, it seems that there is no country applying a single approach in its pure form, but rather that all have opted for a mixed approach using all three. It is difficult to rank countries according to whether they belong more to the incentive or to the restriction and sanction type. However, it seems that some of the countries that previously took a more "liberal" approach towards benefit

eligibility – such as the Netherlands – are now tightening access and duration and are also relying more heavily than before on sanctions. This also seems to be the case for the United Kingdom, while recent developments in Germany and Austria go at least partly in this direction. From other countries, like Ireland and Portugal, no such changes are reported. In Sweden, where former reductions in the wage-replacement rate for the unemployed have been partially reversed, there is now a discussion on how to shorten benefit periods and "measure careers". Denmark has introduced an obligatory "activation period" after two years of benefit receipt and reduced the entire "chain" of passive and active policy intervention to five years. It is interesting to note that the ability to counter fraud (and apply sanctions) seems to be more limited in systems with separate placement and benefit administrations than in those where both are performed by one administration. An extreme case here is Belgium, where the federal administration is responsible for benefits and the relatively autonomous regions for placement and vocational guidance.

### Some examples

While the above conclusion remains impressionistic in the absence of a stringent comparative analysis of the developments in unemployment compensation schemes, we can also examine our country samples for best-practice cases of activation. While Sweden remains a model in terms of its overall ALMP approach, there have been innovative developments in other countries in recent years: in Greece unemployment benefits are now organised as a sort of voucher which can be used alternatively for "passive" benefits or for participation in "active" measures. However, as is noted by our corre-

<sup>4</sup> An unemployed person might be "trapped" if he/she accepts a paid job in systems with high marginal tax rates. If secondary benefits such as health insurance etc. are also withdrawn during employment, income might fall below the poverty level.



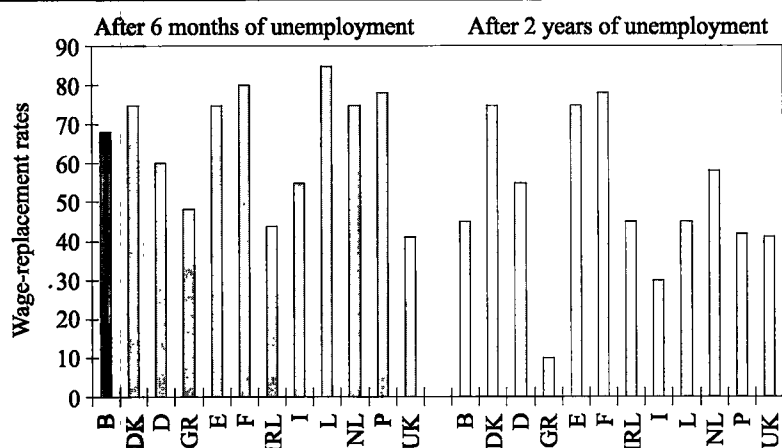
## The Unemployment Benefit System and Unemployment

It has frequently been claimed that a positive correlation exists between the level and duration of unemployment benefits and the level and duration of unemployment, whereby it is assumed that the "activation" of the unemployed is in-

exerts some influence on unemployment, but the strength of this influence is controversial. It is important to emphasise that proof of a statistical correlation tells us nothing about causality, and reverse causality relations may well need to be taken into account:

high unemployment in the context of a shortage of jobs and a given benefit system can be expected to lead to a longer duration of unemployment. When considering this question from a cross-national perspective – in Figure 6 the wage-replacement rates for single benefit recipients after six months and after 24 months of unemployment are given for the Member States – it is important to bear in mind that the proportion of the unemployed in receipt of benefits varies considerably across Europe, and on average (of 11 countries in 1994; no data for the UK) is less than 50% (cf. Figure 7). Thus, the high rate of unemployment and especially long-term unemployment in, say, Spain can hardly be explained in terms of the unemployment benefit system, even though replacement rates are relatively high and remain constant over the unemployment period, given that the coverage rate of the system is under 30% (cf. European Commission 1996).

**Figure 6: Wage-Replacement Rates (single person with average income\*)**



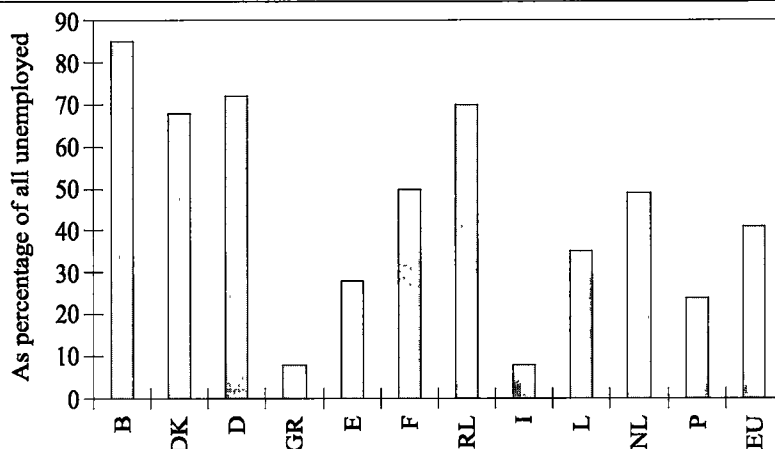
\* Person aged 35 who has contributed to the system for ten years. The estimate for Italy for two years of unemployment is from Liguria.

Source: European Commission (1996, p. 90).

versely proportional to the level and duration of benefits. In other words, high wage-replacement rates and long benefit entitlement durations tend to deter the unemployed from taking up paid employment and reduce activation.

Statistical calculations have shown that such a correlation can be shown to exist with respect to certain structural components of unemployment – in particular to long-term unemployment, whereby the duration of benefit entitlement is particularly important – but not to the general level of unemployment (cf., for example, OECD 1994, 1991). It is no longer seriously disputed that the benefit system

**Figure 7: Unemployment Benefit Recipients as Percentage of All Unemployed, 1994**



Source: European Commission (1996, p. 88).

spondent, only implementation will show if this change remains just a good idea or if it will contribute to "activating" the unemployed.

Several programmes which aim to avoid the unemployment (and partially also the poverty) trap need to

be mentioned: the earned-income top-up in the United Kingdom (which is an in-work benefit) is an interesting pilot programme awaiting evaluation, and the Irish "back-to-work allowance" is another programme that permits recipients to retain benefits

while in work, which often leads to the creation of independent employment. The French "cooperation convention", which transforms unemployment benefits into employer wage-cost subsidies, is considered to be a measure which costs little and

creates jobs. Such a transformation on a large scale is also achieved in Germany with the so-called “productive wage-cost subsidy”, which, however, is sometimes criticised as leading to displacement. Other interesting activation approaches include the efforts and measures deployed in large-scale redundancies in Greece or the “retraining contracts” and the special reclassification units in France. Such active intervention in these cases appears relatively efficient in promoting labour market reintegration.

In general, activation policies involve an institutional aspect: either the employment service is reformed so as to raise its efficiency, or new organisational solutions are found (such as employment companies in Germany or integration enterprises in France and Belgium), or “territorial pacts” involving all relevant local actors are signed, as is the case in Italy. Successful institutional innovations are also the “job pools” (e.g. in the Netherlands, Denmark and Bel-

gium) which organise temporary work for the unemployed

Other strands of activation policies include bonus payments to unemployed persons finding jobs on their own (United Kingdom and Italy) or the job-rotation schemes which have become especially important in Denmark, which activate the unemployed by offering jobs as a replacement for those on leave, while those on leave change their status but remain active as they leave for training or child-care activities. However, it is worth noting that a considerable number of the unemployed take leave and change their status, but are not activated in the sense of taking on a job. In the Spanish case, one might ask if the liberalisation of flexible employment contracts leads to activation, but also how permanent this activation is, as the ending of a short-term contract has become one of the major reasons for unemployment spells.

In summary, one can show that, despite criticism, there have been many

attempts to “activate” the unemployed and to allocate more money to active policies, even if, in the wake of mass unemployment, unemployment compensation (and social aid benefits for those no longer qualifying) is still the number-one response in many countries. Given the reduced capacity of the unemployed – and especially the long-term unemployed – to organise their route “back to work”, the provision of incentives is certainly not enough: an organisational effort by a multitude of actors, private firms, public bodies and voluntary organisations is needed in order to achieve an effective “activation” of those out of work.

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## Belgium

### Active and Passive Labour Market Policies in Belgium

According to the OECD methodology, Belgium spends one-third (33.4%) of the employment budget on active policies, which means 1.47% of GDP (cf. Table 1). The average for the European Union amounts to 1.13%. In one decade (1985–94), the active share increased from 28% to 33.4%. About 20% of the active budget is spent on training measures, 25% of the passive budget

on early retirement programmes and 75% on unemployment benefits.

In Belgium, the federal government is not the only authority responsible for labour market policy; the regions (Flanders, Brussels and Wallonia) have responsibility for training and placement. One consequence of this regionalisation is that the “activation strategy” is to be found at two political levels (federal and regional).

Another consequence of the partial regionalisation of employment policy in Belgium is that sanctions are not imposed on claimants turning down

acceptable jobs: the federal government is responsible for the payment of unemployment benefits, whereas the regions are responsible for the placement, guidance and training of the unemployed. The supervision of the availability for work of the unemployed by the regional employment services is limited, because they want to inspire confidence in the unemployed by motivating them to find a new job, rather than to threaten them with sanctions and loss of their unemployment benefit.

In this report, we do not discuss training measures, except vocational

training within the enterprise, because it involves a combination of passive transfer payments and income from work. We focus on measures concerning work-sharing (career break, part-time work), wage subsidies for employers and public works programmes, the main active measures in Belgium.

Not all of these measures involve the actual transfer of passive payments (unemployment benefits) to active measures; for example, the wage subsidy is paid out of the social security budget. The overview refers only to those measures encouraging the recruitment of unemployed persons (cf Table 2).

## Recent Initiatives in the Activation Strategy

### The guidance plan

A first example of a measure performing part of the activation strategy is the guidance plan (*plan d'accompagnement*). The social partners agreed to earmark 0.10% of companies' payrolls in the 1993–94 collective bargaining rounds for counselling and guidance measures (in 1995–96 the contribution was decreased to 0.05%). The guidance plan gives every unemployed person in receipt of benefit and less than 46 years of age the right, on reaching the tenth month of unemployment, to a guidance procedure. Since 1995 only poorly qualified unemployed persons have been able to apply for such counselling. This procedure pro-

vides individualised advice and the offer of a job or training. The guidance plan is implemented by the regional employment services (in Flanders, Brussels and Wallonia). A second goal of the plan is to establish the availability for work of the unemployed in receipt of benefit.

### The LEA system (local employment agencies)

Another example of the activation strategy is the LEA system. Each local authority in Belgium is obliged to establish a local employment agency (LEA). Long-term unemployed persons (three years) can perform a job through the LEA outside regular labour market activities (for instance: household work, gardening, care for sick persons and children and administrative work). The long-term unemployed have to be registered in the LEA. The unemployed can work up to a maximum of 45 hours a month. They earn BEF 150 per hour (on top of their unemployment benefit). Long-term unemployed persons who refuse this kind of work can temporarily lose their unemployment benefit, but unemployed people taking on a LEA activity voluntarily are given priority.

This measure has no impact on the federal budget, because the organisations benefiting from the LEA activities finance the system. They have to buy LEA cheques at a value varying from BEF 200 to 300, which they use to pay the unemployed person performing the LEA activity. In 1995,

13,000 long-term unemployed people performed such an activity. This is equal to 1,500 full-time jobs.

The criticism of this system is that those performing a LEA activity maintain their status as unemployed. Nevertheless, a survey has shown that the unemployed working in the LEA system have a positive opinion about their activities and the organisations benefiting from their labour services also evaluate the LEA work positively.

The federal government is working on a service cheque for the painting and wall-papering sector. This new measure implies a better status for the unemployed participating in the measure, who would be employees of an employer recognised by the LEA to perform services like painting and putting up wallpaper.

At the end of March 1997, the federal government adopted a new measure under which unemployment benefit can be used as a wage subsidy for employers creating jobs no longer seen as economically profitable. Only jobseekers claiming full benefit for at least five years can be hired through this measure. The government listed a few examples of these new jobs: service staff in a filling station or in warehouses, car-park attendant and day care in enterprises. Those refusing such jobs are sanctioned by losing their unemployment benefit.

### Work-sharing as an active strategy: career break and part-time work

Two kinds of measures involving employment redistribution and with a link to the activation strategy can be distinguished: "career break" and "part-time work".

The career break gives employees the opportunity to interrupt their career by granting a benefit for the duration of the interruption. The employer replaces the employee with an unemployed person. Only in the public sector has the employee a right to a career break; in the private sector, agreement must be

**Table 1: Spending on Active and Passive Labour Market Policy (1994)**

	Public spending (in BEF billion)	Percentage of GDP	Percentage of active spending
Active policy	112	1.47	
– training	22.3		19.9
– other measures	89.7		80.1
Passive policy	223.4	2.93	Percentage of passive spending
– unemployment benefit	170.4		76.3
– early retirement	53.0		23.7
Total	335.4	4.40	
<i>Source: Ministerie van Tewerkstelling en Arbeid.</i>			

**Table 2: Overview of the Different Measures Composing the Belgian Activation "Strategy"**

Measure	Aim	Cost (billion BEF)	Persons
<i>1. Recruitment of young unemployed</i>			
1.1 Apprenticeship for young people	Temporary employment of young new entrants in enterprises and administrations with a view to promoting their vocational integration	0.12	15,000
1.2 The work-training agreement	Schemes linking work and training for young people aged between 18 and 25	0.12	2,000
1.3 Enterprise reintegration contract (Wallonia)	Integration of young jobseekers into the job market by granting subsidies to their employers	n.a.	n.a.
1.4 Local employment plan (Wallonia)	Inducing the local authorities to create jobs for young long-term unemployed	n.a.	n.a.
<i>2. The guidance plan</i>	Individual and intensive support of unemployed persons commencing after their tenth month of unemployment in order that they may be helped out of their situation of isolation and encouraged to make efforts to find work	1.6	100,000
<i>3. The local employment agencies (LEA)</i>	Long-term unemployed take part in employment opportunities that are not covered by the regular job market and hence are able to obtain an additional income	No extra cost on top of UI benefits	13,000
<i>4. Wage subsidies</i>			
4.1 Plus-one plan	Encouraging potential employers to recruit their first employee by temporarily reducing the employers' social security contributions	1.4	5,000
4.2 Advantage-job plan	Promotion of employment of the long-term unemployed by temporarily reducing employers' social security contributions	1.7	45,000
4.3 Recruitment subsidy (Brussels and Wallonia)	Promotion of the employment of difficult-to-place jobseekers by granting subsidies to enterprises recruiting such persons	0.06 (Brussels)	450 (Brussels)
4.4 Recruitment of unemployed for SMEs (Brussels and Wallonia)	Combating unemployment and encouraging the economic expansion of small and medium-sized enterprises	0.8	750
<i>5. Work-sharing</i>			
5.1 Career break	Enabling employees to interrupt their professional activities from time to time with the double guarantee that they may retain a certain part of their income and may take up their job again after the break period has expired	Surplus of 8	50,000
5.2 Part-time work	Granting benefits to voluntary part-time workers who subsequently lose their part-time employment to compensate them for loss of benefit income	n.a.	n.a.
5.3 Enterprise plans	Establishment of a legal framework for the implementation of a flexible and effective redistribution of work at enterprise level	1.8	5,000
<i>6. Loan capital</i>	The opportunity for certain unemployed persons wishing to set up on their own to capitalise their unemployment benefits	No extra cost	245
<i>7. Subsidised employment</i>			
7.1 Grant-aided contractuels	Unemployed persons claiming full benefit recruited by local, provincial and public authorities in order to carry out non-commercial activities	18	51,000
7.2 Inter-departmental Fund	Creation of jobs for unemployed persons in the non-commercial sector by providing funding for such positions	1.8	1,800
7.3 Third Work Circuit	Creation of jobs in the non-commercial sector to satisfy community needs that would not otherwise be met	9.1	8,300
7.4 Integration enterprises (Flanders and Wallonia)	Enterprises and associations subsidised by the regional authority whose social and organisational purpose is the vocational integration of difficult-to-place jobseekers by means of activities in the area of goods production or the provision of services (Flanders)	0.016 (Flanders)	100
7.5 Sheltered workshops (Flanders)	Employing difficult-to-place or unemployable jobseekers in a sheltered setting	n.a.	500
7.6 PRIME scheme (Wallonia)	Recruitment of long-term unemployed persons in the non-commercial sector	6.8	7,500
<i>8. Vocational training within the enterprise</i>	Apprenticeship linking theoretical training and practical training within an enterprise. The apprentice is subsequently hired under an employment contract lasting at least as long as the period of apprenticeship	No extra cost	7,600

Source: Higher Institute of Labour Studies, Louvain, Belgium.

reached between employer and employee.

In 1995, this measure cost BEF 5.3 billion in benefits for the career break. On the other hand, there was a saving of BEF 14 billion in unemployment benefits. Also taking into account the lose of social insurance contributions, the net fiscal gain amounted to about BEF 8 billion. About 50,000 persons interrupted their career in 1995. Most of them were replaced by an unemployed person: only 0.7% jobs were not replaced.

For several years now the number of persons interrupting their career has been decreasing (58,000 in 1992). Cuts in the level of the benefit are the main reason for this decrease.

The unemployment regulations distinguish between three kinds of part-time workers:

1. Part-time workers retaining the right to an unemployment benefit. This status applies to unemployed workers who have lost their full-time job and are still seeking full-time work while performing a part-time job. They are entitled to a limited supplementary income benefit for this period.
2. Voluntarily part-time workers keeping their "reference wage": a full-time worker choosing a part-time job retains for three years his/her entitlement to full-time unemployment benefit.
3. Any other part-time workers choosing voluntarily to take a part-time job.

In 1995, there were 99,000 part-time workers who really wanted a full-time job, a fall from 201,000 in 1992 due largely to restrictions concerning the cumulation of unemployment benefits and part-time work. Although this measure (part-time work) was considered an important instrument in the employment redistribution strategy, allegations of fraud led to these restrictions. The unemployment benefit is to be seen in this context as an "activating passive transfer payment".

### **Loan capital for the unemployed wishing to set up their own business**

This measure aims at accommodating the wishes of unemployed persons to take up self-employment or to establish a company by creating the opportunity for certain unemployed persons to capitalise their unemployment benefit entitlements up to a maximum of BEF 800,000. The unemployed person has to commit funds of at least a quarter (before 1997 a half) of the amount of the capitalised benefit.

The duration of the loan is ten years. In case the borrower ceases his activities, the fund responsible will not demand repayment of the outstanding loan balance, except where the cessation occurs more than five years after the end of the waiting period or the borrower is found guilty of violating certain laws. Principal repayments begin after a period of five years.

The measure started in 1984. There was a contribution of BEF 6 million to the Participant Fund. Since 1990, the Fund's own resources, which are derived from payments on the capital of loans already granted and the interest on such loans, enable the system to finance itself.

16,538 conditional loans were granted up to the end of 1995. In 1995, only 245 loans were granted to unemployed persons. The gradual decline in numbers was due to tighter selection criteria. Research has shown that this screening was effective in terms of the survival rate of the projects. In particular, the continued education of the unemployed decreases the chance of a failure of the independent business activities. Such conditional loans for the unemployed are obviously one of the most effective measures to activate passive transfer payments, given the low financial cost and their considerable economic effectiveness. Of course, the measure may have a deadweight effect: some would have established their project without the financial support of the conditional loan.

### **Subsidised employment of unemployed persons**

There are several measures involving subsidised employment of the unemployed. These public works schemes, financed at federal level, have as a common feature the employment of unemployed persons drawing full benefits as grant-aided contractual workers within a regional integration scheme (which vary in design between Brussels, Flanders and Wallonia).

#### **Grant-aided "contractuals"**

The aim of this measure is to enable unemployed persons claiming full benefit to be recruited by local, provincial or specific public authorities or non-profit associations in order to carry out non-commercial activities. This measure is implemented differently in the Walloon, Flemish and Brussels-Capital regions with respect to the employers who may recruit grant-aided contractual workers, the unemployed persons who can apply for a job as a grant-aided contractual (generally those claiming full benefit for at least six months) and the financial resources needed to pay the grant-aided contractuals.

Other schemes of subsidised employment in the non-commercial sector include:

- the Inter-departmental Fund for Employment Promotion (FBI);
- the Third Work Circuit (TCT) (Flanders and Brussels);
- the PRIME scheme (Wallonia).

#### **Integration enterprises in Flanders and Wallonia**

Integration enterprises in the Flanders region aim at employing low-skill or difficult-to-place unemployed persons through individual guidance combined with the experience of regular work. The regional government offers subsidies to integration enterprises producing products or services with a social or environmental purpose. The workers are hired under an open-ended employment contract. The enterprises have

to prove their potential financial and economic independence. The reduction in social insurance contributions granted to integration enterprises employing especially difficult-to-place jobseekers amounts to 100% during the first year of employment, 70% during the second year and 30% during the third year. After this period the enterprises are presumed to meet labour costs in full out of the revenue derived from their own activities.

Integration enterprises in the Walloon region are enterprises and associations subsidised by the regional authority whose social or organisational purpose is the vocational integration of especially difficult-to-place jobseekers by means of goods production or the provision of services. Jobseekers considered to be especially difficult to place are those who have been registered as unemployed for at least the previous 12 months and who do not hold a secondary school-level leaving certificate. Such jobseekers must be recruited on a full-time or part-time contract of employment. Employers recruiting these jobseekers are entitled to a reduction in their social security contributions: 75% during the first year of employment and 50% during the second year if the jobseeker had been unemployed for one year, and 100% during the first year and 75% during the second if the jobseeker had been unemployed for two years.

### Vocational training within the enterprise

The vocational training within the enterprise programme has a double aim, divided into two periods. The first period is one of apprenticeship, linking theoretical training and training within an enterprise. During this period the remuneration of the apprentice, who retains the status of jobseeker, is paid by the National Employment Office. The employer pays an extra productivity bonus to the apprentice, which increases progressively parallel to the increasing productivity of the apprentice. Dur-

ing the second period the apprentice is hired by the employer under an employment contract for at least as long as the duration of the period of apprenticeship (minimum one month to maximum 12 months) and ideally under an open-ended employment contract.

In the Walloon region, 10,000 unemployed a year receive an apprenticeship through this programme. The measure seems to be more successful in Wallonia than in Flanders. The number of unemployed involved in this measure has been steadily declining. In response, the vocational training office in the Flanders region has begun experimenting with alternative measures like job rotation: after a period of training, an unemployed person replaces an employee, performing the job of the employee while the latter is engaged in training at a vocational training centre.

### Sanctions or Financial Incentives to Take up Work

The Belgian activation policy is oriented towards financial incentives to take up work rather than activation by sanctions. Unemployment benefit entitlement is virtually open-ended in Belgium, and attempts to withdraw benefit entitlement have been ineffective: while long-term unemployed persons refusing an activity for a local employment agency (LEA) can in theory lose their benefit entitlement, unemployed persons taking on the LEA activity voluntarily are given priority, and so far the local employment agencies have had enough volunteers to perform their activities.

One of the goals of the guidance plan is to establish the availability for work of the unemployed in receipt of benefit. In a period of three years, only 10,000 of the 300,000 unemployed called up have been excluded from further benefit. However, the government has recently introduced restrictions, which will have an impact on unemployment duration: after unemployment lasting more than

one and a half times the average period in the region, claimants are no longer eligible for benefits. This period has recently (1996) been extended to twice the regional average. Heads of household (mostly men) cannot be excluded from an unemployment benefit, however, so that this measure effectively discriminates against women.

The LEA system and vocational training within the enterprise are two of the typical measures of giving financial incentives to take up work. These schemes combine passive transfer payments and income from work. Other examples of measures that provide financial incentives are aimed both at unemployed persons and employees and at employers. The conditional loans for the unemployed wishing to set up their own business are one of the most effective and cost-efficient measures to activate passive transfer payments. Employees are granted an allowance if they *interrupt their career* or choose *part-time work* instead of full-time work, and are replaced by unemployed persons. Finally, employers are granted a wage subsidy if they recruit certain categories of unemployed person (youngsters or long-term unemployed).

### Evaluation

Although active policies increased from 28% to 33.4% of all labour market policy spending during the last decade (1985–1994), Belgian activation policy can be criticised in a number of ways.

First of all, there is a lack of continuity in the activation policy. Because of the open-ended duration of benefit entitlement, unemployment benefit levels are rather low. As a consequence, the Belgian government does not have a large margin in activating passive transfer payments. Cut-backs in the federal budget have occurred frequently and limit the scope of activation policy. The measure restricting the cumulation of unemployment and part-time work is an example of this fiscalist approach

and the lack of continuity in the activation policy.

Another example of fiscal measures limiting the activation policy is the recent decision to use the 0.10% payroll levy to finance early retirement programmes. This 0.10%-measure originally aimed at financing job creation, vocational training and integration initiatives for risk groups among jobseekers. In this case, potentially "active" resources are used to finance a passive labour market policy.

A second criticism is the lack of coherence in the activation policy. There is a real criss-cross of measures aimed at different target groups (young unemployed, long-term unemployed, difficult-to-place unemployed, elderly unemployed), involving different employers and im-

plemented by different administrations (federal or regional). A harmonisation of these measures is under discussion.

A third criticism is the enormous cost to the federal budget of the subsidised employment of unemployed persons in the public sector (in 1994 about BEF 40 billion out of a total amount of BEF 112 billion). Notwithstanding the fact that about 70,000 unemployed are employed in these public works schemes, there is little outflow to regular employment by these workers because most of them have an open-ended employment contract. For this reason the federal and regional governments are to introduce changes such that workers in subsequent employment are employed under a temporary and part-time employment contract, the

wage is paid by the federal and the regional government and by the employer, and workers are encouraged to link their job to training and guidance. The latter, together with the work experience provided, will increase the chance of subsequent transition to a regular job.

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## Denmark

### Active and Passive Labour Market Policies in Denmark

Both active labour market policies and income support for unemployed persons in Denmark are based on an institutional framework which divides the unemployed into two groups. The majority (85%) are members of an unemployment insurance fund, which is a private organisation normally with close links to a trade union. To qualify for unemployment benefits, a member must have been in ordinary (unsubsidised) employment for more than 52 weeks within the last three years. Benefits are equal to 90% of previous earned income up to a maximum of DKK

136,000 a year: the average compensation rate for all unemployed is 65%. While the unemployment insurance funds are formally private organisations, the major part of their expenditure (in 1996 approx. 80%) is paid by the state. Unemployment benefits are not means-tested. The responsibility for activating the insured unemployed lies with the regional Labour Market Boards, which are funded by the Ministry of Labour.

Those unemployed who are *not* eligible for unemployment benefits are the responsibility of the municipalities. Subject to means-testing, they may receive social security at a level which, for persons with children, will be about 80% of maximum unem-

ployment benefits. Activating the group of non-insured unemployed is the responsibility of the municipalities.

Both for insured and non-insured unemployed there are special rules for the young (<25 years) and for the older age groups. Typically, young unemployed receive lower benefits or social security and are activated after a shorter period of unemployment.

This two-tier system sometimes makes it difficult to obtain a coherent statistical picture of labour market politics. However, in recent years a set of statistics has been developed which covers both the insured and uninsured unemployed (AMFORA). Table 1 gives some basic information

from 1995 and 1996 (second quarter of both years).

A number of observations can be made from Table 1. Firstly, the total number of full-time persons in active or passive measures decreased by 4% between the second quarter of 1995 and the second quarter of 1996. This mainly reflects the favourable labour market trends during this period. As a share of the labour force, the total number of persons in active and passive measures dropped from 19.4 to 18.4%. During the same period open unemployment decreased from 9.7 to 8.1% of the labour force.

Measured as a share of the total number of persons in active and passive measures, those in active measures amounted to 13%. A similar number was on leave in the second quarter of 1996. The most important instruments of activation are ordinary vocational training, subsidised employment and ordinary education (with income support normally equal to unemployment benefits). Also, one notes a general decrease in the number of persons undergoing training (except for special training targeted at persons with poor employment prospects) and a growth in educational programmes. Of the total number of people in active measures, almost two-thirds were in the state sector. The number of persons on paid leave has decreased somewhat, mainly due to the reduced numbers taking child-care and sabbatical leave. Finally, one notes the huge increase in those drawing unemployment pensions. This was mainly caused by a steep growth in the number of unemployed above 50 years of age joining a special retirement programme, which has now been abandoned.

Measured in constant prices, spending on active and passive labour market policies has decreased in recent years – from DKK 63.9 billion in 1994 to DKK 61.5 billion in 1996. Even more significantly, the spending on passive measures has decreased from DKK 52.4 billion in 1994 to DKK 45.0 billion in 1996.

This has led to a growth in the share of expenditure on active measures from 19% in 1994 to 27% in 1996. These statistics only cover central government and not the municipalities. The estimated annual expenditure of the municipalities on activating the non-insured unemployed is approx. DKK 4 billion.

## Recent Developments in Labour Market Policy

The main problem for Danish labour market policy over the last 20 years has been the gradual increase in structural unemployment, posing the risk of inflationary pressure even at high levels of unemployment.

The latest response to these problems was a general labour market reform that came into force on 1 January 1994. Its main characteristics in relation to activation measures are:

- the creation of a two-period system for the insured unemployed with strong emphasis on activation during the second period (see below);

- a change in the assistance to the long-term unemployed from a rule-based system to a system based on an assessment of the needs of the individual unemployed person and of the local labour market. The reform also introduced the so-called “individual action plan” as a mandatory instrument to focus the attention of the unemployed and the labour market authorities on the actions necessary to qualify the individual unemployed for ordinary employment;
- a decentralisation of policy implementation to regional labour market authorities, which were empowered to design activation programmes in line with local needs;
- the removal of the connection between vocational training and the unemployment benefit system, which meant that participating in training no longer extends the right to obtain unemployment benefits for a person becoming unemployed once more after the training period;

**Table 1: The Average Number of Persons (Full-time Equivalents) in Active and Passive Labour Market Measures, 2nd Quarter of 1995 and 1996 (rounded figures)**

	1995 (II)	1996 (II)	Change from 1995 to 1996 (percent)	Share of total 1996 (II) (percent)
Ordinary training	26,300	21,300	-19	4
Special training	9,300	12,800	38	2
Self-employment	14,000	11,600	-17	2
Voluntary work	500	400	-26	0
<b>SUBSIDISED EMPLOYMENT</b>	<b>50,100</b>	<b>46,100</b>	<b>-8</b>	<b>8</b>
Education, ordinary	7,400	14,200	92	3
Education, special	5,800	5,900	2	1
<b>EDUCATION, TOTAL</b>	<b>13,200</b>	<b>20,100</b>	<b>53</b>	<b>4</b>
<b>OTHER ACTIVATION</b>	<b>2,900</b>	<b>3,100</b>	<b>8</b>	<b>1</b>
<b>ACTIVATION, TOTAL</b>	<b>66,100</b>	<b>69,300</b>	<b>5</b>	<b>13</b>
of which run by central govt.	41,500	41,400	0	8
of which run by municipalities	23,900	27,200	14	5
Sabbatical leave	6,100	1,100	-82	0
Child-care leave	45,700	32,800	-28	6
Educational leave	31,300	36,100	15	7
<b>LEAVE SCHEMES, TOTAL</b>	<b>83,100</b>	<b>70,000</b>	<b>-16</b>	<b>13</b>
<b>UNEMPLOYMENT PENSION</b>	<b>133,700</b>	<b>165,600</b>	<b>24</b>	<b>30</b>
<b>UNEMPLOYED</b>	<b>285,400</b>	<b>239,100</b>	<b>-16</b>	<b>44</b>
<b>TOTAL</b>	<b>568,300</b>	<b>544,000</b>	<b>-4</b>	<b>100</b>



- the introduction of a number of paid leave schemes to encourage the employed, self-employed and, in some cases, the unemployed to take leave.

The common feature of the schemes for paid leave is that they enable wage-earners and the self-employed to take leave for a limited time period (up to one year) and then return to work. Leave can be granted for three purposes: child care, education/training or for non-specified purposes (sabbatical). The target groups and the income support during the leave period differ between the three schemes. Thus, two of the Danish paid leave arrangements also include the unemployed, who during the leave are not subject to the usual requirement to be available for work and undergo activation. Furthermore, the maximum duration of the benefit period will be extended for an unemployed person taking child-care leave, but – from 1996 – not educational leave. The amount paid to persons on leave varies from 100% of unemployment benefits (educational leave) to 60% (child-care, sabbatical leave).

One argument behind the introduction of paid leave was the idea of *job rotation*, where employed persons going on leave are substituted by unemployed people who thus get a chance to return to ordinary employment. However, apart from sabbatical leave, the employer is not obliged to hire a substitute. In many cases, paid leave for education is part of a more formal *job-rotation scheme*, where the firm sets up a plan for training of the currently employed in co-operation with the labour market authorities and combines this with special training programmes for the unemployed to be hired as substitutes.

## The Regulatory Environment for Activation

As mentioned above, one important aspect of recent labour market reforms has been to introduce a two-period system for the insured unemployed. The design of the system has

undergone some changes over the last three years. The current system – to be implemented from 1997–99 – is as follows. During the first period of two years (the benefit period), the unemployed person receives unemployment benefits and in some cases (vulnerable groups like unskilled persons, immigrants, young persons, etc.) is offered various forms of activation like education or vocational training. As a rule, however, the unemployed person is encouraged to look for ordinary work during the first period.

If unsuccessful in getting employment, the unemployed person enters the next period (the activation period), which lasts for three years. During this period, the person has both a right and an obligation to activation (education and/or training) on a full-time basis. The aim is still to qualify for a job on the ordinary labour market. If the unemployed person does not succeed in getting unsubsidised work by the end of the activation period, he or she will lose the right to unemployment benefits and will have to apply for means-tested social security. One year of ordinary employment is then required for insured unemployed to re-enter the benefit system and start a new five-year period.

In many cases, the income of unemployed persons undergoing some kind of activation is defined in relation to the level of unemployment benefits (at a maximum of approx. DKK 136,000 per year). This is the case for most of the people taking part in educational programmes, including those on educational leave.

For persons in vocational training, wages and working conditions are in principle determined by collective agreements. A number of important exceptions to this rule exist, however:

- For both insured and uninsured persons undertaking ordinary vocational training in the public sector during the first two years of unemployment, the hourly wage may not exceed DKK 86/hour.
- For persons in individual voca-

tional training (mainly uninsured unemployed trained in the public sector), an amount is paid which equals the social security plus a small "activation premium".

- In the case of insured unemployed in training during the activation period, weekly income is equal to unemployment benefits. Weekly working hours are therefore reduced in such a manner as to make the resulting hourly wage equal to the wage rates set by collective agreements.

If an unemployed person has an earned income while receiving unemployment benefits or social security, benefits are reduced correspondingly. For insured unemployed, this is done on a proportional basis in the sense that, for instance, one week of work reduces monthly benefits by 25%. If the alternative to unemployment is temporary low-income jobs, the incentive to work is therefore rather limited, when one also takes account of the high marginal taxation of supplementary income. Social security, but not unemployment benefits, will also be reduced in the case of other forms of supplementary income. All benefits are taxed.

Since health care and other welfare services (e.g. basic pensions) are universal and financed through general taxes, there are no special benefits for the unemployed. On the other hand, recipients of unemployment benefits and similar income do not contribute to the labour market pension funds and therefore do not increase their future supplementary pension entitlement.

As a general rule, persons receiving unemployment benefits or being activated must be actively seeking work and accept job offers from the employment office. This is also the case for persons undergoing education or training. The only exception to this rule is for the unemployed taking child-care leave.

For younger persons (less than 25 years of age), special rules apply. Thus, young unemployed without vocational training are – after six

months of unemployment – obliged to undergo 18 months of vocational training during which they receive 50% of maximum benefits.

A number of the instruments used to activate the insured unemployed can be interpreted as a direct transformation of passive income support into active measures:

- the educational programmes and the leave scheme for educational purposes generally pay the participant the equivalent of unemployment benefits;
- while in vocational training during the activation period, the income paid to the participant is also equal to unemployment benefits;
- the income paid to persons taking child-care and sabbatical leave is calculated as a fraction of unemployment benefits (60%);
- similarly, uninsured persons in individual training in the public sector receive an income equal to their social security benefit plus a premium.

In the case of training programmes for the insured unemployed during the benefit period, the situation is less clear, reflecting the conflict between treating the participants according to the rules of collective agreements and as persons in a special labour market programme. Usually, the employer is paid a subsidy of DKK 46 per hour and then – in the private sector – pays the participant according to collective agreement. In the public sector, the maximum hourly wage is DKK 86.

Finally, in order to give public employers a stronger incentive to create job openings for long-term unemployed, a new scheme was introduced in 1996 to create so-called “pool jobs” within almost all public service activities, including environmental protection, cultural activities, education, social services, etc. The individual pool jobs are limited to three years, and 90% of the wage cost is refunded by the state. The weekly wage is equal to unemployment benefits and working hours are adjusted in order to bring the hourly

wage in line with collective agreements.

## Impacts of the Strategy

Numerous evaluations of the instruments of active labour market policy targeted at the long-term unemployed have been conducted over the years. Among the consistent results are:

- positive employment effects of vocational training (with wage subsidy) in private firms, while public-sector job training shows no clear results;
- positive employment effects of various forms of education, with best results achieved by education within the ordinary system and combinations of education and on-the-job training;
- limited employment effects of special training programmes for the long-term unemployed, especially when the programmes are of short duration;
- a risk of adverse selection effects in the sense that programmes formally targeted at the most vulnerable groups tend to attract a large number of more resourceful participants (creaming);
- positive subjective evaluations of almost all programmes when evaluated by the participants themselves, even when the employment effects are limited.

The labour market reform of 1994 is now under evaluation. Results have been published from two general evaluations of the implementation process and from an impact assessment of the paid leave schemes, but not from evaluations of the other sub-programmes. The main results from the studies into the paid leave arrangements are as follows:

- The leave schemes are very popular, with 121,100 persons taking leave in 1996. Of these, 72,700 persons went on educational leave, 46,900 persons took child-care leave, while only 1,500 persons went on sabbatical. The number of persons taking leave

has decreased somewhat since the maximum of 141,000 persons recorded in 1994.

- Measured in full-time equivalents, the number of persons on leave in 1996 amounted to 62,300, which can be compared to an open unemployment figure of 245,600 (full time).
- Half of the persons taking leave are unemployed and a majority are women. About 60% of the employed taking leave are from the public sector. The average duration of leave is approx. 200 days.
- Educational leave is mostly taken to improve formal qualifications in relation to the current employment situation. Of the employed taking educational leave, about 50% did so together with colleagues. For 12% the leave was in relation to a genuine project of job rotation. In 1995, the total number of persons taking part in such job-rotation projects was 29,000. Both employers and employees take a very positive view of educational leave.
- Child-care leave is mainly taken by women (90%). The attitude of firms is more critical in this case.
- A substitute was hired in approx. 70% of the cases where an employed person went on educational or child-care leave. When interpreting this figure, one should, however, be aware of the fact that the Danish labour market has experienced a strong upswing since 1994. For sabbaticals a substitute is mandatory. About 50% of the substitutes were unemployed, but few were long-term unemployed. About half of the substitutes continued working for the firm after the return of the person on leave. The results indicate that the leave schemes exert a strong job-rotation effect, but that this effect does not reach the long-term unemployed.
- It is estimated that the leave schemes reduced open unemployment by 60–70,000 persons in 1995. Between two-thirds and

three-quarters of this figure is the result of unemployed taking leave and therefore not being counted in the official unemployment statistics, however.

- The paid leave schemes imply both costs and savings for the public sector. The net cost of the schemes is estimated at between DKK 0.4 and 1.5 billion in 1995, depending on the assumptions concerning the share of vacancies being filled with substitutes. This amounts to between DKK 5,000 and 20,000 per person on leave (on an annual basis).

The long-term effects of the paid leave arrangements are harder to estimate, because the schemes induce a number of contradictory effects:

- They tend to reduce the supply of labour, but may also – by reducing marginalisation – lead to an increase of effective labour supply in the longer run.
- A decline in labour supply may lead to wage pressure; the risk is reduced, however, by the fact that the majority of those taking leave are public employees, whose wages are less responsive to market pressures.
- Productivity may be reduced when firms have to train substitutes for the jobs becoming vacant due to employees taking leave. On the other hand, in the case of educational leave, productivity will probably be increased when the persons on leave return to the firm. This argument is supported by the fact that between 70 and 76% of employers find that the persons on educational leave are of more value to the firm after having taken educational leave. For child-care leave this share is down to between 22 and 40%.

Finally, as indirect indicators of the overall effects of the labour market reform, one can point to the facts that:

- the increase in wage growth was only moderate in 1995–96 in spite of the strong increase in employment over this period;

- the number of vacancies has not increased during the upswing in line with expectations based on historical experience.

Whether these macro-indicators reflect strong employment effects for the unemployed at the individual level will be revealed when the first results of the impact assessments are published later in 1997.

## Conclusion

Danish labour market policy has undergone rather drastic changes in recent years. The share of expenditure on active measures has increased – though it is still low compared to Sweden. For the insured unemployed the maximum duration of benefits and participation in activation programmes has been reduced from approx. nine years to five years. Emphasis is put on an obligation towards full-time activation after only two years of unemployment. For some groups activation takes place at an even earlier stage. Thus, the trend in Danish labour market policy points clearly towards:

- a higher priority given to activation and reducing the duration of passive benefits;
- much stronger emphasis on the obligation of the long-term unemployed to take part in full-time activation, but also on the need to tailor the activities offered to the needs of the unemployed and to integrate them in an individual action plan;
- leave schemes and job rotation in order to combine programmes for improving the skills of the employed with the creation of more job openings for the unemployed.

This development is not without problems or conflicts. Some of the most important are:

- The combined effects of a high rate of compensation, especially for unskilled unemployed, and high marginal tax rates are still a characteristic feature of the Danish labour market. This diminishes the individual economic hardship caused by unemployment, but on

the other hand reduces the economic incentives to voluntarily leave unemployment. The increased priority given to the obligations of the unemployed must be seen in this light.

- In the coming years more insured unemployed people will probably have to leave the unemployment insurance system and apply for social benefits.
- The programmes for vocational training and the new “pool jobs” create a segment of the labour market where income levels are determined by unemployment benefits and where working time and other working conditions are not determined by collective agreements.
- The creation of jobs in training programmes implies the risk of a corresponding reduction in the number of ordinary job openings.
- The large number of persons taking leave has in some cases (e.g. the nursing profession) caused serious labour shortages and bottlenecks.

In short, one may interpret the Danish situation as a dynamic knife-edge problem. On the one hand, activation and leave schemes reduce open unemployment and thus increase the risk of labour shortages and wage pressure in the short run. On the other hand, activation and job rotation will in the longer run lead to less marginalisation and higher levels of qualifications of the workforce in general and the unemployed in particular. Recent developments in unemployment and inflation seem to indicate that the strategy has been successful so far.

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## Germany

### Active and Passive Labour Market Policies in Germany

In 1995, Germany spent 3.7% of its GDP on benefits and measures within the framework of labour market policy. Of this 1.2% went on active labour market policy. Although in the original conception of the Labour Promotion Act (LPA) active measures were accorded high priority, the growing need for wage-compensation benefits quickly led to a decline in the relative weight of active labour market policy (cf. Stein 1995, p. 164). In 1970, just 17% of total spending on labour market policy

(including administrative costs) were spent on the two forms of unemployment benefit, whereas ten years later this figure was 37% and another five years later 59%.

The need for labour market policy action associated with German unification, however, served to raise the proportion of total spending dedicated to active labour market policy. In eastern Germany, around 55% of total spending by the Federal Labour Office and central government on LMP was on active measures in 1991. Given the unfavourable trends of the labour market in both eastern and western Germany, this high proportion of active spending could not be maintained, and wage-compensa-

tion benefits have once again risen faster than spending on active labour market policy (see Table 1).

In 1995, around 73% of the funds spent on active labour market policy – and in east Germany as much as 87% – were dedicated to support for vocational training and job-creation measures – general measures and wage-cost subsidies – whereby the so-called “productive” wage-cost subsidies (under paragraphs 249h and 242s of the LPA) absorbed 11% of the resources. Differences in the framework of conditions in east and west Germany meant that the focus of active labour market policy differed between the two regions. In west Germany, funding was concen-

**Table 1: Spending on Labour Market Policy (in million DM)**

Expenditure	Germany		West Germany		East Germany	
	1991	1995	1991	1995	1991	1995
Total	82,999.5	128,751.3	49,397.0	77,819.3	33,602.4	50,932.0
Of which on:						
– wage-compensation benefits <sup>a</sup>	37,691.0	80,718.4	23,397.0	51,430.2	14,294.0	29,288.2
– active labour market policy <sup>b</sup>	37,280.3	40,020.8	18,905.0	20,086.2	18,375.4	19,934.9
Spending on active labour market policy as a percentage of total expenditure	44.9	31.1	38.3	25.8	54.7	39.1
Spending on labour market policy as a percentage of GDP	2.9	3.7	1.9	2.5	16.3	13.3
<p>a Wage-compensation benefits encompass: unemployment benefit, unemployment assistance, benefit for workers whose employer goes bankrupt, early retirement benefits and, in east Germany, early retirement benefit, transitional allowance for the elderly unemployed, social supplement on top of unemployment benefit and assistance and benefits to the formerly self-employed.</p> <p>b Including occupational rehabilitation and short-term working, bad-weather and winter allowances.</p>						
Sources: Federal Office: <i>Arbeitsmarkt 1995</i> , p. 68.						

trated more heavily on continuing and further vocational training, whereas in eastern Germany it was job-creation measures that were most prominent.

According to calculations by the *Institut für Arbeitsmarkt- und Berufsforschung* (IAB), the labour market policy measures implemented by the Federal Labour Office (*Bundesanstalt für Arbeit* – BA) eased the pressure on the labour market in 1995 to the tune of 1.69 million people (cf. Table 2). In east Germany, short-time working was initially favoured as an employment-maintaining measure, together with early retirement. In 1995, it was largely job-creation measures that served to ease the pressure on the labour market in the region, whereas in west Germany further training and retraining measures had the greatest effects.

### Initiatives to Activate Passive Labour Market Policy Measures

In Germany, employees losing their job have a staged income-guarantee system at their disposal. First, there is unemployment benefit (*Arbeits-*

*losengeld*), paid by the Federal Labour Office and financed by social insurance contributions. In order to be entitled to this benefit, an individual must be available to the labour market, have worked for at least 360 days in socially insured employment during the past three years and have claimed benefit at an employment office. The level of unemployment benefit depends on the average net weekly income earned by the claimant during the six months prior to unemployment. Personal circumstances also play a role: married unemployed persons with at least one child receive 67% of net income, unemployed persons without children 60%. The normal entitlement period is 156 days, but this can be extended to up to 832 days depending on the age and the prior employment duration of the claimant.

Once entitlement to unemployment benefit has expired, or in cases where no such entitlement exists, an unemployed person may apply for unemployment assistance (*Arbeitslosenhilfe*). This tax-financed benefit is granted subject to a means test and either prior receipt of unemployment benefit or employment of at least

150 days during the previous year. Unemployment assistance amounts to 57% of net income for persons with at least one child and 53% for childless claimants. In contrast to unemployment benefit, receipt of unemployment assistance is generally not subject to a time limit. Those entitled to neither unemployment benefit nor unemployment assistance must apply to their local authorities for the means-tested minimum social benefit (*Sozialhilfe*).

In conceptual terms, German labour market policy seeks to accord priority to active measures over mere compensatory benefits. As unemployment has risen and become more entrenched, however, an increasing proportion of resources has been tied up by passive benefits. In order to move away from merely financing under-employment, policy-makers have therefore increasingly sought to apply passive funding in an “active” sense, i.e. in a way that promotes re-employment or constitutes a “productive” deployment of funds. An analytical distinction can be made here between benefits paid to employees and those offered to employers.

**Table 2: Reduction in Unemployment due to Labour Market Policy Measures (in thousand persons)**

	Germany		West Germany		East Germany	
	1991	1995	1991	1995	1991	1995
Short-time working	972	64	29	32	898	32
Bad-weather allowance <sup>a</sup>	33	40	31	29	2	11
Job-creation measures of all kinds	362	488	105	91	257	397
– General ABM <sup>b</sup>	362	346	105	89	257	257
– “Productive” wage-cost subsidy	0	142	0	2	0	140
Full-time training <sup>c</sup>	379	486	210	245	169	241
Rehabilitation <sup>d</sup>	38	34	37	30	1	4
Language courses	76	53	76	46	0	7
Early retirement	388	34	23	1	365	33
Transitional allowance for elderly unemployed	189	343	0	2	189	341
Support under § 105c LPA <sup>e</sup>	63	153	63	146	0	7
<b>Total</b>	<b>2,455</b>	<b>1,693</b>	<b>574</b>	<b>621</b>	<b>1,881</b>	<b>1,072</b>

a Full-time equivalent.

b General job-creation measures.

c Further training and retraining excl. work familiarisation.

d Rehabilitation in vocationally oriented measures.

e Benefit recipients aged 58 years and older no longer required to be available for work.

Source: Autorengemeinschaft: “Der Arbeitsmarkt 1995 und 1996 in der Bundesrepublik Deutschland.” In: *Mitteilungen aus der Arbeitsmarkt- und Berufsforschung*, No. 1, Vol. 29, pp. 34 f.

Elements of a policy of “activating” passive benefits are contained in the Employment Promotion Law that came into force in August 1994. Regarding benefits for employees, the regulations focus on both vocational training and the productive deployment of social benefits:

- Subject to the permission of the employment office, unemployed persons are allowed to participate in a further training measure for up to twelve weeks, during which they continue to receive unemployment benefit or assistance. Such further training courses are only granted, however, if they are such as to improve the chances of the unemployed person being placed in employment.
- Recipients of unemployment assistance were previously *enabled* to take up community work on a voluntary basis. Provided the community work was performed not for a wage but for a minor bonus to cover costs incurred, entitlement to unemployment assistance is maintained. Since 1994, recipients of minimum social benefit have, in contrast, been *required* to perform community work.
- Payment of a bridging allowance on assumption of a self-employed activity was extended to 26 weeks, whereby the benefit is equal to the level of unemployment benefit or assistance previously drawn.

Thus, the amendments to the regulations governing labour market policy instruments were aimed at raising investment in employment rather than continuing to finance unemployment. With the same aim in mind, since 1993 so-called “productive” wage-cost subsidies (§ 249h LPA) have been granted to employers in east Germany; in 1994, the measure was extended to west Germany and is scheduled to run until the end of 1997. The wage-cost subsidies are available to employers prepared to recruit benefit recipients meeting certain restrictive criteria and allocated to them by the employment office<sup>1</sup>. The subsidies can be paid for up

to two years in west and three years in east Germany. They are designed in such a way that the Federal Labour Office can redirect funds that would otherwise have been spent on unemployment benefit or assistance in cost-neutral fashion to this productive area. The maximum value of the subsidy is equal to the average benefit level (including social insurance contributions) for benefit recipients as a whole (around DM 1,600 in east and DM 2,200 in west Germany). The workers concerned must be paid less than comparable unsubsidised workers. Restrictions apply to the fields of activity that may be subsidised. In west Germany, the wage subsidies can be granted for work in the environment, social services and youth aid. In east Germany, in addition, work in sport, free cultural work and care of monuments may also be subsidised in this way.

In 1989, the federal government initiated two special programmes for the long-term unemployed. Under the “*Aktion Beschäftigungshilfen für Langzeitarbeitslose*” (Employment Aid for the Long-term Unemployed Action), wage-cost subsidies can be made available to employers recruiting long-term unemployed persons. In addition, projects for particularly disadvantaged unemployed persons receive support within the framework of a special programme. By the end of 1994, a total of 130,000 long-term unemployed had been enabled to take up employment on the basis of a wage-cost subsidy (cf. *Bundesarbeitsblatt* 1995; Schmid et al. 1994).

In March 1997, legislative proceedings for the Labour Promotion Reform Act were completed. It is to come into force in 1998, although some measures will take effect from April 1997. It contains a number of changes and amendments which will serve to put into practice the idea of activating passive labour market policy to a greater extent than previously.

Severer sanctions and stronger negative incentives aim to accelerate the reintegration of the unemployed into the labour market:

- By steadily reducing the wage unemployed persons must be prepared to accept, the acceptability of job offers will be increased<sup>2</sup>. Under the new legislation, an income reduction – compared with the net benefit level – of 20% in the first three months and 30% in the following three months will be considered acceptable. After six months a job may no longer be rejected solely because the resulting net income from employment is no higher than unemployment benefit.
- An obligation to actively seek work will make it easier to identify benefit abuse. The unemployed person can be required to provide evidence of active job search. Personal registration as unemployed at the employment office is valid only for three months, after which it must be renewed by personal attendance.
- New and appropriate training measures are to be deployed in order to test the ability and willingness of the unemployed to work. On the other hand, the job-search activities of the unemployed individual are to be supported by means of job-application training and counselling. Unemployment benefit and assistance will continue to be paid. After six months of unemployment, an “integration plan” is to be drawn up with the aim of avoiding long-term unemployment.
- Recipients of unemployment assistance taking a job that is limited to a maximum of three months are entitled to an allowance (*Arbeitnehmerhilfe*) of DM 25 per day as a

1 In general, the unemployed must be either difficult to place or have been out of work for at least three months. They may also be taken on at the end of a job-creation programme or following an extended period on short-time working.

2 Under the prevailing legislation, an unemployed person is assigned to a qualification level, so that he or she is able to reject a job offer that pays less than that appropriate to this level. With increasing duration of unemployment, however, the qualification level of an unemployed person is successively reduced.

top-up to low-wage employment. This raises both the acceptability of employment – particularly of seasonal work in agriculture – and the pressure to accept a job offer.

In addition, the reintegration of the unemployed is to be promoted by means of positive incentives.

- Under the new legislation, unemployed persons taking part-time employment for up to three and a half years will retain their full entitlement to unemployment benefit in the case of renewed unemployment. By this means the incentive to take up part-time employment is not reduced by the fact that social insurance entitlements are cut in line with the reduced income from paid employment.
- Support for the unemployed setting up new businesses is improved under the new regulation in that the bridging allowance – equal in level to unemployment benefit or assistance for a period of six months – will be made available without the condition of an extended prior period of unemployment.

## Evaluation

The central aim of passive labour market policy is to protect citizens against serious loss of income due to unemployment. Yet wage-compensation benefits may exert feedback effects on the labour market by influencing the frequency and duration of unemployment. It can be assumed, for example, that the risk of moral hazard (benefit abuse) increases as the level of material compensation rises. Although the reformed LPA does not actually reduce wage-compensation rates, it does indirectly reduce the benefits paid by the unemployment insurance fund by means of the changes in the “acceptability” of job offers. It remains to be seen whether the incentives will suffice to achieve significant results. Evaluation research has produced evidence of only a limited impact of such incentives (cf. Schmid et al. 1996). The substantial increase in the impor-

tance accorded to countering benefit abuse in the new legislation may mean, however, that scarce resources can be activated for labour market and social policy aims.

The interest of evaluation researchers has been attracted by the productive wage-cost subsidies introduced for the first time in east Germany in 1993, which aimed to implement the principle of financing work rather than unemployment (cf., for example, Wolfinger 1994, 1995). They have sought to establish whether or not the new instrument has really met expectations with respect to its targets.

The declared aims of active labour market policy include using resources for investment rather than consumption, tying in labour market policy with economic and structural policy and improving the structure of financing compared with traditional job-creation measures. According to the results of evaluations, the majority of those supported under the scheme were employed in measures to improve local infrastructure: most important were cleaning up sites for commercial use and local environmental improvement projects. Given that the wage-cost subsidies only cover part of the costs, however, co-financing by state and local authorities or other organisations is necessary. This ensures, at least in principle, that the measure is tailored to actual needs. It is evident that in the case of measures promoted using wage-cost subsidies, those benefiting from the value added were called upon to participate in financing to a greater extent than was the case with traditional job-creation measures (cf. *Autorengemeinschaft* 1997).

Active labour market policy was introduced in 1969 as a pro-active, anticipatory instrument in the hands of the unemployment insurance fund in order to improve labour market outcomes under more favourable conditions than prevailed in the following decades. It was certainly not created in order to effectively counter mass unemployment. The wide-ranging aims pursued by active la-

bour market policy include optimising the structure of employment, integrating disadvantaged groups of the population and avoiding employment below qualification levels. In the wake of German unification, it was called upon to perform an additional task, just as an increasing scepticism about the scope of such policy was spreading. In response, the reformed LPA has scaled down the dimension of the targets, dampened all hopes of the state creating jobs and laid great emphasis on the special responsibility borne by employers and employees. Of the three major thrusts of active labour market policy – improving labour market opportunities through training, creating jobs and the imposition of sanctions – the new law has focused on tightening sanctions, while at the same time promoting labour market entry through integration plans and training measures.

## Conclusions

The relationship between passive and active labour market policy is both complementary and competitive. Given limited resources, spending on active policies tends to be crowded out by wage-compensation benefits as unemployment rises. And this is occurring precisely at the time that action in favour of economic structures and labour market target groups is most urgently needed. Under such conditions, it may well prove impossible to prevent cuts in passive labour market policy benefits. Yet the need to deploy resources more efficiently should not be misused to legitimise cuts in social security.

A policy of activating passive labour market policy finds itself on the borderline between reducing insurance benefits and their more productive use. If there is an overall lack of job opportunities, sanctions may well help to avoid benefit abuse, but they can also cause social hardship, the prevention of which was the original aim of the social security system. On the other hand, the activation of passive labour market policy would ap-

pear to constitute a helpful strategy where it leads directly to job creation or to bringing demand and supply into equilibrium in specific labour market segments. In Germany, this is true of the productive wage-cost subsidies and the support for those seeking to enter self-employment. The extent to which the measures to make job offers more acceptable – in a legal sense – to the unemployed have an influence on unemployment, on the other hand, remains unclear.

Under the condition of scarce resources, the funds for consumption-oriented wage-compensation benefits should continue to be redirected towards active and activating labour market policies. Their impact, however, depends centrally on overall employment trends.

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## Greece

### Active and Passive Labour Market Policies in Greece

Active labour market policy (ALMP) in Greece consists mainly of training, employment subsidies and self-employment programmes, and in most cases covers all unemployed persons, irrespective of whether they are eligible for unemployment benefits (UB). As unemployment has increased, active interventions in the labour market have attracted more attention, but their extent and depth have remained limited compared to other EU countries. Table 1 presents public expenditure on various active and passive labour market programmes and the number of beneficiaries in recent years. Table 2 presents public expenditure on labour market policies (LMPs) as a percentage of GDP according to national data (for OECD data refer to summary chapter).

International comparisons show that the percentage of GDP spent on LMP in Greece has been the lowest

of all EU countries: the proportion of GDP spent on ALMP has been among the lowest, while that spent on UB has been by far the lowest. A similar picture emerges when comparisons are made with regard to the share of the labour force benefiting from LMP.

The percentages of GDP spent on LMP and on ALMP are not only relatively low, but have also been declining (Table 2). ALMP spending as a share of total LMP spending has decreased in recent years, according to OECD data. According to the Greek employment service (OAED), it has shown considerable variation, but not a clear tendency to decrease (Table 2). At the very least, the data on expenditure indicate that there has been no trend towards more active programmes in recent years.

Vocational training programmes absorbed the largest part of ALMP expenditure. A much smaller share was dedicated to employment subsidies and a relatively small percentage to self-employment programmes. Of the expenditure on training, the

largest part consisted of intra-enterprise programmes.

Besides the relatively small and decreasing percentage of GDP spent on ALMP, evaluation studies have shown that, due to various problems, the effectiveness of the active programmes implemented has been rather limited until recently (Haratsis, Kottis-Petraki et al. 1993; Dedoussopoulos & Reppas 1994; Kottis, Kottis-Petraki et al. 1994). According to these studies, the number of new jobs created through the employment-subsidy programmes was relatively small and the greater part of the new businesses receiving subsidies would have been created even without such support. The training programmes for adult unemployed individuals suffered from several weaknesses relating to their content and orientation, the methods and materials used, the information on the schemes made available to employers, etc.

In the years since the Council meeting held in Essen, steps have been taken to activate Greek LMP.



**Table 1: Public Expenditure on Labour Market Policies and Number of Beneficiaries**

	Expenditure in million GRD					Number of beneficiaries				
	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995
<i>A. Active labour market policies</i>										
Technical vocational training for young people	4,599.2	4,714.3	4,921.2	5,821.1	8,140.7	12,805	12,000	13,400	13,992	14,924
Continuing vocational training	1,847.9	1,472.8	2,188.6	2,659.4	2,742.7	6,006	6,300	6,380	6,454	5,467
Training in private enterprises	27,667.9	16,575.0	14,676.1	10,012.9	20,860.0	45,908	49,060	51,955	37,500	46,000
Employment subsidisation programmes	7,014.4	12,242.9	12,080.0	9,639.0	14,287.0	22,401	22,408	20,543	22,456	22,200
Self-employment programmes	1,958.2	2,200.0	1,600.0	1,714.0	3,200.0	5,533	4,840	3,520	4,683	4,395
<b>Total ALMP</b>	<b>43,087.6</b>	<b>37,205.0</b>	<b>35,465.9</b>	<b>29,846.4</b>	<b>49,230.4</b>	<b>92,653</b>	<b>94,608</b>	<b>95,798</b>	<b>85,085</b>	<b>92,986</b>
<i>B. Unemployment benefits and other transfers</i>										
Unemployment benefits	66,664.0	71,092.3	77,608.7	90,331.5	102,737.4	200,110	212,397	226,732	208,004	236,329
Supplementary benefits	17,648.8	12,016.6	12,502.6	15,708.7	16,838.0	184,446	179,487	136,301	150,935	136,670
Family allowances	11,720.4	10,868.3	12,117.9	14,249.2	13,751.1	339,690	315,772	312,556	307,883	302,564
Other	71.4	52.5	32.4	65.7	104.8	3,670	2,327	1,480	2,932	4,104
<b>Total UB and other transfers</b>	<b>96,104.6</b>	<b>94,029.7</b>	<b>102,261.6</b>	<b>120,355.1</b>	<b>133,431.3</b>					
<b>Total expenditure on ALMP, UB and other transfers</b>	<b>139,192.2</b>	<b>131,234.7</b>	<b>137,727.5</b>	<b>150,201.5</b>	<b>182,661.7</b>					

Source: Manpower Employment Organisation: *OAED Present and Future*. Athens, September 1996.

A medium-term plan for the promotion of employment was formulated in 1995 and a law was passed in 1996 (Law 2434/1996) introducing a series of policy changes and measures aimed at making active intervention in the labour market more effective and more generally at increasing activation. Certain programmes that have been implemented for specific groups of the unemployed in the last two years have had significant activating effects on the beneficiaries. Before presenting these initiatives, we will discuss certain aspects of the prevailing UB system affecting activation<sup>1</sup>.

### Features of the Existing UB System's Implications

The main characteristics of the UB system are the relatively low benefits (replacement rates of around 55%), their limited duration (5 to 12 months) and the restrictive rules concerning eligibility. These features create greater pressure for the unemployed to actively search for work than in countries with more generous systems. For example, in the past the restrictions concerning eligibility for unemployment benefits induced many unemployed individuals to participate in subsidised training pro-

grammes which had less strict eligibility requirements. This could be considered as having led to some waste, because in certain cases the unemployed participated passively in several heterogeneous training programmes, run by different organisations, just to receive the subsidies. However, at least in this way the unemployed maintained contact with the labour market and became exposed to various kinds of knowledge

<sup>1</sup> The new programmes will also benefit unemployed individuals who, under existing arrangements, are not entitled to UB (Layard et al. 1991).

**Table 2: Public Expenditure on Labour Market Policies as Percentage of GDP**

	1992	1993	1994	1995
<i>A. Total active measures</i>	0.36	0.33	0.29	0.30
– Public employment services and administration	0.07	0.05	0.06	0.06
– Self-employment programmes	0.02	0.02	0.02	0.02
– Employment subsidisation programmes	0.06	0.06	0.05	0.06
– Employment programmes for the handicapped	0.001	0.001	0.001	0.003
– Vocational training programmes	0.21	0.20	0.16	0.16
<i>B. Unemployment benefits and family allowances</i>	0.71	0.57	0.61	0.56
<b>Total expenditure on active policies and unemployment benefits</b>	<b>1.07</b>	<b>0.90</b>	<b>0.90</b>	<b>0.86</b>
<b>ALMP spending as a percentage of total LMP spending</b>	<b>33.6</b>	<b>36.7</b>	<b>32.2</b>	<b>34.9</b>

Source: Estimates based on data from *OAED Present and Future* (in Greek). Athens, 1995 and 1996.

and skills that could have had a positive impact on their employability.

Although the ungenerous nature of the Greek UB system results from budgetary constraints, it has the same effects as if it were part of an activation strategy. On the other hand, concerns have been expressed that these features might also create unfavourable effects on activation. If the unemployed do not have a sufficient income to enable them to maintain a minimum standard of living and to cover the various costs associated with job-search efforts, their activation may be reduced. On the basis of this consideration and also for social reasons, the government increased benefits by 10% in 1996 and by another 10% in 1997. These increases did not significantly affect replacement rates, however, because of parallel increases in nominal minimum wages.

UBs are not subject to income tax, but neither do wage-earners at the lower end of the pay scale have to pay income tax. Therefore, the tax system cannot be considered as discouraging the activation of the benefit recipients. However, the relatively large incidence of social security contributions<sup>2</sup> for those regularly employed may exercise some discouraging effects on activation.

The most serious problem associated with the UB system is that the beneficiaries do not have a financial incentive to accept part-time or casual work because any earnings are deducted in their entirety from unemployment benefits. Since part-time or casual work may help the unemployed to keep in touch with the labour market and may even lead to regular employment, the lack of any incentives for such or any other kind of work is definitely a deterrent to their activation.

The unemployed in receipt of benefits are required to look for work, but do not have an obligation to participate in training programmes or to engage in specific job-search activities. Benefits are stopped only if an unemployed person refuses to take a suitable job offered by the public em-

ployment office. Heavy work loads, shortage of staff and organisational problems have limited the scope of the public employment offices to take adequate action in this regard. The lack of a clear definition of what constitutes a "suitable job" is an additional problem. All in all, beyond the effects resulting from the parsimonious nature of the system as a whole there has been no activation by sanctions or disincentives.

### **Recent Initiatives to Activate Labour Market Policy**

In view of rising unemployment, the pressures to reduce public deficits and the relatively heavy burden of contributions on employers and employees, the activation of LMP seems to be the most promising way to deal with the problems associated with unemployment. Since public expenditure on UB is relatively small, the possibilities for achieving more activation are limited. However, within existing limits there is room for action in this regard. Below, we present the main steps that have been taken in the last two years.

#### **Activation of labour market policies through a new law**

Law 2434/1996 introduced a series of policy changes and measures aimed at increasing activation<sup>3</sup>. The cost of implementing them was estimated to be around GRD 220 billion or 0.8% of GDP; this is expected to be covered by the transfer of funds from passive and other labour market programmes. One of the most important innovations of the new law was the introduction of the system of "employment cards", which will incorporate vouchers that can be used by the unemployed for participation in training or subsidised employment programmes or for receiving UBs. Financial incentives will exist for the unemployed to use their vouchers for training or subsidised employment. The vouchers cannot be used to take up work in the regular labour

market, remaining limited to public projects. Provisions will be added in the new arrangements for exerting pressure on UB recipients to search for work or participate in training programmes. The aim will be to convert UBs into employment or training subsidies. Eligibility for employment cards and vouchers will be extended to those unemployed people who were not eligible for benefits under the previous system (long-term unemployed, new entrants into the labour market, etc.).

Employment cards will be a prerequisite for receiving UBs. They will indicate the frequency, the amount and the periods of benefit receipt. This information will facilitate controls and is likely to reduce expenditure by limiting benefit abuse. The cards will also include information about certified professional qualifications, the skills obtained from participation in training programmes and any other kind of information that could be helpful in finding jobs for the card-holders.

The regulations concerning the application of the above system will be specified through ministerial decrees which are expected to be issued during 1997. The above system can be a powerful means of activating LMP. However, several questions have been raised with regard to its application. Its success will depend to a large extent upon the specific arrangements made for its operation.

Another provision in the new law that is expected to contribute significantly to the activation of LMP concerns the collection and processing of labour market data: the computerisation and reorganisation of the OAED and its employment offices. This will considerably upgrade the ability of these offices to match UB recipients with vacancies and is expected to reduce the need for paying benefits. Also, the new subsidised training programmes – that will be tailored to

2 For workers, social security contributions constitute around 16% of their earnings.

3 For an analysis of these policies and measures see Kottis-Petraki & Kottis (1996).

the specific needs of particular groups of the unemployed and will involve employment in private firms – are likely to enhance activation since they will offer an attractive alternative for individuals eligible to receive UBs.

The employment subsidisation and the self-employment programmes introduced under the new law in the first months of 1997 provide financial incentives to the unemployed to be “active” instead of passively receiving UBs. The new programmes are expected to create 40,000 new jobs in 1997<sup>4</sup> at a cost of GRD 40 billion. This cost is high compared to the cost of the programmes that will be replaced, but savings are expected from a reduced take-up of UBs.

Subsidisation of non-wage costs for firms employing young people is another policy introduced by the new law that aims to create jobs and thus reduce unemployment and the number of those eligible for UB.

### Special packages of measures for particular groups of the unemployed

To activate workers who became unemployed because of privatisation or the reorganisation or closure of firms, special packages of measures have been introduced to provide those eligible for UBs with the alternatives of self-employment, subsidised employment, or training. The options included in each package differ depending upon the particular case. However, in all cases these options are designed in such a way as to create incentives for the unemployed to choose active alternatives.

Studies have shown that those laid off have mostly chosen an active alternative (e.g. 95% of workers in a closed shipyard). Generally, it can be shown that good results can be achieved if sufficient personnel and financial resources are devoted to the activation of the unemployed. Such packages may be considered too costly on the basis of a short-term

cost-benefit analysis, but when long-term considerations are taken into account the benefits are likely to outweigh the costs, even on purely economic grounds.

### Conclusions

Because of the parsimonious nature of the UB system in Greece and the relatively small percentage of GDP spent on passive transfers, the scope for activating LMP in the sense of transferring resources from passive to active measures is limited. However, within existing limits there is considerable room for action. Activation may also be increased by transferring resources from less to more effective active labour market programmes.

The employment law introduced in 1996 opened new avenues for activating LMP. However, the main innovation, which is the system of employment cards, has not yet been applied. Since the application of this system is expected to be associated with certain problems that could endanger its viability, special attention should be paid to its implementation.

The various packages of measures for workers who lost their jobs because of privatisations, reorganisation etc. and the programmes introduced recently under the new law have all been steps in the right direction. However, there is a need for faster and more extensive action and also for greater innovation. Careful examination of certain initiatives that have been applied in other countries (e.g. job rotation, job pools, work trials, community programmes, etc.) and pilot applications of a selection of such measures could provide useful indications about new possibilities for increasing activation.

Reforming certain aspects of the existing UB system to increase incentives to work is another area that needs examination. Particular consideration should be given to the incorporation of provisions that will al-

low UB recipients to earn money from paid employment without losing an equivalent amount of benefits. Moreover, in addition to the positive incentives for work or training, mechanisms should be considered for exerting greater pressure on the UB recipients to actively improve their employability or enter (subsidised) employment or self-employment.

Before concluding this paper, it should be mentioned that discussions have recently been initiated by the government on the introduction of special agreements between the social partners, local governments and all parties concerned in areas of high unemployment, in order to increase employment. Such agreements could expand employment opportunities and lead to greater activation of the unemployed. However, the discussions are at a very early stage and the outcome is uncertain.

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<sup>4</sup> Theoretical considerations and empirical evidence from several countries indicate that the size and duration of UBs affect the labour market behaviour of the unemployed.



## Active and Passive Labour Market Policies in Spain

Table 1 presents the distribution of expenditure on labour market policy (LMP) in Spain over the recent period 1991–1995, distinguishing between its “active” and “passive” components. The most striking feature of this table is the high relative proportion of resources devoted to passive policies, which reached almost 90% in 1993. However, the recent trend has been towards a substantial reduction in the relative weight of passive measures, which currently represent some 80% of total expenditure. As the downward trend of the proportion of GDP devoted to labour market policies as a whole suggests, the more active

stance of LMP in Spain is to be explained by the restrictions on passive expenditures, rather than by a direct shift from passive to active measures: expenditure on the latter increased, but very moderately. We shall come back to these issues later on.

Following the OECD classification, four main elements can be identified within active measures in Spain:

- labour market training, financed by the European Social Fund and the vocational training levy (a payroll tax), which covers both the unemployed (training provided by central and regional government agencies) and employed workers (under a recent system established in 1993 whereby a private foundation, managed by the social partners, is responsible for running the system);

- subsidised employment (including youth measures), whereby wage subsidies are provided to firms giving permanent contracts to specific groups of workers, such as youngsters or women in occupations where they are under-represented; the scope of these subsidies was reduced in 1992; the number of contracts involved has been relatively small;
- other programmes to support entrepreneurial activities and job creation: these are mostly programmes to promote self-employment, employment in cooperatives, local employment initiatives and measures in favour of the disabled (specific social insurance contribution exemptions and wage subsidies are provided to firms hiring disabled people); the number of participants in these programmes has been small;
- public employment services and administration: the Spanish employment service is reported to have one of the largest ratios of unemployed people per staff member; the reputation of the service as a job broker has never been particularly good, and most people see it as the “unemployment office” rather than the “employment office”; there have been recent efforts to enhance the job-brokering role of the service.

It should be noted, however, that the notion of active labour market policies adopted by the OECD, and discussed so far, may not be appropriate in the case of Spain. Two main reasons may be put forward:

- first, one of the main labour market policies followed by successive governments since the early 1980s has been related to the introduction of special “employment promotion” labour contracts which do not offer any direct wage subsi-

**Table 1: Total Expenditure on Labour Market Policies as a Proportion of GDP and Number of New Participants in Active Measures as a Proportion of the Labour Force, 1991–1995**

	1991	1992	1993	1994	1995
<i>Expenditure as a proportion of GDP</i>					
Public employment services and administration	0.12	0.11	0.11	0.10	0.09
Labour market training	0.18	0.10	0.12	0.23	0.35
Youth measures	0.05	0.07	0.10	0.09	0.08
Subsidised employment	0.40	0.28	0.20	0.17	0.19
Measures for the disabled	0.01	0.01	0.01	0.01	0.01
Total active policies	0.76	0.58	0.53	0.60	0.72
Unemployment compensation	2.85	3.17	3.59	3.26	2.60
Early retirement for labour market reasons	0.00	0.00	0.00	0.00	0.00
Total passive policies	2.85	3.17	3.59	3.26	2.60
TOTAL	3.60	3.75	4.12	3.86	3.32
Passive measures as % of total expenditure	79.2	84.5	87.1	84.5	78.3
<i>New participants in active measures as a proportion of the labour force</i>					
Labour market training	...	...	...	0.7	0.8
Youth measures	0.3	0.3	0.3	0.3	0.3
Subsidised employment	4.7	2.9	1.5	1.2	1.2
Measures for the disabled	0.1	0.1	0.1	0.1	0.1

Source: OECD; *Employment Outlook*, 1996.

dy, but which do imply substantially lower labour costs in terms of the much lower (in some cases, zero) costs of separation which they involve; these contracts include "apprenticeship", "practice" and "employment promotion fixed-term" contracts, the latter being the most widely used before their use was restricted in 1992 and again in 1994.

— second, the unemployment benefit system contains elements that may be considered "active" rather than "passive":

a) the "benefit capitalisation" programme initiated in 1985, whereby recipients of unemployment benefits may receive their potential benefits as a lump sum on presentation of a self-employment project; since 1992 this programme has been substantially reduced (the number of participants decreased from around 80,000 per year on average to 10,000), and currently only cooperatives and worker-owned firms are eligible; the reasons behind the restrictions were the supposed existence of substantial fraud (no evaluation studies on this were published) and the need to cut expenditure. At any rate, this is a clear "activation" policy which is considered very important; the possibility of expanding the programme again is always under consideration, subject to stricter controls on fraud, but no specific proposals have been put forward so far.

b) unemployment benefits may be considered in various instances as employment-protecting devices. For example, temporarily laid-off workers and workers on short-time working have the right to unemployment compensation. Such cases represent some 10% of total unemployment benefit expenditure. This applies to firms with (presumably temporary) economic problems, as well as to seasonal workers, who receive benefits

during the period of inactivity. The same applies to unemployment-benefit recipients who are allowed to take part-time work (with a pro rata reduction in their benefits)<sup>1</sup>.

## Recent Activation Initiatives

There is a clear feeling that expenditures on passive policies should be reduced in favour of active policies. But it should also be borne in mind that the overall budget deficit in Spain has been very high in recent years, thus making it necessary for the government to exert downward pressures on all the components of spending, even considering the contribution of the European Social Fund to active programmes. In this context, the recent initiatives to "activate" labour market policies have, as already mentioned, come more from restrictions on passive expenditures than from expanding active measures.

The most significant changes began in 1992, when unemployment benefits were reduced. Access to unemployment insurance (for which the amount of benefit is related to past wages) was restricted, but this was offset by a wider access to unemployment assistance (for which the benefit is paid at a flat rate per month). This change translated, however, into a smaller replacement ratio, which was accentuated by the reduction of the compensation rate for unemployment insurance (from 80% in the first six months, 70% in the next 6 months and 60% in the remaining 12 months, to 70% in the first 12 months, and 60% thereafter). Although this is believed to have reduced the duration of unemployment, the fact is that the *maximum potential duration of unemployment insurance benefits*, generally identified as the most significant variable affecting search behaviour by the unemployed, was left unchanged.

Further measures along the same lines were adopted in 1993. Unemployment benefits became liable for income taxes, the minimum benefit

level was lowered (from 100% to 75% of the statutory minimum wage), and the access requirements for assistance benefits were restricted by a narrower definition of the notion of "family responsibility" (a necessary condition in many instances to get access to these benefits) as well as a tightening of the means test. All of these measures again reduced the replacement ratio and, to the extent that assistance benefits follow exhaustion of entitlement to insurance benefits, *shortened potential overall benefit duration*. At the same time, the coverage of the system, however defined, tended to narrow substantially.

Regarding the obligations of the unemployed, Spanish law and actual practice are somewhat confusing. To many people, unemployment benefits are a right stemming from the contributions made to the system while working, independent of the search attitude of the unemployed and only conditional on the fact that the beneficiary is out of work. However, the law clearly states that unemployment benefits are conditional upon acceptance of suitable job offers<sup>2</sup> as well as participation in the promotion, training and retraining measures mediated by the employment service. It appears that, since circa 1992, the service has tended to apply these criteria more stringently. For example, the share of unemployment-benefit recipients in the number of unemployed receiving training has dramatically increased, from 11% in 1990 to a high of 39% in 1994 (although this figure dropped to 32% in 1995). In addition, a better identification of the characteristics of the recipients, together with a closer follow-up of their job-search activities, are also considered

1 The reduction in benefits is, in principle, proportional to the amount of time worked, independent of any means-tested criterion, with one exception: in the case of assistance benefits such a criterion exists on a general basis; thus, it could be that working part time no longer implies meeting the income criterion and hence losing benefits altogether.

2 A notion at present only loosely defined and therefore a matter of interpretation by the courts. A legal initiative is under way to arrive at a more stringent definition.

fundamental, and internal organisational steps have been taken within the employment service to enhance these activities, although no specific evaluations have yet been made. It is to be mentioned, in this connection, that some of the regions (most notably Catalonia) are requesting that employment service activities be transferred to the regional level. It is unclear how this would affect the effectiveness of the service as a placement agency.

On the whole, direct activation measures have been rather limited in Spain. Beyond the programme of benefit capitalisation, most of the measures adopted have tended to act upon benefit recipients in such a way as to increase their participation in search and training activities as well as to reduce the economic incentives to remain unemployed. The effectiveness of these measures is difficult to assess. It is clear that expenditure on unemployment benefits has been curtailed and the coverage of the benefit system reduced. Unemployment remains very high, however, and this should also be taken into consideration when adopting "activation" policies which might deprive the jobless of the necessary means of subsistence.

## Evaluation

What has been the success of active labour market policies in Spain? We shall concentrate here on the two main policies in terms of size, namely labour market training and employment contract policy.

As for labour market training, various periods need to be distinguished. Its inception as a substantial policy coincided with, and was linked to, the accession of Spain into the European Community in 1986. This entailed the provision of resources by the European Social Fund which were to be spent on training. Start-up problems were substantial during the first three years, mostly due to the lack of adequate training structures to handle the large amount of funds from the ESF. Starting in

1988, the government began to promote higher quality in vocational training programmes, as well as an evaluation study consisting of a follow-up of trainees at the end of the year after receiving their training. By comparison with a small sample of non-trainees, the study found that training exerted a positive influence on the rate of labour market integration, a conclusion confirmed recently by more sophisticated, econometric studies. Still, the problem with these evaluations is to what extent unmeasured characteristics of the unemployed themselves explain training participation and entry into employment ("selection effects"). On the whole, therefore, training policies for the unemployed suffer from a lack of sufficient evaluation.

As for employment contract policy, the legal reform introduced in 1984 that eliminated restrictions on fixed-term contracts gave rise to a massive use of such contracts by employers during the recovery period of 1986-1990. While some government officials claimed at the time that the rise in employment (the fastest in Spanish history) was entirely due to this legal change, the generally accepted opinion of experts is that the elimination of restrictions on the use of fixed-term contracts exerted a small, though non-negligible, influence on employment growth, thereby increasing the employment intensity of economic growth. At the same time, however, the change created a significant cleavage in the labour market between permanent workers, well protected against dismissals, and temporary, fixed-term workers with no employment protection and subject to a significant labour turnover. The 1994 labour law reform aimed at reversing this situation, but it has clearly failed: although, as already mentioned, the use of "employment promotion fixed-term contracts" was heavily restricted, employers have found ways (through other contracts, designed to be used for activities of a temporary nature) to maintain their frequent use of fixed-term contracts. On the whole, therefore, employ-

ment contract policy exerted a positive influence, especially in its early stages, but this turned out to have unexpected negative influences on the operation of the labour market.

## Conclusions

Spain spends a substantial amount of money on passive measures and only a little on purely active policies. Although this situation generates concern among policy-makers, who agree that more emphasis should be given to active measures, the path to this end of activating labour market policies remains unclear. Firstly, passive policies are seen as playing a role in terms of preventing job losses. Secondly, it is unclear whether merely shifting from passive to active expenditures would create stable jobs which would prevent workers from falling back to the state of need in one way or the other. Any (desirable) shift towards more active policies should not forget this last aspect, as the results may be the opposite of those intended. The need to activate policies is clearly perceived in Spain, but any change should be undertaken with care. There is room to adopt a more indirect approach aiming at "activating the unemployed" so that their rate of job-finding is increased without prejudicing the social protection provided by unemployment benefits.

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## France

### Active and Passive Labour Market Policy in France<sup>1</sup>

The proportion of GDP spent on labour market policy – 3.87% in 1994 – has more than quadrupled since 1973. Relatively speaking, its growth has outpaced that of the economy over the last 20 years.

The total figure for public LMP expenditure can be classified under different headings according to the nature of their contribution to correcting labour market imbalances. These headings make it possible to differen-

tiate between passive and active expenditure.

Passive expenditure, comprising unemployment benefit and incentives for early retirement, grew steadily over the period from 1973 to 1994. Although its share of the total has fallen since 1985, it still accounted for 51.5% of public LMP expenditure in 1993. According to the OECD, in 1993 France was in an intermediate position compared with other leading industrialised countries<sup>2</sup>.

Active spending exceeded passive spending for the first time in 1994; the latter made up 49.8% of all public employment expenditure. This

relative downward trend of passive spending appears to have been confirmed in 1995.

Some analysts downplay this increase in the share of active spending as a proportion of total public LMP expenditure because the area covered by such spending cannot be seen entirely in terms of direct economic incentives. For example, they consider that, in the case of vocational training, the objective of upgrading the skills and qualifications of the workforce co-exists, for the young and long-term unemployed at least, with that of social insertion. Vocational training remains the most im-

**Table 1: Growth in Labour Market Policy Spending since 1973**

	1973	1980	1985	1990	1993	1994
LMP expenditure (current FRF million)	10.2	64.8	170.1	218.3	286.3	285.7
Annual change (constant FRF, %)		+4.9	+5	+4.5	+7.2	-1.8
LMP expenditure/GDP (%)	0.9	2.31	3.62	3.35	4.04	3.87
TJSM <sup>1</sup> (thousand) (annual average)	394	1,451	2,458	2,505	3,171	3,329
Annual change (%)	-	-	+5	-1.1	+8.9	+5

1 TJSM = Total jobseekers at end of month.  
Source: DARES – Ministry of Employment and Social Affairs.

1 The scope of public expenditure on employment includes spending on employment, training and unemployment benefit borne by central government, regional authorities, companies and UNEDIC. It should be noted that this definition is incomplete, since it only partially covers funds allocated by regional authorities (for example, regional training expenditure directed at those in work and jobseekers is not included) and excludes the RMI (guaranteed minimum income), although this benefit provides for entry into the labour market.

2 In 1993, on a comparative basis, passive expenditure accounted for 2.10% of GDP; active expenditure, 1.21% of GDP.

**Table 2: Public Spending on Labour Market Policy, 1973–1995 (millions of FRF)**

	1973	1980	1985	1990	1990 %	1993	1993 %	1994	1995 %
Passive spending									
– unemployment benefits	1,890	26,153	56,350	87,374		123,287		118,239	
– incentives for labour market withdrawal	1,577	11,179	58,056	37,109		27,987		28,912	
Total passive spending	3,467	37,332	114,406	124,483	56.7	151,274	51.5	147,151	49.8
Active spending									
– Vocational training	5,719	19,816	37,304	67,371		88,639		87,722	
– Job creation and promotion	501	2,667	8,458	14,675		30,196		34,719	
– Reductions in social insurance contributions	0	0	0	1,048		7,219		9,363	
– Employment maintenance	139	2,511	3,937	3,467		6,224		5,730	
– Incentives to take up employment	79	1,387	3,420	4,504		4,929		5,009	
– Labour market functioning	265	1,064	2,564	3,785		5,010		5,399	
Total active spending	6,703	27,445	55,683	94,850	43.3	142,217	48.5	147,942	50.2
Total labour market policy spending	10,170	64,777	170,089	219,333	100	293,491	100	295,093	100

Source: DARES.

portant component of active policies (1994: 59% of all active spending, 29.7% of all public LMP expenditure). However, its share has been declining since 1993. Similarly, Solidarity-Employment Contracts (*contrats emploi-solidarité*) constitute the main measure for assisting the creation of new jobs included under the heading "job promotion and creation", whose relative share in active expenditure has risen. Also these contracts are considered to have a social function.

Other observers feel that widening the definition of public employment expenditure reveals the true cost of unemployment. This includes, in addition to such public expenditure, loss of revenue from income tax and national insurance contributions. Such observers put this cost at more than FRF 400 billion.

When public employment expenditure is broken down by "financial agent", the share of state funding is seen to have grown. Central government became the main contributor in 1994, accounting for 40% of the total and paying out FRF 119 billion. This increase is particularly related to the development of active policies implemented by the state.

UNEDIC, which bears the cost of 90% of unemployment benefit, has seen its share of public employment expenditure diminish; it has not been the principal contributor since 1994 (36% of the total, or FRF 106 billion). There is one key reason for this: the reduction of unemployment insurance as a share of expenditure on benefits for jobseekers.

The explanation for this reduction can be found in a combination of events occurring in recent years:

- firstly, the reduction followed a period in the early 1990s during which the number of adult unemployed persons entitled to high levels of benefit rose sharply; in 1994, their entitlement was coming to an end;
- the implementation of a new regulatory framework for unemployment insurance in the face of a

growing deficit in the existing structure; this reform, intended to ensure healthier UNEDIC finances, had as one notable consequence a reduction in the number of unemployed receiving benefit under the scheme.

Although the main thrust of "active policy" is borne by central government, we will consider here the policies pursued by UNEDIC, as they are "active" in the narrower sense of activating passive benefits.

### Recent Initiatives: UNEDIC's Employment Promotion Policy

Although UNEDIC began to make its expenditure more active as early as 1986, with its retraining contracts (*convention de conversion*) and, in 1988, with the training/career change benefits (*Allocation de Formation Reclassement*), sharply rising unemployment in the early 1990s did not permit it to continue with such interventionist policies. Once the reforms introduced in 1992-93 had restored its financial equilibrium, new prospects opened up for greater efforts to promote employment. In terms of expenditure, however, these efforts were very limited (active spending barely totalled 5% of total expenditure).

Since 1994, unemployment insurance scheme resources have been mobilised to implement employment promotion measures that overlap with those initiated by central gov-

ernment policies. The efforts of the employer and employee associations thus led to the creation of two new contractual schemes: cooperation contracts (*convention de coopération*) and the FPE - Bipartite Fund to Promote Employment (*Fonds paritaire d'intervention dans le domaine de l'emploi*). The creation of this fund is a genuine sign of the determination of the social partners to strengthen their action to promote employment and marks a radical change. Since 1995, the fund has financed a new early retirement scheme, the Job Replacement Benefit Allocation (ARPE - *Allocation de remplacement pour l'emploi*), created as an experiment by a cross-sectoral agreement signed on 6 September 1995, considered "historic" at the time. This scheme was therefore added to the two other early retirement programmes, involving complete or gradual withdrawal from employment, financed by the FNE (central government).

The surpluses likely to be registered in 1996 and 1997 by UNEDIC should allow it to go further. Financial responsibility for the AFR scheme, 85% of which has hitherto been funded by central government due to the persistent UNEDIC deficit, is gradually to be taken over by the unemployment insurance scheme (at least half of its costs).

New measures financed by FPE may also be introduced. There is already agreement in principle on renewing the ARPE and extending it to 1999.

**Table 3: UNEDIC's LMP Spending, 1973-1994 (millions of FRF)**

	1973	1980	1985	1990	1993	1994
Passive spending						
- Unemployment benefits	1,279	16,852	48,398	74,347	107,039	94,503
- Early retirement benefits	608	6,078	21,028	14,426	5,430	7,020
Total passive spending	1,887	22,930	69,426	88,773	112,469	101,523
Active spending						
- Vocational training	48	763	691	909	4,818	4,831
- Job creation and promotion	0	29	2	5	0	0
Total active spending	48	792	693	914	4,818	4,831
Total spending by UNEDIC	1,935	23,722	70,119	89,687	117,287	106,354
<i>Source: DARES.</i>						



In 1996, active measures should represent more than FRF 12 billion (compared with FRF 4.8 billion in 1994), or more than 10% of the expenditure funded by UNEDIC (compared with 4.5% in 1994).

## New Programmes and their Evaluation

We will now look in turn at each of the four schemes introduced by UNEDIC to make its benefit expenditure more pro-active. Two fall into the category of reclassification training (*convention de conversion* and AFR) and are the oldest programmes. The two new schemes (*convention de coopération* and ARPE), in place since 1994, fall into the category of direct promotion of employment. This is indicative of a trend in employment policy in France, whereby priority has increasingly been given to direct assistance to promote employment rather than to measures for workforce qualification and training.

### Retraining contracts

The retraining contract scheme is in place since 1986 and was initiated by an inter-professional agreement to offset the abolition of the need for official authorisation of redundancies. An agreement signed on 19 December 1996 extended the scheme for a further three years with effect from 1 January 1997. Companies, whatever their size, must now offer all employees affected by any redundancy programme the possibility of signing a retraining contract intended to assist them in finding new jobs. Such a contract is a right enjoyed by all employees and is enshrined in the French Labour Code.

Designed to prevent long-term unemployment, this programme, funded by UNEDIC, employers and government, involves individualised and immediate help for redundant employees over a period of six months with a maximum of 300 hours of training. Access to the scheme is restricted to those under 57 with at least two years' employment in the

company concerned. The employee's contract of employment is then terminated, but he/she is not registered as a jobseeker. For a maximum of six months, the former employee receives a special benefit equal initially to 83% and subsequently to 70% of the former salary.

Employee reclassification teams (*Unités Techniques de Reclassement* or UTRs) having the aim of quick placement have also been set up in ANPE offices.

In 1995, 120,000 employees signed retraining contracts. For the second year in a row, the numbers of such signatories declined significantly (down 20% in 1995 and 14% in 1994). This fall can be attributed largely to a reduction in the number of redundancies since 1994, despite a further rise in unemployment since mid-1995.

The scheme is used mainly by small companies: in 1995, three-quarters of the intake came from firms with fewer than 50 employees.

The re-employment rate<sup>3</sup> improved markedly in 1995 (48%), while re-employment stability was maintained (as in 1994, 63% were placed in jobs with open-ended employment contracts). It should be stressed that the creation of new companies remains a significant source of employment for those in the scheme: eight months after their entry into the retraining scheme, 8.5% of those re-employed had chosen this option, especially executive-level employees.

This programme, created in the 1980s, took on its full importance in the early 1990s, when redundancy levels were particularly high. It is nevertheless the case that use of the scheme has been relatively limited compared with the numbers of jobseekers, although its effectiveness is not in doubt.

### Training/career change benefit (*Allocation de formation-reclassement - AFR*)

The AFR, introduced by an agreement dated 6 July 1988, provides for government and UNEDIC funding of

the cost of supporting jobseekers undergoing training. This benefit (plus the training completion benefit [*allocation de formation de fin de stage*] that accompanies it if course duration exceeds the duration of entitlement to unemployment benefit) is paid as a wage. The training offered to AFR recipients is dispensed by bodies approved by central government or regional authorities.

Priority targets for AFR are the following:

- the unskilled or low-skill unemployed, notably those whose age makes re-employment especially problematic;
- those needing a further qualification and, within this category, those whose applications have been submitted most rapidly.

Since the scheme was initiated, a number of changes have been made to it by the social partners (UNEDIC) with a view to widening its application, notably by extending access throughout the entire period of entitlement to unemployment benefit and beyond expiry of entitlement up to the end of the training period.

The number of people entering fell significantly in 1994 and 1995 for a variety of reasons: in addition to the improvement - albeit temporary - in the job market, a decline in the attractiveness of this training-based scheme is evident, notably in the face of "competition" from job-creation programmes.

On average, those entering the AFR programme follow a training course of medium length of the order of 580 hours. The initial objective is to add to the person's skills or, in one third of cases, to obtain a qualification.

The re-employment rate deteriorated markedly in the early 1990s along with the situation on the labour market. It has, however, been improving since 1994, when the rate of return to employment, one year

<sup>3</sup> Aggregate reclassification for the ten cohorts which joined the scheme between January 1995 and October 1995, monitored between September 1995 and June 1996.

after leaving the scheme, was 55% (compared with 52% in 1993).

The state contribution to the AFR amounted to more than FRF 5 billion in 1995, spread over 200,000 beneficiaries. This makes it a relatively costly programme.

### Cooperation contracts (*Conventions de coopération*)

These were initiated in July 1994 and pay companies hiring unemployed workers in receipt of benefit for more than eight months an allowance equal to the unemployment benefit that the employees would have been entitled to receive if they had remained unemployed for up to one year.

The manner in which this payment is calculated is particularly favourable, since it does not take account of progressive reductions in benefit and is therefore higher than the total that would otherwise have been payable. The employer must hire the unemployed worker under a fixed-term or open-ended employment contract. In practice, the young and the long-term unemployed, as well as all those who had previously held short-term "stop-gap" jobs, seem to be denied access to this scheme.

UNEDIC has allocated FRF 1.25 billion (FRF 250 million in 1994, FRF 500 million in both 1995 and 1996) to this programme.

The programme got off to an unpromising start (60 jobs found in four months). In July 1995, the procedure was simplified, generating 5,550 employment contracts by the end of June 1996, mostly with SMEs (fewer than 50 employees). The service sector provided 64% of the jobs. Of the 5,550 jobs, more than 64% involved open-ended contracts. The beneficiaries, 49% of whom were between 25 and 40 years old, were mainly men (71%). The average gross salary was fairly high, at FRF 11,450 per month, as compared with the average reference income of FRF 8,300 for those on unemployment benefit. The scheme was expected to gener-

ate 15,000 jobs in 1996, although this target is not very realistic given the number of employment contracts at the end of June 1996.

In theory, the programme was to have remained in force until 31 December 1996, but the agreement of 19 December 1996 extended cooperation contracts through 1997 and 1998. The maximum number of hirings under the scheme will be 18,000 in 1997 and as many again in 1998 (representing a maximum monthly intake of 1,500). Total funding commitments may not exceed FRF 1.5 billion for the intake in each of the two fiscal years 1997 and 1998.

Overall, this is considered to be a measure which costs little and creates substantial numbers of jobs.

### Job replacement benefit (*Allocation de remplacement pour l'emploi - ARPE*)<sup>4</sup>

ARPE was initiated by an agreement signed on 6 September 1995 by employers' associations, employees' organisations and officials from UNEDIC, the unemployment benefit body. ARPE benefits were in force from 1 October 1995 to 31 December 1996 for payment to salaried employees under 60 years of age with at least 40 years' accumulated contributions to national insurance in return for early retirement where the company has undertaken to hire a job-seeker as replacement.

For the period 1 October 1995 to 31 December 1995, the agreement covered employees born in 1936 or 1937. In 1996, employees born in 1936, 1937 or 1938 were entitled to seek early retirement under the agreement of 6 September 1995. These employees must be able to produce evidence of 160 officially confirmed quarters of contributions to the national pension fund.

Any employee whose retirement has been accepted is entitled to an ARPE benefit guaranteeing him or her an income equal to 65% of the reference salary up to his/her sixtieth birthday. Termination of the contract of employment under the scheme en-

titles the beneficiary to receive retirement compensation from the employer to an amount equal to that of the retirement benefit payable when an employee takes the initiative to retire.

The employer must hire a replacement under an open-ended employment contract, or a fixed-term one if the person retiring was employed under such a contract (the intention is to maintain the same number of hours of work), and must do so within three months following acceptance by the employer of the employee's retirement application. Job applications from young people under 26 years old must be given special consideration.

The FPE, the bipartite fund for promoting jobs, legally instituted by the law of 21 February 1996, and financed by unemployment benefit funds, although not to the exclusion of other sources of finance, was topped up for this purpose with FRF 4 billion from UNEDIC surpluses for the years 1995 and 1996. By the end of the fiscal year, the total cost is likely to be rather more than FRF 8 billion.

The objective was to achieve 80,000 to 90,000 beneficiaries by the end of 1996. But at the end of the year, only about 60,000 ARPE recipients had signed on, at a cost of FRF 8.4 billion. Employment contracts in compensation tended to involve young people (less than 30 years old) and men. In 95% of the cases, the replacement was under an open-ended employment contract.

Even if the quantitative targets were not met, this scheme clearly helps to create jobs for young people, and usually leads to open-ended employment contracts.

The social partners are quite positive about the overall assessment of the scheme, and under a special draft agreement dated 19 December 1996 the partners agreed to open up ARPE to employees born in 1939. For employees born in 1940, there is

<sup>4</sup> Funded by the FPE (*Fonds paritaire pour l'emploi*).

an explicit budget-related condition: the scheme's results, as assessed during the third quarter of 1997, must fall within the limits set by a total budget of FRF 9.3 billion. In any event, the agreement lays down that no new beneficiaries will be allowed into the ARPE programme after 1 January 1999. In order to meet the resulting extra commitments, a special FPE fund allocation (FF 1.6 billion for 1997, FRF 3.6 billion for 1998) has been made. Yet UNEDIC is still very cautious about an extension of the scheme because of the costs it fears may be incurred.

The implementation of the above scheme does, however, confirm the French preference for managing labour supply by removing older workers from the labour market rather than actually seeking to create additional new jobs.

## Conclusions

Making expenditure on unemployment more active remains an employment policy priority in France, where employers and employees alike wish to increase their commitment. However, greater commitment presupposes a choice on the part of UNEDIC to refrain from lowering the contributions payable by employers and employees. Currently, there is debate as to whether an across-the-board reduction in the national insurance contributions paid by employers and employees, which raise the cost of labour and thus ad-

versely affect employment, might not also be effective in some degree.

UNEDIC officials therefore remain guarded on whether unemployment expenditure should be made even more active. For example, the agreement signed on 19 December 1996 on the system of unemployment benefit made no changes to activation policy, but increased benefit from FRF 2,085 to FRF 3,100 and reduced the contributions of both employers and employees.

Alongside this, comparative consideration of the interventionist philosophies of central government and UNEDIC and the schemes implemented have led some elected representatives to raise questions as to the best way of arriving at a new relationship between these two major players, with the goal of a more rational, clearer and more effective employment policy.

To avoid the overlapping of different schemes typical of employment policy in France, there is a need for better policy coordination and more effective role allocation for the two players. Most notably, it has been suggested that UNEDIC should be made responsible for managing all early retirement schemes.

Greater coordination of employment policy is currently seen as being particularly desirable, since the effectiveness of that policy is currently a subject of some debate. The Commission of Inquiry into employment assistance schemes (cf. Commission of Inquiry 1996) set up by the As-

*semblée Nationale* concluded that they were not of any great efficacy in stemming the growth of unemployment in France<sup>5</sup>.

The Commission of Inquiry put forward, on the basis of its findings, four possible options for the future: simplification of schemes and stakeholders, a refocusing of support through closer targeting of recipients, making benefit payments more active, and redirecting employment support to encourage initiative.

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<sup>5</sup> "As it does every year, in 1995 DARES estimated the impact on unemployment of the entire range of measures specifically included in the category of employment support. The number of 27,000 people who would otherwise have been unemployed is less than in previous years. Support for employment creation in the market sector has, however, been a driving force in reducing unemployment, reducing the potential number of unemployed by some 77,000. However, cut-backs in training programmes, re-employment schemes and, above all, early retirement, reflecting the downward trend in redundancies, automatically lead to a negative impact on unemployment levels."



## Active and Passive Labour Market Policies in Ireland

Overall expenditure on the totality of all of the measures listed in Table 1 (both passive and active) amounted to IEP 1,715 billion in 1995, which was equivalent to 4.44% of GDP. The largest of the individual categories in terms of expenditure was unemployment compensation, which accounted for 2.55% of GDP in 1995. If this is combined with expenditure on measures related to early retirement, the figures indicate that the outlay on "passive" measures as a whole accounted for over 2.7% of GDP. This leaves a balance of almost 1.75% of GDP expended on the other "active" measures indicated.

Among the different active measures listed, the largest in terms of expenditure in 1995 was direct employment creation (public or non-profit), which accounted for over 0.7% of GDP. The broad area of training, covering both adult training and measures for youth, accounted for about a further 0.5% of domestic output, followed by labour market administration with a proportion of nearly 0.28%. Schemes involving subsidised work in the private sector were also of significance, for which the related GDP proportion was just under 0.18%.

### Changing patterns in labour market expenditures

Table 1 shows that the public outlay on passive activities declined between 1991 and 1995, from 2.88 to 2.70% of GDP, while overall expenditure on active programmes rose from just over 1.3 to 1.75%. The former reduction arose mainly as a result of the fall in unemployment

which occurred during this period. The increase in expenditure on active measures can be attributed to categories covering direct employment creation and private-sector employment subsidies. Expenditure for the former category increased three-fold from 0.24% of GDP to over 0.7%. The relative expenditures on employment subsidies, even though smaller, rose at a similar pace from 0.06 to 0.18% of GDP. In contrast, expenditure on training (both for adults and youths) declined somewhat relative to GDP between 1991 and 1995, as did expenditure on vocational rehabilitation for the disabled, which decreased markedly, from 0.15 to 0.09% of GDP.

### Activation

Returning to the question of activation, in Ireland compulsion or sanctions are not normally used to "activate" measures by effecting the transfer of persons from the unemployment register to other manpower programmes. Such transfers are invariably voluntary, although there may be financial incentives, such as training allowances set at a higher level than unemployment compensation.

The system of unemployment compensation does, of course, involve legal sanctions. The basic system, as in most other EU countries, involves two elements – insurance-based Unemployment Benefit (UB) and a means-tested system of Unemployment Assistance (UA), which is funded out of general taxation. UB lasts for up to fifteen months for those aged between 18 and 66 years and for up to six months for persons aged less than 18 years. To qualify one must, in terms of the regulations, be unemployed, capable of, available for and actively seeking work, and satisfy the Social Insurance contribution conditions. The latter stipulate

that one must have paid SI contributions for 39 weeks to establish initial entitlement, and must have either paid or have had credited 39 weeks' contributions in the last complete tax year (April–March) before the calendar year in which one is claiming. If benefit is exhausted, it is re-established by working and paying contributions for a further 13 weeks.

Persons who do not qualify for UB, or have exhausted their entitlement to same, may receive Unemployment Assistance (UA), for which the benefits are somewhat less than those for UB. The job-search and other conditions under which UA may be obtained are similar to those which apply for UB. The UA means test applies to any income which the individual or spouse/partner has, and takes assets into account, except the family home. Both the basic UA payments and allowances for dependants are subject to means-related limits. UA is payable for as long as the individual satisfies the necessary conditions.

In addition to UA, there are a number of other support systems which fall under the general heading of "social assistance". These include both general purpose supports (Supplementary Welfare Allowances) and others which are specific to certain groups, such as single parents or carers. None of these can be regarded as falling within the scope of labour market measures.

One recent development in Ireland which is of relevance to the activation issue concerns the application of the regulations governing the receipt of unemployment compensation. This goes back to controversies related to abuses of the system following the publication of a Central Statistics Office (1996) report which revealed that over 10% of those on the unemployment register were in full-time employment. Arising from

**Table 1: Public Expenditure on Active and Passive Labour Market Programmes (in million IEP and as percentage of GDP)**

	1991		1995	
	in million IEP	in % of GDP	in million IEP	in % of GDP
1. Administration (including the Employment Service)	86.3	0.305	108.0	0.280
2. Labour market training	69.1	0.244	86.9	0.225
of which:				
(a) training for unemployed adults	41.3	0.146	62.2	0.161
(b) training for employed adults	27.8	0.098	24.7	0.064
3. Youth measures	83.4	0.295	98.0	0.254
of which:				
(a) measures for unemployed and disadvantaged youth	35.0	0.124	42.8	0.111
(b) support for apprenticeships and related forms of general youth training	48.4	0.171	55.2	0.143
4. Subsidies to regular employment in the private sector	16.7	0.059	67.9	0.176
5. Support for unemployed persons starting enterprises	4.5	0.016	6.0	0.015
6. Direct employment creation (public or non-profit)	68.9	0.244	270.6	0.701
7. Vocational rehabilitation for the disabled	41.2	0.146	35.0	0.091
Active labour market programmes, total	370.1	1.309	672.40	1.742
8. Unemployment compensation	789.6	2.789	985.7	2.553
9. Early retirement for labour market purposes	27.0	0.096	57.3	0.148
Passive labour market programmes, total	816.6	2.885	1,043.0	2.701
Total (active and passive labour market programmes)	1,186.8	4.194	1,715.2	4.443
GDP	28,309.5		38,616.0	

Source: Department of Enterprise and Employment. Dublin.

this, the Government initiated procedures to rectify the position, which would appear to have resulted in sizeable numbers quitting the register. In the year to February 1997, the unemployment register fell by 23,000 (a drop of 8%), an outcome which has been widely accepted as being attributable to the more stringent application of the regulations rather than to the buoyant state of the economy<sup>1</sup>.

Another relevant development concerns the numbers receiving unemployment compensation and involved in part-time work. Until relatively recently this was not a significant phenomenon, but the number has now risen to nearly 30,000, or over 10% of those on the unemployment register. Financial reductions to benefit are applied pro rata on the basis of the number of days worked in the week.

## Labour Market Measures and Activation

Many labour market programmes involve "activation" to some degree,

and it is clearly not possible to describe or assess all of these activities. Let us therefore consider in more detail those active labour market programmes which have increased substantially in size in recent years and try to assess the extent to which these measures can be regarded as promoting "activation". This text gives an insight into recent changes in labour market policy with an emphasis on activation rather than presenting a complete description of all activation measures.

Turning first to the category of direct employment creation, virtually all of the expansion recorded in Table 1 relates to the Community Employment programme operated by FAS, the National Employment and Training Authority. Between 1991 and 1995, expenditure on this measure rose from IEP 69 million to IEP 271 million and the annual inflow of participants (participant starts) rose from 17,000 to 55,000. The scheme, which involves the provision of part-time work and a training module over a 12-month period, is restricted to persons who have been in receipt

of UB, UA or Lone Parents Allowance for at least a year; these conditions are somewhat less restrictive for disabled persons and members of the Travelling Community. If the applicant is 35 years or over and has been in receipt of these allowances for at least three years, then the employment duration can be extended to up to three years. The projects are usually carried out by public agencies or non-profit organisations (such as community groups) and generally relate to areas such as the environment, community advice and support, community recreation, tourism, health and social services. The participants are allowed to hold other part-time jobs, in fact they are encouraged to seek such employment. The amounts paid to participants on an equivalent daily basis are normally greater than the payments they would receive as unemployment compensation: they can also retain

<sup>1</sup> Prior to this, even though economic conditions were broadly comparable, the numbers on the register were rising, while the unemployment estimates derived from the Labour Force Survey were falling.

their secondary benefits (such as medical entitlements) during their involvement in the scheme. This measure evolved from a previous one, the Social Employment Scheme (SES), which did not involve training and did not allow participants to retain their secondary benefits.

The scheme can be broadly regarded as fulfilling the "activation" requirement in the sense that the great majority of the participants were previously on the unemployment register and were induced to leave it by participating in the measure. This does not apply in quite the same way to persons who were previously in receipt of Disablement Allowances or Lone Parent Allowances. However, in these circumstances participation does represent a different, but still desirable, form of activation in the sense that persons receiving these supports were induced to relinquish involvement in a more passive state of dependency outside of the labour force and transfer to an active programme.

With regard to private-sector employment subsidies, a significant development underlying the expansion in this area has been the introduction in 1993 of the Back-to-Work Allowance (BTW) operated by the Department of Social Welfare. This measure involves the retention, following re-employment, of a decreasing proportion of benefit by a person who was previously on UB, UA or Lone Parents Allowance for at least a year. Participants, who must satisfy a means test and be aged 23 years or over, can retain 75% of benefit in the first year of employment, 50% in the second year and 25% in the third. They can also retain their secondary benefits. Public expenditure on this measure was in excess of IEP 25 million in 1995; the related inflow of participants in that year was about 10,000.

There were other employment subsidy-type measures for which significant increases are recorded in the 1991-1995 period. However, not all of these can be regarded as fulfilling the "activation" requirement as stip-

ulated. For example, employment grants paid to development agencies<sup>2</sup>, which accounted for some IEP 16 million of the overall increase of IEP 51 million in expenditure on employment subsidies between 1991 and 1995, are not necessarily required to relate to persons who were previously unemployed and the schemes do not, therefore, promote "activation" in the sense used in this Report.

Finally, in the context of employment subsidies, it is worth referring briefly to two very recent developments. In 1996, FAS initiated the JOBSTART scheme, targeted at those unemployed for a very long time. This measure involves the payment of a weekly subsidy (IEP 80) to private employers who engage persons who have been on the unemployment register or in receipt of Lone Parents Allowance for at least three years. Members of the Travelling Community and disabled persons recommended by the National Rehabilitation Board (NRB) are also eligible.

A second relevant measure is WORKPLACE, again initiated by FAS in 1996. It involves the arrangement of spells of employment (up to five weeks) for persons who have been receiving unemployment payments or Lone Parents Allowance for at least six months. During this period the participants retain their unemployment benefits. There are few administrative formalities for the employer, who is not obliged to provide a guarantee of continued employment beyond the original spell of work. However, it is hoped that a reasonable proportion of participants will be so retained, and even if they are not, it is expected that the experience should be beneficial in obtaining other employment.

In relation to training activities, even though public expenditure in this area (when taken as a proportion of GDP) declined slightly over the period 1991 to 1995, there were elements within it which can be deemed to involve "activation" and which did undergo significant expansion. The most notable of these is the Vocational Training Opportunities

Scheme (VTOS), for which expenditure increased from less than IEP 4 million in 1991 to over IEP 25 million in 1995 (the number of participants rose from less than 700 to nearly 3,500). The Scheme, which is run by the Department of Education, is primarily targeted at persons who have been on the unemployment register for at least a year and who are over 25 years of age, although it does include some younger persons. Many of the participants sit for Second-Level School Certificates (or parts thereof). The duration tends to be between six months and a year, but it can be longer, depending on the individual objective involved.

One might summarise recent developments in regard to activation by describing them as principally directed at countering long-term unemployment, either through inducements to employers to recruit the LTU or by attempting to enhance the capabilities of long-term unemployed persons through either training or work experience. The fact that the most recent measures have tended to be targeted at the very long-term unemployed is indicative of just how intractable this problem has proved to be. This applies especially in Irish labour market circumstances where the potential for labour force growth is substantial and where, prior to the recent employment growth, oversupply was a serious problem and could become so again in the event of a downturn in the economy. In these circumstances the LTU, who are mainly in the older age groups, tend to get pushed further down the queue of jobseekers, as employers tend to prefer persons with more advantageous employment profiles, or younger persons with higher levels of educational attainment.

<sup>2</sup> These grants are given in respect of new jobs created through new overseas investment in manufacturing and internationally traded services or through expansion in indigenous manufacturing services.

## Evaluations

It is not possible to present substantive results of evaluations in the context of activation procedures because few have been carried out. However, an evaluation<sup>3</sup> of the BTW with the activation aspect in mind was conducted in 1995, summary results of which were presented at the MISEP meeting in Dublin on 3 and 4 October 1996. These results indicate that some two-thirds of participants were in self-employment with the remainder as paid employees, an outcome that had not been foreseen. Even though the evaluation did not cover the full period over which (diminishing) benefits continued to be paid, the results indicated that 90% of the self-employed and some 66% of employees had survived to the beginning of the third year. It was estimated that 40% of employees and about 50% of persons in self-employed activities would be in sustainable employment at the end of the programme.

More broadly based evaluations of other active labour market programmes have been conducted in Ireland, however, and it is appropriate to comment on some of these.

A substantive evaluation covering a range of different programmes was carried out by Sexton and O'Connell (1995) on behalf of the EU Commission (DG V) and the Department of Enterprise and Employment. This study involved analysing the post-programme performance of a sample of over 3,200 participants who exited from nineteen different training and employment schemes between April and July 1992. The results indi-

cated significant variations between the schemes involved. Programmes with more direct links to the labour market, such as skill training, private-sector employment subsidies paid to employers and aids to enter self-employment, yielded more positive results in terms of the likelihood of obtaining a job than employment-creation schemes or programmes targeted specifically at the long-term unemployed. For example, over 60% of persons who attended skill-training courses were in employment 18 months after the termination of the scheme; in contrast, the corresponding proportion for programmes targeted on the long-term unemployed, whether these were in the form of sponsored employment or training, was as low as 20% or less, although an additional 30% of these clients were engaged in further training or education activities. An evaluation of the VTOS measure for the long-term unemployed was carried out for the Department of Education in 1994 (cf. WRC Consultants 1994), the results of which were broadly similar to those indicated above, even though this evaluation placed considerable emphasis on clients transferring to further education and training as criteria in assessing the success of programmes.

These results must, however, be regarded as somewhat crude in the sense that they do not take account of relevant aspects such as variations in the characteristics of participants in different schemes, deadweight (i.e. what would have happened to participants in the absence of the various supports) and issues such as selection bias (whether the schemes attracted

better-motivated clients). Further studies carried out in the wake of the above-mentioned survey have included provisions designed to take such considerations into account. While these latter analyses could not be carried out for individual measures, they did involve broad classifications by programme type. Thus, a recent paper by O'Connell and McGinnity (1996), which took account of aspects such as those referred to, analysed the post-programme performance of young people aged less than 23 years and reaffirmed the finding that programmes with strong linkages to the labour market (such as skill training and employment subsidies) were more successful in raising the job prospects of participants and increasing their earnings potential over the longer term.

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<sup>3</sup> Carried out by WRC Consultants, Dublin.



## Italy

### Active and Passive Labour Market Policies in Italy

According to OECD data, among European countries Italy has the lowest level of expenditure on labour market programmes (1.8% of GDP, compared to a European average of 2.9% in 1992<sup>1</sup>). Active measures, on the other hand, have a weight only a little lower than the European average (0.90% of GDP, compared with 1.08%).

Income-support measures represented only 0.87% of GDP in 1992, compared to the European average of 1.85%. This is due mainly to the fact that the level of ordinary unemployment benefit is very low and a relatively low percentage of the working population has the right to income support during unemployment spells (only 20% of the unemployed, compared with an average of 40% in the European Union, according to Eurostat Labour Force data).

Passive measures are characterised by the large number of benefits available and the very different treatment accorded to workers of different categories (see Table 1)<sup>2</sup>. Income support does not depend on the labour market position of unemployed workers, but on the characteristics of the job lost (sector, size of firms, type of employment relation) and on the modality of job loss (either collective or individual dismissals). Workers coming from medium-sized or large industrial and commercial firms<sup>3</sup> and dismissed temporarily or permanently due to restructuring or crisis, and building-sector workers are the most favoured by the Italian system, while workers in small firms and in most service firms are eligible only for the much less generous ordinary unemployment benefits. Those with no prior employment experi-

ence and the self-employed are not eligible for any benefit at all. Moreover, Italian measures favour workers at risk of losing their jobs with various generous measures (CIG – *Cassa integrazione guadagni* [short-time work scheme, either regular CIGO or special CIGS, early retirement schemes, solidarity contracts]), rather than all those who have lost their job.

More recent data derived from different national sources (Labour Ministry, INPS, Istat and Budget Ministry) and presented by a Technical Commission on the Reform of the Welfare State in Italy (the Onofri Commission) show that income-support measures in 1995 accounted for about 0.94% of GDP (see Table 2b, p. 45).

Intervention in the area of active policies is scarce and often ineffective, due in part to the absence of a clear definition of roles for the different institutions involved in labour market policies. Active measures are centred around recruitment subsidies through the reduction of social security contributions, measures for the young (vocational training and work-training contracts, support for business start-ups) and, since 1991, temporary work schemes for the long-term unemployed. There is very little use of active policies aimed at helping the unemployed to find a new job in the private sector. Job-creation measures and placement services are virtually non-existent due to the ineffectiveness of public employment services and the legal prohibition of private agencies. The main active measures (placement services, hiring subsidies for the young, vocational training and temporary work schemes) accounted for only 0.39% of GDP (see Table 2a, p. 45); if general hiring subsidies in Southern Italy are included, this percentage goes up to 1.08% of GDP<sup>4</sup>.

### The Activation of Passive Policies

Total public expenditure for income-support measures as a percentage of GDP declined in the last recession relative to the previous one. This is due to an increase in the contribution from the private sector (for CIGO and ordinary unemployment benefits) and a lower use of the most generous assistance measures. While in the 1980s CIGS and early retirement schemes accounted for up to 70% of total income-support expenditures, since 1991 the incidence of insurance benefits has increased to 50%. Differences in income support during unemployment have also been reduced since 1991 by the stricter regulations governing CIG, the gradual extension of CIG and mobility procedures (i.e. the “mobility lists” introduced to “activate” those on CIG) to service sectors, and the increase in the level of ordinary unemployment benefits.

In addition, in the 1990s, the attention given to active policies for the unemployed has increased. Especially at the local level, regional employment agencies and local institutions have developed employment servic-

1 1992 is the last year for which data are available for Italy in the OECD statistics.

2 For this reason the Italian position in international comparisons depends largely on which benefit is considered. Average benefit indicators are also misleading due to the major differences in benefit levels and duration among different segments of the labour force.

3 Large commercial firms were included only in 1991. During the 1992–94 recession, benefits were temporarily extended to workers in some other service sectors and to commercial firms with at least 50 employees. A detailed description of income-support measures in Italy, and their evolution in the 1980s, may be found in Franco (1993), Tronti (1990) and De Luca & Bruni (1993).

4 Since 1996, the importance of these incentives has been declining due to EU opposition.



es for those on CIG or on the mobility list. Government has promoted this trend by legislation that favours the diffusion of temporary jobs aimed at providing a temporary placement to those whose benefit is expiring. With the reform of the CIG in 1991, some measures of "activation" to help those on the CIGS and the mobility lists have been introduced, but are little used. The unemployment benefit may be used as a "re-employment bonus" if the unemployed person starts a new job before benefit expiry. In addition, the benefit may be used as a start-up sum by those choosing self-employment or as a wage-cost subsidy for firms that employ workers from the mobility lists. People on mobility benefits who accept part-time or fixed-term jobs are temporarily suspended from mobility allowances but are re-eligible on the termination of their contract.

The tripartite agreements of 1992 and 1993, besides dealing with wage-bargaining issues, represented an important step in providing a reference model for the development and the realisation of reforms in the area of labour and welfare policies. This agreement called for efforts to activate new labour market instruments, a generally more effective operation of the labour market as well as a new approach to action in the disadvantaged and crisis areas (*Territorial Pacts - Patti Territoriali*).

Not many improvements have been achieved in the area of active labour market policies, however: employment services are still underdeveloped; training and retraining activities suffer from institutional confusion, with no clear definition of roles and competences among the different institutions involved; territorial pacts are still to be implemented. The programmes most frequently used are recruitment subsidies, temporary work schemes and incentives to self-employment, programmes which are usually not carefully designed and often involve large displacement effects (Gui 1994). The absence of monitoring and evaluation makes it difficult to determine

the measures that are most effective for the Italian labour market and to refine current intervention.

There is, moreover, a regional dualism in the effectiveness of labour market policies. While active labour market policies are more effective in the most developed areas (Centre-North), passive measures predominate in less developed Southern Italy. However, since the most generous schemes are related to past earnings, it is the North that receives the highest levels of average per capita assistance (De Luca & Bruni 1993). The less efficient functioning of local institutions in Southern regions hinders the potential effectiveness of active policies. Works-sharing programmes are less frequently used in the South because of the low levels of family income (CLES 1995).

### Employment services

The management of the Italian public employment service is characterised by a highly centralised and formal organisation, with little involvement of the social partners at the local level. This bureaucratic management is more concerned with applying formal procedures than with supplying effective services. Furthermore, there are often conflicts over competences between the different administration levels (central, regional and local), which cause long delays and inefficiencies. For all the above-mentioned reasons, the placement market share of the public employment service is not more than 10-15%. The failure of these services is also due to the very limited central resources available. Public expenditure on placement and vocational services represents only 0.1% of GDP (Eurostat 1994), and public spending on the placement of unemployed workers represented only 0.02% of GDP in 1994 (OECD 1995). According to Ministry of Labour data, in 1996 90% of public expenditure on the public employment service was used to pay the wages and salaries of the people employed by these services.

In recent years, many different local initiatives have developed (above all in the North and Centre of Italy), often supported by local administrations and/or the social partners, with the aim of developing a well-functioning placement and vocational counselling service. It is not possible, however, to measure the dimension of the diffusion (and the results) of local programmes, due to the lack of data and of monitoring and evaluation systems.

### Vocational training

Italy invests very few resources in training, and only 12% of the population over 15 years old is involved in training activities. In 1995, estimated spending in this area accounted for 0.15% of GDP; EU funds account for about 55% of regional spending on vocational training measures. The inefficiency of the system of vocational training in Italy is also shown by the large difference between "planned" and "actually used" financial resources: in particular, Italian regions are not able to use all the European funds earmarked for Italy (ISFOL 1996). For example, according to the Ministry of Labour, between 1994 and 1996 Italian Regions spent only 42% of the "engaged" European funds (this corresponds to 17% of the "planned" resources).

The Italian vocational training system is mainly targeted at those who have dropped out of compulsory education. For this reason, it consists mainly of initial or basic training oriented largely towards young people. Few resources are geared towards adults, especially if they are already employed, or towards lifelong training.

Furthermore, vocational training is the responsibility of the Regions, while employment services are provided by the Labour Ministry. The lack of coordination and mutual information between regional administrations and local employment services has often meant that training programmes are not linked to the needs

**Table 1: Income-support Measures for the Unemployed: Non-agricultural Sector**

Eligibility	Benefits	Maximum duration	Contribution from firms and workers (in percentage of gross earnings)	Number of workers in 1994	Expenditure in 1994 <sup>a</sup> (billions of ITL)	Contribution/Expenditure (%)	
<b>Temporary lay-offs</b>							
Ordinary Wage-compensation Fund (CIGO) <i>Cassa Integrazione Guadagni Ordinaria</i>	Workers temporarily laid off by industrial and construction firms	80% of last wage for first 6 months	12 months; 24 months in EU Obj. 1 and Obj. 2 areas	Ordinary contribution: 2.20% for firms with more than 50 employees; 1.90% for smaller firms; additional contribution of 8 and 4% respectively in case of use. Construction firms: ordinary contribution 5.2%, additional 5%	69,267 <sup>c</sup>	1,717	197
Special Wage-compensation Fund (CIGS) <i>CIG Straordinaria</i>	Workers laid off by industrial firms with more than 15 workers and by commercial firms with more than 200 workers, due to restructuring, reorganisation or crisis	80% of last wage up to a maximum of ITL 1.5 million in 1995	24 months; renewable twice for 12 months in cases of restructuring or reorganisation; once in cases of crisis	Ordinary contribution: 0.6% from the firm, 0.3% from the worker. Additional contribution: 4.5% for firms with more than 50 employees and 3% for smaller firms. This contribution doubles after 24 months of CIGS	175,215 <sup>c</sup>	2,332	50
<i>Contratti solidarietà</i> (Solidarity contracts)	Workers in industrial firms and in some service firms with at least 50 employees until Dec. 1995. It must be used to prevent lay-offs	75% of wage loss due to reduction of working time up to 1995. Then 50% in Northern Italy, 60% in the South	24 months, renewable for another 24 months in the North and 36 months in the South	None	50,220	323	0
Part-time and early retirement	Older workers in firms that are eligible for CIGS	Transformation of full-time into part-time and retirement benefits to compensate	No time limits. Benefits end when worker goes back to full time or is dismissed	None	n.a.	n.a.	0
<b>Collective dismissals</b>							
<i>Mobilità</i> (Mobility) benefits	Redundant workers either dismissed from industrial firms with more than 15 employees or from commercial firms with more than 200 employees, or coming from CIGS. In 1993-95 mobility benefits were temporarily extended to other service sectors	80% of last wage up to a max. of ITL 1.5 million in the first 12 months. 80% of CIGS benefits from 13th month	12 months, renewable once for workers over 40 years; twice for workers over 50 at a level 20% lower	Ordinary contribution: 0.3% of total wages. Additional contribution: 6 times the monthly benefit paid to each worker. In case of collective agreements, this sum is halved. If no use of CIGS, it goes up to 9 monthly instalments	260,469	3,278	37
Special benefits	Workers dismissed by construction firms	80% of last wage, maximum: ITL 1,122,000	From 3 to 18 months. Up to 27 months in the South	Ordinary contribution from firm: 0.8% of wages corresponding to insured workers	n.a.	Included in the ordinary benefit figure	Included in the ordinary benefit figure

<i>Lavori socialmente utili</i> (temporary jobs)	Workers exhausting their CIG or mobility benefits; long-term unemployed	Mobility or CIGS benefit + premium of at least 10% of benefit; if not eligible for CIGS or mobility benefit, hourly wage of ITL 7,500, max. ITL 800,000 per month	12 months	75,221 <sup>d</sup>	n.a.	0
<b>Individual dismissals</b>						
Ordinary benefits	Workers dismissed individually or collectively, but not eligible for mobility benefits. At least 2 years of contribution or 78 days for seasonal workers	30% of last wage; will rise to 40% in 1996; max. amount: ITL 1,500,000 in 1995	6 months. May be extended to 12 months in the construction sector	408,000 <sup>e</sup>	7,297	51
<b>Labour supply reduction benefits</b>						
Early retirement schemes	Workers at least 55 years old (men) and 50 years old (women) (50 and 47 respectively in steel industry), employed in industrial enterprises receiving CIGS, with at least 15 years of social security contributions	5 to 10 years of contributions paid by the State		103,217	3,682	10
<p>a 1994 estimates.  b Both direct and indirect spending.  c Estimates of equivalent workers at zero hours.  d Projects approved by October 1995 with planned workers.  e 1994 estimates based on full-year equivalent.  Sources: Demekas (1995); INPS (1995); Del Boca (1995); Confindustria (1995); Guarna (1995).</p>						

of local labour demand and other labour policies. In the long run, this has generated a waste of resources.

In order to overcome the lack of coordination between training policies and labour demand, since 1993 new schemes have been developed that offer young people and unemployed involved in training courses the possibility of work experience of a few months (usually four) in local firms (*tirocinio*). The usual delays in the practical definition of such schemes have, up to now, constrained their development and they are still in an experimental phase.

### Work-training contracts for young people

Employers who temporarily hire people aged under 32 (in the case of work-training contracts, *contratti di formazione e lavoro* - CFL) or under 24 (in the case of apprenticeships) are entitled to reductions in social security contributions which differ according to the location, the sector of economic activity and the type of contract involved. The aim is to improve the professional skills of young people. These contracts should include both practical work ("learning by doing") and formal training, the amount of which may vary with the type of contract. Subsidies have been reduced in the 1990s.

Monitoring and evaluation research has shown that CFL have lowered the age of entry into employment, the effect has been greater for men than for women and was also greater in the early years of implementation, the mid-1980s.

These contracts have many shortcomings. Monitoring shows a very small incidence of real vocational training: employers hire young people under this kind of contract to save money and to meet temporary changes in demand rather than to contribute to their professional training (Bulgarelli-Giovine 1988; Scandizzo 1991). Secondly, the lack of a clear targeting besides age (which has been increased to 32 years) increases the probability of deadweight and

substitution effects. In fact, recent monitoring of CFL shows a pro-cyclical pattern, with sharp declines during downturns and a greater use of such contracts in the low unemployment regions of the North. The restrictions in the use of these contracts have also reduced the number of low-skilled young people hired under such contracts (-33% between 1987 and 1995) and increased that of highly educated people (young people with university degrees have increased by 11%) (ISFOL 1996). Thirdly, the lack of an official certification of the training received is not conducive to take-up. Finally, the two schemes for young people compete with each other: since the introduction of CFL, the use of apprenticeship contracts has declined.

### Temporary jobs schemes (*lavori socialmente utili* – LSU)

LSU are one of the main instruments of active labour policy used by the Italian government in recent years. Under these schemes, workers on CIGS, those on mobility lists and the long-term unemployed may be employed for up to two years in social works by public administrations, public enterprises or other institutions authorised by the Ministry of Labour. Workers who refuse to participate without justification risk losing their benefits for the duration of the project. In fact, up to now, these measures have been organised on a voluntary basis and are not used to test for benefit abuse. It is no coincidence that these measures have failed in Northern Italy, where many unemployed workers find an occupation in the black economy and wait for the end of the subsidy before regularising their position. On the other hand, in Southern Italy they are used as a way to extend income support for the long-term unemployed and risk creating a pressure for permanent jobs in the public sector.

Non-official estimates by the Ministry of Labour show that in 1996 about ITL 1,170 billions were spent

on these kind of jobs (equivalent to 0.06% of GDP). The new "Labour Agreement" signed by the government, the unions and employers' associations in September 1996 establishes that another ITL 1,000 billion will be used to sustain socially useful projects. During 1995, 65,570 unemployed were involved in such schemes. Most schemes were in fact largely passive measures with little training content.

### Support for business start-ups

The most important measure at national level is the promotion of business start-ups by young people in depressed areas. In Italy, this policy is considered one of the most innovative and efficient measures for the development and the employment growth of Southern Italy. In fact, this policy, activated in 1986 only for Southern Italy, has since then been re-financed and in 1994 extended to other depressed areas of the Centre and North (Objective 2 and 5b areas of the European Social Fund). In the absence of an impact evaluation study, it is difficult to assess the net impact of such a policy. Monitoring data on enterprises created and their survival rates show, however, good performances, even if the cost per person employed is rather high.

This success has been followed at the local level by many Italian Regions.

### The Current Debate

The characteristics of "social shock absorbers" in the form of employment-maintenance schemes in Italy, together with the rigidity of hiring and firing regulations and constraints on employment contracts, have led to major distortions in the Italian labour market. The Italian literature (see selected bibliography) has extensively discussed the effects of the unemployment compensation system, with special attention given to the CIG scheme, on the Italian labour market.

On the other hand, income-support measures during unemployment have also had positive effects:

- They reduced adjustment costs during recessions and the costs of industrial restructuring both for the workers and for the firm. Firms are able to keep their labour force during downturns (labour hoarding) and have access to high working-time flexibility, without bearing the full costs (either financial and/or social) associated with it. Up to the mid-1980s, such costs were largely externalised to society at large. According to some authors (Giavazzi & Spaventa 1989), CIG and other income-support schemes have been a way to transfer resources to profits; in this way they have financed industrial reorganisation and helped to improve the long-term performance of the Italian industrial sector.
- These measures have also greatly helped to reduce industrial and social conflict, especially in Southern Italy, where income support may last for many years (sometimes more than ten), and during extended industrial restructuring phases.
- They have encouraged the decentralisation of collective bargaining at firm level on more flexible working time and working conditions.
- The costs for public finances have been lower than in other countries due to the low degree of benefit coverage (it must be noted, however, that there is no clear measure of the total costs of this system).

On the negative side, the main costs connected with the use of the CIGS, mobility benefits and early retirement schemes have been:

- "Freezing" employment and reducing labour turnover (Tronti 1990). According to Tronti's estimates, a 1 percentage point increase in the number of hours covered by the CIG resulted, in the 1972-88 period, in a 0.75% slowdown in industrial hiring. This

worsened the segmentation of the Italian labour market, discouraging labour mobility for protected workers and increasing the difficulties in finding "secure jobs" for workers with little or no work experience (in particular those in search of a first job). In addition, the lower risk of income loss has increased the power of insider workers in the highly unionised sectors by reducing competition from unemployed outsiders. This has increased real wage rigidity.

- These measures have also contributed to the expansion of the black economy: workers on CIG or on mobility and early retirement schemes have no interest in giving up their generous benefits by finding a regular job: it is more convenient and rational both for the firm and the worker to work irregularly at least for the period during which there is a right to a benefit. This is also due to the inefficient system of control.
- The long duration of CIG and mobility benefits has increased workers' dependence on the subsidy and thus promoted long-term unemployment.
- The greater generosity of mobility benefits (linked to collective dismissals) in relation to unemployment benefits (linked to individual dismissals), together with the lower costs and risks of collective dismissals in relation to individual dismissals, has induced firms (in agreement with trade unions) to favour employment adjustment patterns based on mass dismissals, rather than individual adjustments.

The debate on labour policies, unemployment benefits and income-support measures shows a wide agreement on the need for a rapid reform of the entire Italian system. The income agreement of July 1993 included a provision on the necessity of raising the level of ordinary benefits to 40% of previous earnings and to revise the entire income-support system in order to extend insurance benefits to areas not covered (e.g.

Employment services	0.03
Vocational training	0.15
- national funds	0.07
- European funds	0.08
Work-training contracts (CFL)	0.07
Apprenticeship	0.07
Socially useful jobs (LSU)	0.06
Total	0.39

	Spending	Contributions	Total
1990	0.63	0.21	0.84
1991	0.65	0.23	0.88
1992	0.7	0.33	1.03
1993	0.8	0.36	1.16
1994	0.77	0.35	1.12
1995	0.6	0.34	0.94

*Source: Onofri Commission (1997).*

the service sector and small firms). In addition, the stricter regulation of CIG and other welfare benefits since the early 1990s, in the presence of reduced resources for the development of Southern Regions<sup>5</sup>, is creating social conflict in the less developed areas of Southern Italy. Finally, the privatisation of public-sector enterprises currently under way requires the extension of unemployment benefits and policies to former public-sector workers.

The aim, as in other countries, is to design a system that adequately supports the unemployed, without, however, reducing the incentive to search actively for a new job and to accept existing employment opportunities. An additional element is the need to restrain public expenditure. The debate is, however, at an initial stage, and it is not at all clear how the system will be reformed, either through minor adjustments of existing measures, or by a more radical reform. A major issue is, however, the capacity of the public administrative structure to become more effective and efficient in the management of labour market policies.

The most recent proposals come from a technical commission created by the government (known as the "Onofri Commission") to study the

Italian welfare system and put forward reform proposals. As far as labour market policies are concerned, the Commission makes three main demands:

1. Radically reduce the number of benefits now available, extend the insurance benefit to all those out of work and introduce strong incentives for active job search and skill acquisition:

A new three-level system is proposed: an unemployment benefit to insure against the risk of losing one's job, an allowance for temporary lay-off or reductions in working hours and an assistance benefit for low-income groups.

The benefits for workers who are temporarily suspended should be entirely financed by social security contributions paid by employers and workers and should represent, on average, 70% of gross wages. The rate of coverage should decrease over time and the benefit should last no longer than 12-18 months.

<sup>5</sup> Development policies for Southern Italy were radically revised in the early 1990s due to tight budget constraints, EU directives on regional and industrial policies and the changed attitude towards extraordinary intervention in Southern Italy.

The general unemployment benefits for workers who have lost their jobs should be financed mainly by social security contributions and only partly by taxes. Job-search requirements should be tightened: unemployed people will be eligible only if they participate in employment service schemes and if they are prepared to accept any other new job, even if it is a fixed-term one.

With the rise of long-term unemployment, a new measure ought to be created for those whose insurance benefit has expired and who are in difficult conditions (assistance benefit). This should reduce the improper use of other instruments (invalidity pensions, maternity leave, unemployment benefits in the agricultural sector, long mobility allowances, etc.). Assistance benefits may be differentiated according to personal and family conditions and be linked to all those active measures that increase the employment probabilities of the long-term unemployed.

Early retirement schemes should be abolished, and part-time contracts for older workers should be promoted instead.

First-time jobseekers should be supported by measures other than unemployment benefits. For example, their employment opportunities may be promoted by greater wage flexibility and by active policies linked to the vocational training and education systems.

2. Improve the vocational training system and reform work-training contracts:

The reform should involve the following aspects:

- the improvement of post-college training;
- the introduction of an effective training period for young people hired under particular contractual forms (mainly the work-training contract (CFL) and apprenticeship);
- the reform of temporary work schemes (LSU): the benefit paid to the unemployed adults involved must really be used to train (or re-

train) them in order to promote their re-employment as soon as possible;

- the design of a continuous training system for employed workers in order to improve their skills and to promote their professional mobility.

Firms must be actively involved in the financing of training. In addition, the public funds currently used to unconditionally reduce social security contributions should be converted into a new system rewarding those firms involved in training programmes. With regard to apprenticeship contracts, a recent government proposal calls for a minimum commitment to training by firms (140 hours/year).

3. Improve the effectiveness of labour market intervention by creating new employment services:

A prerequisite for improving the effectiveness of labour market intervention is a more efficient administration and a transparent structure of intervention, with a clear distinction of roles and responsibilities among the different institutions involved and incentives for the coordination of passive and active measures, the diffusion of experiences in the area of active policies and their monitoring and evaluation.

The decentralisation of labour market policies at the local level, the integration between passive and active measures and the possibility of private and public coordination at the local level may promote a greater responsibility and efficacy in the use of the available funds.

This issue is particularly important in Italy, and the Commission stresses the need to decentralise employment services to the local level (regions and provinces) and to integrate passive and active measures within the new employment services, which should supply an extended range of services: information, training, counselling and placement. The public monopoly on placement should be abolished.

One relevant aspect in this respect is the revision of the tax-collection mechanism: if local authorities (regions) have competence in the management of labour policies, they should also have a greater fiscal autonomy (Geroldi 1995). Here, the problem is how to define the areas of local competence and the distributive mechanism necessary in order not to penalise less-developed regions.

The recent (March 1997) parliamentary approval of the decentralisation of the Labour Ministry's peripheral placement offices and regional employment agencies represents one important step in this direction, even if the more delicate issue of the public monopoly on placement is still under discussion.

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## Luxembourg

### Active and Passive Labour Market Policies in Luxembourg

According to the OECD methodology, Luxembourg spends only 0.24% of GDP on active labour market policy, while the European Union average is about 1.10%. However, Luxembourg also has the lowest unemployment figure of all the Member States. In 1996, just 5,300 persons were registered unemployed, only 3% of the active population against an average of almost 11% for the Union. There has also been uninterrupted employment growth, even during the recession. Even so, unemployment has risen in recent years. In response, in 1995 the Luxembourg government announced a "national pact for employment", which is an attempt to increase the efficiency of the existing employment policy instruments.

Unlike in Belgium, where unemployment benefit is nearly open-ended, in Luxembourg benefit duration is in principle limited to only 12 months. This period can only be extended for certain reasons (e.g. plus six months for persons who are difficult to place). At the end of this period, persons who are still unemployed receive assistance from the income-guarantee scheme for an indefinite period, subject to means-testing. Spe-

cial conditions apply to older workers in respect of unemployment insurance and early retirement. The labour market administration (ADEM) is responsible for the public employment service in Luxembourg. It has a monopoly on placement activities and employers are obliged to declare vacancies to the authorities. It offers vocational guidance services and vocational training. The ADEM is also responsible for managing the unemployment insurance fund, including benefit payments and eligibility checks.

In the next chapter we give a brief overview of active labour market policy measures. So far no major evaluation of their impact has been carried out.

### Active Measures

Luxembourg has a series of measures for activating unemployment. For example, jobseekers are induced to take up jobs which are more than 15 kilometres away from their home by a mobility allowance. A measure for vocational training within the enterprise combines an activation commitment by an enterprise (by providing an opportunity for on-the-job training) and an activation obligation on young people registered at the Employment Office: those younger than 30 can undergo training alternating between practical and theoretical

training for a maximum of 12 months. Unemployed persons claiming full benefit keep their unemployment benefit during the training period. The employer pays 50% of this benefit to the unemployment insurance fund. The employer may pay a supplementary bonus in accordance with the capacities of the apprentice. In 1996, 65 jobseekers undertook such vocational training within the enterprise.

There is also a wage-subsidy system for employers hiring special categories of the unemployed. For the recruitment of an unemployed person aged 50 or over, the employment fund covers the employer's social insurance contributions for seven years. There is also an exemption from such contributions for the recruitment of the very long-term unemployed (two years for those up to the age of 30 and three years up to the age of 40).

Another measure combines passive transfer payments and income from work. Unemployed persons can be recruited by local authorities to perform various activities. Those performing these activities retain the status of jobseeker and receive unemployment benefit and an extra monthly allowance of LFR 6,000. The maximum duration of this activity is one year. In 1996, about 200 jobseekers performed an activity in

the public sector under this employment programme.

The Luxembourg government recently tried to increase the efficiency of placement services. To this end, a series of decisions were taken:

- notification of every vacancy;
- reassessment of job-brokering and placement activity;
- consolidation of structures needed to accommodate people with labour market difficulties;
- an information and publicity campaign to promote the take-up of existing measures.

In addition, a permanent employment committee was created in order to ensure that the labour market is properly monitored. It examines all issues concerning labour and unemployment and proposes adjustments to the labour market where necessary.

## Recent Measures

Recent measures most clearly linked to activation are:

- the capitalisation of unemployment benefits for enterprise creation;
- the employment guarantee for school-leavers.

## Benefit capitalisation for the unemployed setting up their own business

The capitalisation of unemployment benefits for enterprise creation was introduced in 1988 and enlarged in 1994 and 1995. After six months (those over 40 after three months) full benefit recipients can receive up to six months of their remaining benefit as start-up capital in order to establish a new business. Only 14 demands were made and 11 capitalised benefits granted in 1995, however.

## Measures facilitating the recruitment of youth unemployed

A second important measure in the activation strategy is the employment guarantee for school-leavers who are still unemployed three months after having left school. They are offered a temporary job by the Employment Office. If they refuse the job offer, they are excluded from further unemployment benefit. This measure involves an activation commitment from the authorities and an activation obligation on young people. The measure differs somewhat in the private and the public sector. In the *private sector*, young unemployed persons (aged less than 30) can perform an apprenticeship in an enterprise for up to one year. The employee is hired under an employment contract and receives a wage of 85% of the minimum wage for unskilled work. The employer has to draw up an apprenticeship programme containing a brief description of the tasks and a training plan. The employer's social contributions on the wage of the apprentice are paid by the employment fund. In 1996, 180 persons were hired as apprentices.

In the *public sector*, jobseekers aged less than 30 can be employed under a fixed-term employment contract for up to 18 months. They earn a wage corresponding to the minimum wage. The social contributions for the employer are also paid by the employment fund. In 1996, there were about 600 temporary jobs for youngsters available in the public sector.

In addition, private-sector employers can be obliged to take on young apprentices in such numbers that they constitute 1% of the work

force (in firms with more than 100 employees).

## Conclusions

Part of the budget on active measures is dedicated to the young, among whom the unemployment rate is relatively high (7.4% in 1996). Unemployed persons recruited through such measures are usually paid at a level roughly equal to the minimum wage.

Unemployed persons refusing an offer by the Employment Office within the framework of the active measure are excluded from further unemployment benefit. As a consequence, there is a growing element of sanctions and workfare in Luxembourg. However, in most of the measures sanctions are subordinate to incentives. Compulsory vacancy notification, the public monopoly on placement and other obligations (such as the 1% quotas for apprentices) extend this "compulsion" element to employers. As tripartism is an important element in labour market policy in Luxembourg, it can be assumed that this policy linking rights and duties is accepted by the social partners.

The functioning of the public placement services has improved: rapid placement of unemployed in vacant jobs is still the best way to activate unemployed persons.

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## Netherlands

### The Activation of Labour Market Policies in the Netherlands

During the 1990s, a major reorientation of the Dutch welfare state has occurred. The main concerns behind this reorientation have been similar to those in other European countries. Specific problems for the Netherlands are a relatively low participation rate and an extremely large number of disability pension recipients.

The scope of the reform was wide, encompassing a policy for labour-intensive growth, a more dynamic and flexible labour market, introducing so-called "activating elements" in regulations, including social security regulations, and a more "frugal" social security system itself. Related trends in Dutch policies that also impregnated labour market and social policy were deregulation, decentralisation and a closer involvement of the social partners.

In this report, four dimensions of Dutch activation policy will be discussed:

- the quantitative dimension: including the policy to reduce the number of beneficiaries and expenditure on social protection;
- the regulatory dimension: incentives and sanctions in social security regulations to stimulate the reintegration of the unemployed; the gap between income from work and income from benefits or allowances;
- the integration dimension: employment measures;
- the organisational dimension: reorganisation of relevant institutions and cooperation between them.

This article concludes with an assessment of the effects of the policies implemented in the Netherlands.

### Active and Passive Labour Market Policies

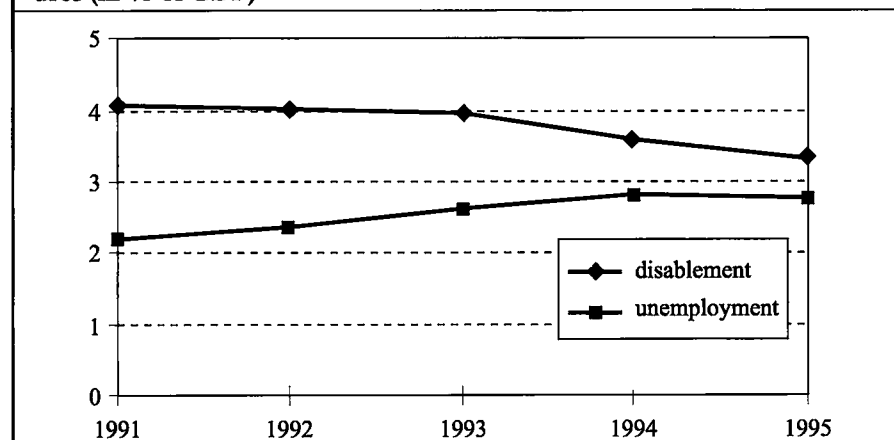
The 1992 OECD Employment Outlook showed the Netherlands to be one of the countries with a high level of income maintenance, both in comparison with other countries and with expenditure on active programmes. Moreover, according to the 1996 Employment Outlook, between 1992 and 1995 the ratio between expenditure on passive and active measures increased further. And, in fact, the OECD data underestimate the expenditure on benefits, because the hidden unemployment under disability benefits is not considered. Since most social assistance (ABW, National Assistance Act) recipients have now been given the obligation to look for work, they will in future need to be considered also.

On the other hand, a rigorous policy towards reducing the level of social security, notably with regard to disability benefits, has led to a decline in expenditure on benefits in recent years (Figure 1).

At the same time, expenditure on a number of active measures increased: the Youth Employment Guarantee scheme (JWG)<sup>1</sup> and, in particular, the job pools<sup>2</sup> and the funds provided by the government to certain social security bodies for buying services from the employment

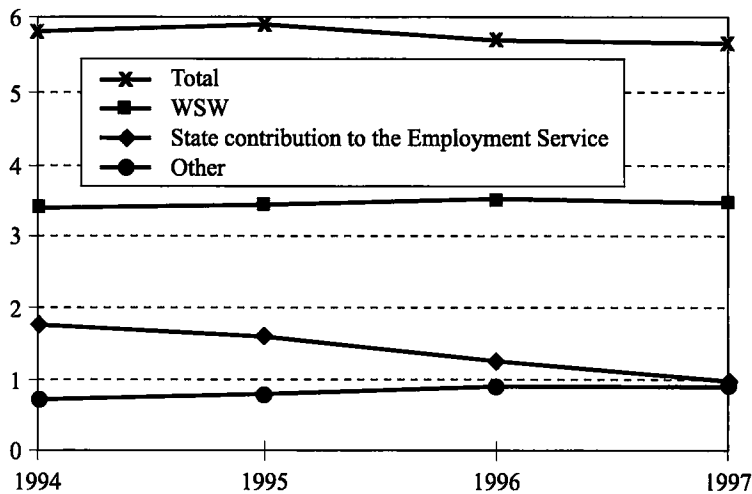
- 1 The local or municipal authorities are responsible for the execution of the JWG, the Youth Employment Guarantee Act. Young people who are not able to find work after between one and one and a half years of unemployment are obliged to accept a so-called JWG job. These are jobs in the public and, since 1995 also, under certain conditions, in the private sector for which they receive the statutory minimum wage and in principle work 32 hours. The introduction of the law is taking place gradually by age group. Besides a large part of the administrative costs, the state reimburses all the labour costs to the local authorities.
- 2 Very difficult-to-place persons, unemployed for more than three years, can be offered work through one of the so-called job pools. They are then hired by the job pool and lent out to an institution in the public sector, a system similar to that of temporary agencies. Participants receive the minimum wage. The job pools are administered and financed by the local authorities. Selection for admission takes place in the employment offices.

Figure 1: Development of Expenditure on Passive Labour Market Measures (in % of GDP)



Source: Ministerie van Sociale Zaken en Werkgelegenheid, 1995. - Unemployment includes WW, risk funds and social assistance for the unemployed (RWW). Disablement includes WAO/AAW. Not included: expenditure on additional allowance (TW), disability benefits for older workers and self-employed (IOAW and IOAZ), and schemes for civil servants.

Figure 2: Budgets for Active Labour Market Policies (x NLG 1,000)



Source: Rijksbegrotingen Ministerie van Sociale Zaken en Werkgelegenheid, 1994–1997. – Other includes: the JWG, job pools and the local governments' purchases of services from the employment service (as of 1996). Not included: expenditure on so-called Melkert jobs (roughly NLG 800 million in total for the entire project).

service. This increase was, however, offset by a sharp decrease in the state contribution to the Employment Service (Figure 2).

## Recent Initiatives

### The regulatory dimension

Social security regulations have been altered considerably in the Netherlands. Changes include more stringent qualifying criteria and the extension of job-search obligations, and have been accompanied by a more severe sanction policy in the case of abuse or fraud and by incentives for reintegration, in particular for the disabled. The main new laws and amendments are summarised below.

A debate has been going on for some time already as to whether the minimum wage can be maintained. In the Netherlands, the difference between the net minimum allowance and net minimum wage is small, in particular for couples and single parents. As yet, a majority of the population and Parliament remain opposed to abolition. In order to promote employment of the difficult-to-place unemployed, the possibility for temporary exemption is under discussion. This would apply if an em-

ployer recruits such a person under a temporary employment contract, which includes agreements on training and counselling.

### More stringent regulations

#### *Social insurance (employee schemes)*

Employees with a sufficiently long work history qualify for unemployment benefits under the WW (Unemployment Benefits Act). Their level and duration depend on previous income. As of 1 March 1995, the entry criteria were tightened. A reduction of the inflow amounting to 45 to 50% was expected. It also became more difficult to qualify for longer-term benefits.

Employees becoming disabled qualify after one year for disability benefit under the WAO (Disability Benefits Act), level and duration also being related to previous employment. This used to be a lifelong benefit, at least until retirement age, but this changed with the introduction of a law on claims under disability regulations (WTBA<sup>3</sup>) in August 1993. Under the new regulations, the disability criteria also changed: the concept of suitable work was replaced by the concept of accepted or com-

mon work. This implied that it should be possible to determine that the disability was directly and objectively due to illness or infirmity. In addition, education and previous occupation are no longer taken into account when the degree of disability is determined. The question as to what type of work can be performed by someone, given his or her capabilities, is now decisive.

Previously, employees becoming ill or disabled received a sickness benefit under the ZW (Sickness Benefits Act). This benefit was, however, privatised in March 1996. Employers are obliged to continue to pay their employees for, in principle, 52 weeks. They can, of course, take out private insurance to cover this risk. The ZW sickness benefit now acts as a safety net. An important category still covered by it are workers hired through a temporary work agency. In addition, the ZW still applies for pregnant women.

#### *Minimum social assistance*

People of working age who do not or no longer qualify for the above benefits generally depend on minimum social assistance under the ABW. On 1 January 1996, the new National Assistance Act (ABW) came into force. One of the important changes was the disappearance of the specific regulation for the unemployed (RWW, State group regulations for unemployed persons). This meant that from then onwards all beneficiaries of social assistance are in principle obliged to look for work. This affected in particular single parents, who are now obliged to seek employment as soon as their children reach the age of five.

#### *Sanctions and incentives*

Social insurance institutions have always been at liberty to impose sanctions in cases of benefit abuse. From the beginning of this year onwards, they are required to impose fines on

<sup>3</sup> Law on driving back the appeal on disability regulations.

benefit recipients providing incorrect or incomplete information when applying for or drawing benefit. Benefits can be reduced or withdrawn entirely if the recipient refuses a "reasonable" employment or training offer. All benefits paid out under false pretences have to be claimed back by the institutions. They now also have greater means at their disposal to do so. They can, for example, put a claim on the benefit in question or on other benefits, including the minimum allowance. The new law is expected to lead to substantial savings of around 100 million ECU per year. No concrete expectations have been formulated as to its effect on the labour market reintegration of recipients.

Not actively looking for work or not accepting suitable work or training are important reasons for sanctions. Unemployed persons receiving the minimum social allowance (ABW) can also be excluded from this allowance if they refuse to accept an offer for a JWG job or repeatedly resign or are dismissed from a JWG job. Also, a refusal of a job offer from one of the job pools has to be reported by the Employment Service to the relevant social security body.

Sanctions in the WAO (disability benefit) apply not only to employees, but also to employers. If an employer refuses to enable the employee to perform suitable work without a sound reason, the social security body can claim the wage, including contributions, that the (partially) disabled employee would have earned from the employer.

Employers are often reluctant to (re-)employ disabled employees. For this reason, partially disabled employees who receive an unemployment benefit in addition to their disability benefit are allowed to work free of charge for an employer, while keeping their benefits. This so-called trial placing can last three months, and the employer has no obligation to hire the employee at the end of the period. Secondly, if it is unclear

whether an employee is really able to resume work, she or he can resume work without losing the benefits or being given a lower degree of disability for a maximum of three years. Should this employee become ill, the employer will have to continue payment just as for other employees. In order to reduce this risk in the case of WAO beneficiaries resuming work under normal circumstances, these employees now qualify for sickness benefit (ZW). Other incentives for employers include a wage dispensation if the performance of the former disability-benefit recipient is clearly below normal for a certain function. Incentives also exist for the disabled themselves, including job-coaching and guarantee arrangements for the older disabled and those who experience a return of their former health complaints.

### The integration dimension

Given the fact that many long-term unemployed are semi-skilled and unskilled, a specific policy to create jobs at the bottom of the labour market was launched. More generous recruitment incentives and subsidised employment are important instruments that were introduced in addition to the existing measures and the "regular" activities of the employment service.

In many collective agreements, the lowest wage scale is above the statutory minimum. The government has therefore urged the social partners to use this segment to create employment for semi- and unskilled workers. Creating jobs on and just above the minimum wage level is also one of the big priorities of the present cabinet. A law on the reduction of wage taxes and social security contributions (WVA) passed in 1996 provides for a structural reduction in the employers' labour costs for functions at this level (up to 115% of the minimum wage). There are several layers. To give an example: employers receive a reduction in their social security contributions of over ECU 900 for the creation of each job on or

just above the national minimum wage. If they hire a long-term unemployed person for a such function, the exemption will be virtually complete. Specific wage-cost subsidies and guidance subsidies also exist for employers hiring a disabled person.

Another target the cabinet set for the present legislative period was the creation of 40,000 additional jobs through municipalities and care institutions. These so-called Melkert jobs are completely subsidised and will remain so. Since 1996, experiments have also been taking place in the private sector. Some 60 experiments are currently under way in which jobs are being created at or just above the minimum wage level. The aim of the experiments is to identify potential employment areas. For these experiments, benefits are converted into wage-cost subsidies, i.e. the unemployed continue to receive benefits while working, for a maximum period of two years. The aim is to create regular jobs by the temporary application/granting of benefits.

A rather innovative experiment was conducted in 1996 in the cleaning service sector. It is similar in aim to the service cheques found in other countries. It combines the reintegration of the long-term unemployed with the stimulation of demand for services they can perform, in this case the demand by private households for cleaning services.

### The organisational dimension

The effect of activation policies, especially when aimed at the long-term unemployed, depends to a large extent on the way they are implemented. Both the employment service and the institutions responsible for the administration of benefits have undergone major changes, and the reorganisation process continues. The most recent changes and their key objectives are outlined here.

#### *Local authorities (minimum social assistance)*

Minimum social assistance is administered by the local authorities, who

have increasingly been given greater responsibilities for the reintegration of the long-term unemployed. The new law gives them more freedom in determining additional or incidental allowances, debasement of the allowance and in ensuring reintegration. The new law also aims to further increase their financial interest in reducing the number of beneficiaries. In 1994, a so-called incentive budget was introduced: 10% of the value of any cut in spending achieved is given to the local authority.

#### *The administration of the employee insurances*

In the Netherlands, the social partners were until recently responsible for both implementing and monitoring the employee insurance schemes (WW for unemployment, WAO for disability and ZW for sickness benefits). In 1993, a Parliamentary Inquiry concluded that they were the main culprits for the fact that the number of disabled (WAO recipients) had risen so dramatically in the past. One of the aims of the ensuing revision was, therefore, to separate the two tasks. In addition, monitoring and coordination were brought under the responsibility of separate institutions. The Social Insurance Monitoring College (CTSV) replaced the Social Insurance Council (SVR) on 1 January 1995. Another institute was established for coordination, and replaced again on 1 March 1997 by LISV, the National Institute for Social Insurance.

The sectoral organisations then responsible for benefits under the employees' insurance (*Bedrijfsverenigingen* – BV, industrial insurance associations) were ordered to pass on all preparatory and executive activities related to the collection of contributions and the delivery of benefits, integration activities, etc. to one privatised executive institution (abbreviated UVI in Dutch). For many sectors, the GAK administration office already conducted the administration and this is now one of the four UVIs already in existence. All mana-

gerial, legal and financial ties between BV and administration offices had to be cut and an independent and business relationship as customer and contractor was to be introduced. Competition between UVIs is foreseen and in the year 2000 other organisations will be allowed to compete with them.

On 1 March the BVs were abolished. They are being replaced by sectoral councils who have to negotiate their role and budget with the coordinating institution, LISV.

#### *The Employment Service*

The Dutch Employment Service was already deconcentrated, tripartised and decentralised. Under a new law, the efficiency and effectiveness of the Employment Service is to be enhanced further. The government has withdrawn from the Central Employment Board (CBA) in order to distinguish more clearly the responsibilities of government and employment service. In turn, the CBA will leave more to the discretion of the central directorate of the Employment Service, which is responsible for day-to-day management.

Government and the social partners and, in particular, the employers debated heavily on the key objectives of the employment service. The main point of disagreement was the government's proposal to limit the target group to the more difficult-to-place unemployed. The compromise finally reached included the setting of targets for the somewhat and very difficult-to-place, while the employment service is still allowed to mediate other jobseekers. This means that they can still use the so-called slipstream method: placing long-term unemployed in the wake of easy-to-place jobseekers.

The employment service receives a so-called success bonus, which depends on the fulfilment of criteria such as the number of placements of difficult-to-place unemployed. This performance-linked part of the budget is a precursor of a system of "financing by results" which is to be gradually introduced. It is also a

means to further the reintegration of difficult-to-place jobseekers: employment offices can offer them extra or more intensive services. In addition, local authorities and certain social security bodies will receive funds for buying services from the employment offices for their difficult-to-place clients. The employment offices are also allowed to perform activities for which they charge a fee, provided they keep separate accounts for them.

#### *Cooperation*

Cooperation between employment service and social security bodies already existed to some degree, but has now been made compulsory. A so-called Stage-group Cooperation Work and Income (SWI) was established last year. It is responsible for the guidance of the cooperation process. In October 1996, almost 100 SWI cooperation associations were established, involving 500 municipalities. Generally, local or regional services responsible for the administration of benefits and for employment services will at least create a joint "reception office", from which clients are referred on to other officers in line with their specific needs. Common intake and diagnosis, information exchange and client monitoring systems, as well as the exchange of labour market and vacancy information, occur in SWI associations.

## **The Impact of Activation**

At the macro level, the policies implemented in the preceding years can be seen as successful, but some important concerns remain. Employment in the Netherlands is growing, and at a more rapid rate than in other European countries. Many of the new jobs, however, provide only part-time employment, and the number of jobs requiring low-skilled labour is still decreasing. Unemployment and even long-term unemployment decreased for the first time in 1996, but not at the rate desired. It should also be noted that the unemployed in employment measures, such as the job pools,

are no longer included in the unemployment statistics. The number of occupationally disabled (WAO recipients) has been steadily declining from 805,000 in 1993 to some 740,000 benefit years in 1996. This is the effect of the more stringent entry procedures, but also of a large-scale process of re-examination of current beneficiaries. This trend is likely to weaken, since the re-examinations of beneficiaries follow an age-cohort approach and will increasingly affect older beneficiaries.

It is hard to determine what exactly produced these results. Of course, economic recovery and macro policies in general were partly responsible for these developments. The reduction in indirect labour costs has had an effect. Employment-related taxes have fallen. Employers' social security contributions on balance decreased, but only because the sickness benefit scheme was privatised. Contributions for disability benefits are paid entirely by employees. They may in future be transferred to employers, accompanied by a levying system that will discourage take-up of disability benefits.

The contribution of policy interventions cannot be isolated from other developments, but some results of evaluation studies of the changes in social security regulations and integration measures are presented below. They focus on the measures that have existed long enough for evaluations to have been conducted. Since the organisational changes are still in progress and since their effect by their very nature requires some time to occur, these are not discussed here. It should be noted, though, that several evaluations of measures have ascertained that their effects differ depending on the executive body concerned and on the practical organisation of the work within executive organisations.

### Regulatory reform

The tighter entry criteria and other measures to reduce the number of claims on benefits have been effec-

tive in reducing the volume of benefits. However, a study called "In and out of the WAO" found that only 22% of the disabled who, after a re-examination in 1994, had been declared (partly) fit for work actually found a job. Interesting, but unexplained, was the phenomenon that 36% no longer claim any benefit at all. It may be that they could apply for means-tested benefits only, but did not qualify.

The effects of stricter sanction policies are questionable. According to one study – "Punishment or stimulus" – sanctions for unemployment benefit recipients had little impact on reintegration and were primarily used as a punishment. One year later the CTSV published a study – "Do sanctions work?" – that concluded that sanctions did lead to a – somewhat – higher level of reintegration. The latter study corrected for the effects of selective applications of sanctions. This is important, because the same factors determine a person's chances of finding work and of being selected for sanctions. The sanctions seemed to be most effective in the case of men, older beneficiaries and people with a low benefit level. Both studies agreed that if sanctions work, this is due to the behavioural changes produced by them.

### Employment measures

Questions have been raised with regard to the effectiveness of measures such as work experience and subsidised employment, since outflow to regular jobs is minimal. Researchers signalled in 1993 the danger that labour-pool jobs develop into functions with regular tasks without turning into regular jobs. The pools have a very small outflow rate to regular employment.

It is also difficult to avoid substitution effects. For the Youth Employment Guarantee Act (JWG), substitution effects and distortion of competition were to be reduced by a limit on the number of JWG jobs allowed per institution. But when finding appropriate places proved to be

extremely difficult in 1994, this restriction had to be eased. As of 1995, JWG jobs have also been allowed in the private sector. The number of non-additional places was markedly higher there (25%) than in the public sector (3%). The reason for the lower substitution effects in the latter is probably the lack of funds in the public sector to meet the demand for additional staff.

For the job pools, no direct substitution effects were found. Indirectly, however, substitution took place in various forms: filling jobs that had been lost some time ago, the replacement of sick employees, the filling up of vacancies left after a reorganisation, and the deployment of labour-pool participants in new policy areas. In some cases, participants were performing virtually the same work as the other employees, but for a much lower wage. These constituted supernumerary rather than additional jobs. The researchers estimated that in some 15% of the jobs substitution, competition or budget distortion took place. Another 15% were estimated to be supernumerary jobs. These are, however, rough estimates with a high degree of uncertainty.

Apart from unemployed people occupying jobs that would otherwise be performed by "regular" employees, in many cases it was questionable whether the unemployed would not have found work on their own: so-called deadweight or windfall effects. When this effect is taken into account, the net effect of measures can be determined. For the JWG the gross effect was 25% of participants. The net effect amounted to some 18%. This net effect, i.e. the difference made by the measure, was higher for young people with low education and those from ethnic minorities.

This is particularly important, because the selection processes involved in determining who may participate in measures have a tendency to favour the more "privileged" unemployed. Substantial creaming of this type occurred in the JWG at first. But the degree to which the target was reached rose considerably, from

54 to 88% between February 1992–April 1993 and mid-1993–September 1994.

For the job pools, the selection process also improved with time. In 1993, the job pools were reasonably capable of reaching the intended target group during the selection phase. Creaming occurred in particular due to placement difficulties. The problem here, in contrast with the JWG, was not to find enough jobs, but to find suitable jobs, matching the qualities and affinities of the unemployed selected.

It is important to remember, though, that jobs are not everything. Boorsma et al. (1994) have argued for a broader definition of the effectiveness of activation policies. A focus on paid work only will consistently show low results and thus endanger the motivation of both staff and clients in this field. Given the current labour market, the aim should, therefore, not only be to integrate the unemployed into the labour market, but into society. In the perspective of social integration, a low outflow into regular jobs from subsidised employ-

ment becomes less worrying. It also points to other activities that prevent isolation, such as voluntary work.

## Conclusion

Activation is part of a larger “cultural change” that has taken place in the Netherlands. An ideology of individual responsibility and a withdrawing state has permeated Dutch society in recent years. In the meantime, the pressure on the activation strategy to prove successful mounts. If the reintegration of the currently long-term unemployed does not succeed, the often predicted split in society with a marginalised class of minimum benefit recipients will become reality.

Marjolein Peters

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## Austria

### Active and Passive Labour Market Policies in Austria

With spending on active labour market policy accounting for 0.23% of GDP (1994), Austria ranks last but one by international comparison (see OECD 1996). If this expenditure is set in relation to the unemployment

rate, Austria moves up to the fourth-last position.

During the 1990s, spending on active labour market policy increased. Until 1993, however, the funding needs for passive policies rose to a greater extent, while in 1994 and 1995 expenses for active LMP increased more than funds for passive measures. The reason was a reduc-

tion in the number of recipients of UI benefits (unemployment benefit, unemployment assistance) from 279,000 (1993) to 195,000 (1994). In 1996, the rise in unemployment again caused a faster growth of spending on passive than on active labour market policy. The relation of active to passive expenditures was 1:9 in 1996.

**Table 1: LMP Spending (in million ATS)**

	1992	1993	1994	1995	1996
Staff and material expenses	1,816.5	1,975.9	2,252.1	2,911.8	3,235.0
Active labour market policy	3,549.6	4,105.0	4,938.4	5,323.7	5,702.7
Passive labour market policy	33,236.2	42,563.5	44,747.3	45,955.7	51,818.1
Total expenses	38,602.3	48,644.4	51,937.8	54,191.2	60,755.8
Ratio of active to passive expenditure	1:9.4	1:10.4	1:9.1	1:8.6	1:9.1

*Source: Employment Service documents; own estimates.*

The main pillars of active labour market policy are skills training, employment subsidies and the promotion of counselling and guidance facilities. Both in terms of the number of subsidised positions and in terms of the level of funds used, active policy focuses on training. For instance, in 1995, a total of almost 107,000 subsidised positions were registered under training schemes<sup>1</sup>. These are mostly short-term measures, whereas employment subsidisation measures usually relate to a longer-term employment (of one year). Job-creation programmes covering around 8,000 people in 1996 mainly focus on subsidies to employment in the non-profit sector (non-profit sector integration subsidy, socio-economic enterprises) and subsidies to employment in the private sector (company integration subsidy).

Of 1995 expenditure on active policies, 71.6% were spent on subsidised training, 23.6% on subsidised employment and 4.8% on counselling.

Since the 1980s, the primary target groups of active LMP have been the long-term unemployed, elderly unemployed, women (especially labour market re-entrants) and the disabled. As the situation in the apprenticeship market has gradually worsened, efforts have increasingly fo-

cused on young people. However, in addition to encouraging the creation of apprenticeships, the latter target group requires a range of additional innovative measures. With the implementation of the measures under Objective 3 of the ESF, the subsidy volume has been markedly increased, especially for the disabled.

### Recent Initiatives in Activation

Concrete measures or programmes designed specifically to convert passive benefits into active labour market policies have yet to be implemented, although a number are currently in preparation or about to be implemented.

#### Special integration subsidy (*Besondere Eingliederungsbeihilfe – BESEB*)

This recently implemented scheme constitutes Austria's only attempt to date to transform passive benefits into active subsidies. The target group of the programme are claimants of unemployment assistance who have been out of work for at least six months. If a person enters employment with full mandatory social insurance contributions for at least one month, transfer payments

will be changed into wage-cost subsidies. The amount of the subsidy will correspond to that of unemployment assistance, including any family supplements and health and pension insurance contributions which would be payable over the subsidy period. The subsidy will be granted for the duration of employment up to a maximum of one year. Administration of this tool of active labour market policy has been simplified, e.g. it is no longer an obligation for the employer to contact the employment service prior to employing the long-term unemployed person.

### Activation by sanctions and disincentives

Apart from the afore-mentioned genuine activation tool, developments since the 1990s have been dominated by an activation strategy based on disincentives and benefit-related sanctions. The major aspects of this policy have been:

- greater obligation to seek a job on own initiative;
- increased sanctions for refusal to accept job offers;
- broader interpretation of “suitable work”;
- tendency to reduce benefits through new modes of computation.

The objective of these measures has been to render access to insurance benefits more difficult, reduce the compensation rate as unemployment duration increases, and lower the wage expectations of unemployed jobseekers by increasing economic pressure. At the same time, sanctions have been tightened for those declining job offers or participation in LMP measures.

With the 1993 job-protection amendment (*Beschäftigungssicherungs-novelle*), the unemployed person's own job-search initiative has

**Table 2: Number of Jobs Subsidised by Active Labour Market Programmes**

	1990	1991	1992	1993	1994	1995	1996
Training measures	97,595	84,701	68,545	88,569	105,077	106,841	149,338
Employment measures	18,247	19,016	8,776	12,791	10,439	8,008	10,687

*Source: Employment Service Austria.*

<sup>1</sup> Developments can only be judged in terms of number of jobs subsidised, rather than in terms of individuals, as any given participant may show up in the statistics under several subsidy periods.

received greater emphasis in unemployment insurance legislation. Evidence of active job search is now required, e.g. copies of the posted letters of application. If no such evidence is produced, benefit-related sanctions will be imposed.

This also applies to refusals to accept suitable job offers. A job is deemed suitable whenever *it does not jeopardise subsequent return to the occupation previously held*. Such occupational protection, however, no longer applies to recipients of unemployment assistance (which follows on exhaustion of unemployment benefit entitlements, usually after 20, 30, 39 or 52 weeks, depending on the duration of previous employment). Even if it makes a return to the previous career more difficult, a job is deemed suitable for claimants of unemployment assistance whenever there is no chance of finding a suitable job within the near future. What actually is suitable in each and every case will be at the regional employment office counsellor's discretion. In this context, there has been a tendency to loosen suitability criteria. This is also illustrated by recent court rulings, which, for example, have deemed a full-time job to be suitable for women with child-care duties. This signifies that women seeking a part-time job in order to be able to perform child-care duties and refusing a full-time job may have their benefits suspended as they are not fully available for work.

For those unemployed that are unwilling to work, or obstruct placement by declining jobs that are deemed suitable, or do not show up for their scheduled sign-on visit at the employment office, the minimum period of benefit suspension has been raised from four to six weeks. In case of a repeat infringement within one year, benefits will be cancelled for eight weeks.

Apart from the "benefit suspension" sanction, other measures have been taken, resulting in a reduction of the benefit level:

- Since 1996 the level of unemployment benefit has been calculated

on the basis of the claimant's earnings situation over the past 12 months, instead of six months as previously.

- The period necessary for requalifying for benefits has been extended. A person re-entering the labour market has to work for 28 weeks (i.e. two weeks more than before) to requalify.
- The 1996 structural adjustment legislation (*Strukturanpassungsgesetz*) includes new provisions on entitlement to unemployment assistance, linking it closely to the insurance principle. The level of unemployment assistance depends on the prior duration of unemployment benefit receipt. The longer the period of unemployment benefit receipt, the higher the unemployment assistance benefit. Overall, however, the level of unemployment assistance has been markedly reduced, particularly for higher income earners, who now get considerably less unemployment assistance.

### No activation through job-start incentives

Austria hardly provides any incentives for benefit recipients to take up work. While drawing benefits, claimants may earn additional income only up to a low level (1997: ATS 3,740). Any income from work above this limit removes all benefit entitlement. There is no possibility of reducing benefit in proportion to the income earned. Hence, jobseekers cannot be expected to gradually enter employment via part-time jobs, since the income from part-time work of 20 hours a week and over will exceed the earnings exemption. Only auxiliary work of just a few (8-10) hours a week is likely to remain below the income ceiling.

Money earned on top of benefit generates a slight improvement in social security in that it includes accident insurance cover. Health insurance cover is provided under the UI benefit scheme. Contributions to

pension insurance, however, are not included in such auxiliary work.

If somebody is found to be in employment whilst on benefit, his/her benefit will be suspended for a period of eight weeks. An additional sanction is that the equivalent of two weeks of benefit will have to be paid back, resulting in an overall suspension period of ten weeks. Firms employing benefit claimants are also sanctioned: payment of a special contribution to the unemployment insurance fund amounting to 12% of the wage. The fines for infringing employer duties and for illegal claims to UI benefits have also been considerably increased.

### Activation by initiating business start-ups: the enterprise-creation programme (*GründerInnenprogramm*)

The self-employed make up a comparatively small proportion of the Austrian labour force, and employment-creation potentials for the self-employed, are seen particularly in the service sector. With the establishment of an enterprise-creation programme in 1993, the employment service sought to encourage the establishment of new firms by the unemployed. Under this programme, individuals receive advice on their options in this respect. In mid-1996, job-creation pilot projects were initiated to provide wider assistance. These pilot projects include intensive coaching for would-be entrepreneurs. During the 18-week introductory, basic and special programmes, participants may draw subsistence allowances (currently around ATS 6,500 per month).

So far unemployment benefit or unemployment assistance claims have not been converted into enterprise-creation grants. Nor is it possible to continue receiving unemployment benefit in the event of business start-up because, it is argued, benefit receipt is conditional on the availability for work. Currently, the creation of an appropriate legal framework for introducing an activation



model in the field of enterprise creation is under consideration, however.

### Activation by special measures for the long-term unemployed

Since 1995, the Federal Minister of Labour and Social Affairs has given special priority to the integration of those benefit claimants who have drawn unemployment assistance for three years. In line with this labour market policy target, the employment service requested the providers of employment measures to open up new avenues of employment to this group. If an employer hires members of this target group, he/she will receive an employment subsidy. If such job offers are refused by unemployment assistance recipients, their benefit will be suspended.

### Other activation trends within active labour market policy

Apart from the traditional tool kit of active labour market policy, i.e. initial and further training, employment measures and a range of counselling and guidance schemes, a number of new policies have been introduced in recent years: so-called "active groups" and non-commercial temporary employment agencies.

### Active groups (*Aktivgruppen*)

This kind of measure is based on the assumption that job search often fails not for lack of vocational skills, but rather for lack of adequate job-search techniques. Many unemployed people are unable to apply properly for jobs and highlight their particular skills, or they are insufficiently informed to choose the right occupation and consistently pursue inappropriate occupational objectives.

Active groups focus on the specific areas of failure in job-search activities and try to identify the problems that prevent participants from targeted job search. Hence such groups offer, to a certain degree, the possibility to tailor the measure to the individual needs of participants, to moti-

vate them and to enable participants to take the necessary initiative themselves.

### Non-commercial temporary employment agencies (*Gemeinnützige Arbeitsverleihfirmen*)

To encourage (re-)entry into paid employment, Austria has increasingly used the tool of hiring out workers on a non-profit basis. For example, the non-profit organisation "Espora" in Upper Austria hires out long-term unemployed workers to companies. Experiences to date have shown that for most of the workers affected the temporary job is a stepping stone to permanent employment in the hiring enterprise. In Lower Austria, the *Initiative 50* was founded, which mostly employs elderly long-term unemployed and hires them out for three to six months to employers who refund only two-thirds of the relevant wage costs. If it is not possible to provide the worker with a permanent job, he/she will participate in an upgrading and training programme during the time he/she is not hired out.

### Evaluation

Owing to their recent implementation, there are only a few data available on the impact of the various activation attempts. The most comprehensive data concern the employment effects of training and employment programmes and measures.

The effects of wider "suitable work" criteria under the 1993 job-protection amendment can be seen from the increase in suspended un-

employment benefit and unemployment assistance. The number of suspended benefits went up by 15% between 1993 and 1994. This is mainly due to increased sanctions on claimants who fail to sign on regularly at the employment office and refuse job offers or training.

Under the enterprise-creation programme, some 2,000 individuals have been given extensive start-up counselling. Around 700 people subsequently established a new firm and have created around 1,050 new jobs, especially in the service sector. However, no data on the economic development of these businesses are yet available.

Employment measures have a significant impact in terms of individual careers and can be considered a success even by international standards. According to a study (Fehr-Duda et al. 1996) of *Aktion 8000* (now replaced by the "non-commercial integration subsidy" [*Gemeinnützige Eingliederungsbeihilfe*]), 39% of the subsidised workers were continuously employed in the year following the end of the scheme, and another 14% were employed for 10 months or more. A longitudinal analysis of careers has shown that, over a period of three to four years, 48% of participants were employed for at least 80% of the observation time following the end of the scheme.

Socio-economic enterprises, too, have a definite employment effect. Half of the participants found a job once their temporary subsidised employment had ended: approximately one-third of them found full-time jobs, the remainder part-time jobs, temporary jobs or jobs under a work-

**Table 3: Suspension of Benefit Receipt**

Reason for suspension	1993	1994	1995
Refusal to accept suitable job offers or training	8,134	9,957	10,709
Quitting job voluntarily or losing job through own fault	21,687	22,791	23,363
Failing to sign on regularly	6,273	8,916	11,007
Total	36,094	41,664	45,079
Change on previous year		+15.4%	+8.2%

Source: Employment Service Austria.

contracting scheme (Biffl et al. 1996).

Regarding recruitment subsidies (cf. Fehr-Duda et al. 1997) in the private sector, the available data show that 38% of those subsidised under the company-integration subsidy remain employed with the same employer for more than a year following the end of the subsidised period.

Training schemes generally show significant placement effects, but also a considerable number of participants who do not succeed in entering employment after finishing the courses. Of the participants in clerical training courses in Lower Austria, at least 54% were able to enter employment within two months, but 24% did not succeed in finding a job within one year after finishing the course. Vocational orientation courses usually have a lower integration rate: within two months of the end of the course 34% took up a job, while 24% were not able to enter employment (cf. Lechner et al. 1994).

Case studies on the effects of active groups have shown that if this measure is geared to individual needs, a high placement rate can be achieved.

However, there is the problem that especially those at risk of marginalisation and with pronounced integration handicaps are not suffi-

ciently covered by the measures. This is partly due to the fact that active labour market policy gives absolute priority to placement in the regular labour market over schemes that are designed to provide gradual stabilisation and where integration in the regular labour market is only a medium-term goal.

## Conclusions

Activation measures designed to convert passive benefits directly into active subsidies have been in operation only in one single case, namely the special integration subsidy. Due to the comparatively low share of active labour market expenditure and growing problems in the labour market, intensified active labour market policy efforts are required within the framework of a comprehensive employment policy.

Activation by means of positive incentives should be the main tool. Activation through a combination of benefit receipt and income from work remains impossible in Austria because of a number of legal barriers. To encourage activation in terms of a partial conversion of benefits into employment subsidies or enterprise-creation subsidies, there is a need to change the legal framework, especially unemployment insurance legislation, which still features a strict di-

viding line between unemployment and employment and does not provide for any intermediate status.

Approaches to work-sharing, for instance through job-rotation schemes, have only been under discussion so far. In view of a labour market tradition that still regards the exercise of an occupation under regular employment conditions from job start to retirement as the norm, a change-over to a vocational career characterised by constantly alternating situations of employment, paid sabbatical, unpaid sabbatical and re-entry into employment remains a scenario for the future.

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## Portugal

### Active and Passive Labour Market Policies in Portugal

Although it is often difficult to distinguish between passive or active measures with the information available, and even more difficult to iden-

tify which ones are currently being "activated", public spending clearly focuses on passive measures.

Public spending on passive measures represented almost 70% of total LMP spending in 1995, and this proportion has been increasing steadily since at least 1990. Thus, in

spending terms at least, and also for the number of people involved, the trend has been precisely the opposite of an "activation" strategy. This can be explained by: (a) the increase in unemployment; (b) the improvement in social protection (the proportion of the unemployed receiving

benefits is constantly rising, now representing more than 60% of the unemployed); together, the two factors meant that the number of unemployed benefit recipients rose from 67,000 in 1990 to 180,000 in 1995. But it also reflects the failure in dynamising economic growth and the labour market.

Unemployment benefits are given in the case of involuntary unemployment only (DL 79-A/89 and DL 418/93), that is, in the case of unemployment caused by: (a) the employer's unilateral decision; (b) expiry of employment contract; (c) termination with just cause on the worker's initiative and (d) termination by mutual agreement in the context of a restructuring project. So far, no "activation" of passive measures by restrictive measures is foreseen; that is, no tightening of job-search obligations has been considered nor any cuts in social benefits<sup>1</sup>. Only the control period has been reduced from two months to one.

At present, unemployed persons may not cumulate the receipt of unemployment benefits with any other form of income. One-third of the unemployed in receipt of benefits are drawing "social" benefit, that is, the benefit which is given after entitlement to the unemployment benefits has expired.

Another strand of passive policies consists of early retirement schemes. Early retirement schemes have been implemented since 1989 and enable older workers (over 60 years old) to enter retirement before the normal age; 12,000 people were involved in 1996. Special schemes exist for civil servants, fishermen, miners and dock workers.

The overview on active and passive measures in Table 1 shows that:

- spending on and the number of people involved in active measures have been decreasing in absolute terms since 1993;
- spending on and the number of people involved in passive measures are increasing, but the number of people benefiting from early retirement is stable (although spending is rising);
- spending on and the number of people involved in vocational training have been decreasing since 1993;
- spending on and the number of people involved in subsidised employment more than doubled from 1992 to 1995;
- spending on and the number of people involved in specific group measures (young, disabled, long-term unemployed) have decreased over the period;

- some very active measures such as the individual assistance plan, job-search assistance, employment-training programs and occupational programs for the unemployed still have a very low priority in employment policies.

Spending on employment training and vocational training has been reduced from 55 to 36% of total public spending on employment in favour of a more structural type of spending (education, R&D, modernisation). In a way, this might be a positive sign because of the large-scale effect that such national choices will have, but it does not invalidate the trends that we have described above.

Encouraging LTU to take up dependent or self-employment is an important part of active labour market policy in Portugal. The measures consist of the following:

- Exemptions from compulsory social contributions for 36 months are given to enterprises which promote the recruitment of LTU (Decree no. 89/95 and D.L. no. 34/

1 "Suitable work" is defined (by DL 79-A/89 and DL 418/93) as: (a) functions or tasks adapted to the physical abilities, educational qualifications and training and work experience of the worker; (b) observation of collective agreements according to national and/or sectoral regulations; (c) the worker or his family not being otherwise exempted (for geographical reasons, for example).

**Table 1: Labour Market Policy Measures (number of participants and financial resources in million PTE)**

	1992		1993		1994		1995 <sup>a</sup>	
	No. of persons	Financial resources	No. of persons	Financial resources	No. of persons	Financial resources	No. of persons	Financial resources
Vocational training <sup>b</sup>	54,991	18,346	64,012	23,047	59,054	22,925	40,713	18,631
Employment subsidy schemes (incl. self-employment and occupational programmes)	12,949	4,275	20,064	11,224	34,027	6,441	35,506	9,407
Specific measures for young people	81,650	33,020	72,215	29,707	64,890	27,834	61,920	24,733
Specific measures for LTU	777	1,067	852	933	125	555	87	83
Specific measures for disabled persons	9,398	5,741	7,956	6,800	6,724	7,411	7,870	7,248
Job-search measures	105			105		135	96	140
<b>Total Active Measures</b>	<b>159,765</b>	<b>62,449</b>	<b>165,099</b>	<b>71,816</b>	<b>164,820</b>	<b>65,301</b>	<b>146,192</b>	<b>60,242</b>
Unemployment benefits <sup>c</sup>	129,174	64,695	171,010	106,399	175,144	127,388	176,389	132,481
Early retirement	15,046	12,300	17,035	13,928	20,793	21,848	1,599	29,549
<b>Total Passive Measures</b>	<b>144,220</b>	<b>76,995</b>	<b>188,045</b>	<b>120,327</b>	<b>195,937</b>	<b>149,236</b>	<b>192,368</b>	<b>162,030</b>

a Temporary values.

b Cooperation contracts are excluded.

c Job creation by unemployed receiving benefits are included.

96). In the case of a fixed-term contract, the contributions payable are reduced by 50%.

- An integration programme to combat long-term unemployment exists which integrates individual vocational training schemes and new forms of vocational integration (through information sessions and job-search methods).

The employment schemes for persons in receipt of unemployment benefits involved 12,000 people in 1996. The employment offices are responsible for implementing the schemes and pay 80% of the worker's monthly compensation (the remaining 20% is borne by regional social security offices). The total must not exceed the worker's previous wage. Another type of occupational scheme exists for the unemployed in need (Decrees no. 247/95 and 192/96), which cannot exceed 80% of the national minimum wage and has a duration of up to one year (extendable by an additional year under certain circumstances). In 1996, 6,700 people were involved.

Job Clubs have been created (Decrees no. 295/93 and 247/95) to help solve the training and employment problems of the unemployed, along with job-search assistance which gives LTU who find employment for at least three years a bonus equal to three times the national minimum wage (Decree no. 247/95). But these measures involve very few people (51 the former and 166 the latter in 1996).

What can be concluded from this analysis is that the "activation" process has been virtually non-existent during the analysed period; the trend has instead been towards an increase in passive spending. The trend has been more oriented towards the demand side (rise in subsidised jobs, in support for restructuring programs, in R&D) than the supply side (decrease in spending on and the number of people involved in training programmes and target group measures).

## Overall Strategies and Recent Measures

### Employment strategy

Portugal has recently stepped up the struggle against unemployment and social exclusion, thus following the EU recommendations expressed in particular in The European Pact of Confidence and in the Tripartite Conference on Growth and Employment. In this context, the Portuguese state has developed two important political tools, both with considerable influence on employment: the Multi-Annual Programme for Employment until 1999 (MQE 1996b), and the Strategic Social Pact (CES 1996b), recently signed by the government and the social partners.

The Multi-Annual Programme for Employment defined the consequences for the labour market of the macroeconomic trends till 1999. The five Essen resolutions constitute the heart of this Programme. It should be noted, however, that no measure has been taken which would lower the costs of low-paid jobs for the employers. The principal objective is to promote productivity and corporate reorganisation rather than to reduce the costs of employing the low-skilled.

The Strategic Social Pact, the first agreement of this type ever signed in Portugal, is based on six complementary fields of action: (a) economy and enterprises; (b) productivity, working conditions and worker participation; (c) active employment policies, education, training and the information society; (d) reform of social protection; (e) reform of the fiscal system and (f) modernisation and restructuring of the public administration.

Both documents recognise that the present unemployment level "represents a threat to economic and social cohesion" (CES 1996, p. 41). Employment is considered as a national priority and there is an explicit commitment to creating 100,000 jobs by 1999.

The objective of the government employment strategy is to encourage

cooperation between the various strategies and actors: the employment service (which is being fundamentally restructured in order to be an active partner instead of the manager of funds it had become over recent years), municipalities, local firms, civil associations, etc. The aim is to establish "Territorial Pacts for Employment" that mobilise all the actors concerned in the search for local employment solutions. It thus constitutes a very strong trend towards activation, not just of the unemployed, but also of all institutions involved.

The reform of the ESF application is an important activation tool. First of all because it is the result of serious discussion with social partners, and also because it tries to make training serve employment while giving workers (employed or not) the appropriate skills for socioeconomic change.

### Recent measures

The most recent measures taken are: creation of the Guaranteed Minimum Income (Law 19-A/96) and of the Social Labour Market (RCM 104/96); European Social Fund reform (DR 15/96); and reduction of working time to 40 hours, following the decisions of the Short-Term Social Agreement (CES 1996). However, working-time reduction is implemented in Portugal much more in an efficiency-enhancing context than in a work-sharing one. It is seen more as a competitive measure than a way to create employment.

The measures recently initiated, together with the already existing ones, constitute a substantial improvement in the legal framework in the struggle against unemployment, and particularly in the activation of employment policies. Some of these measures have considerable importance because of the number of unemployed affected, but also because of the strategic impact on the reduction of social exclusion associated with long-term unemployment. It is still too early to get a clear picture

of the impact and the possible negative side-effects of these measures, but a preliminary evaluation can be given.

## Quantitative Assessment of Some Recent Measures

### Guaranteed minimum income

This is a new measure in Portugal, still in the experimental application phase, whose objective is the creation of a "social allocation and social integration programme, in order to guarantee to the individuals and their families resources that satisfy their basic needs and promote progressive social and occupational integration" (Law 19-A/96, Art. No. 1<sup>o</sup>). The financial benefit is payable for one year but the period may be extended.

Although to a large extent a passive measure, it introduces an activation mechanism by obliging beneficiaries to accept jobs, occupation, training or education proposals (provided they respect suitable work norms). So, it can be seen as an "activation by incentives" measure.

In the current experimental phase, the programme encompasses 15,000 people, but the objective is to reach 250,000 individuals by July 1997.

### Social labour market

Conceived as a "diversified set of solutions for socio-occupational integration or reintegration of the unemployed based on non-market socially needed activities" (RCM 104/96),

this measure is an active one and results from the articulation of already existing measures (occupational programmes, local employment initiatives, etc.) with innovative ones (workshop schools, integration firms and service-employment cheque).

The most statistically significant measure within the Social Labour Market (SLM) is the occupational activity of workers who receive unemployment benefits (Portaria 192/96; see also above).

SLM introduces a clear distinction between paid employment and occupation and at present covers around 24,000 unemployed. It guarantees a socially useful occupation in the absence of job or training alternatives and a subsistence income equal to the national minimum wage (plus transport and food expenses).

Other SLM measures (local employment initiatives, protected employment units, workshop schools) are still being studied or piloted and no data is available.

## Conclusions

At the beginning of the 1990s, a trend towards more passive policies was apparent in Portugal, but since 1995 extensive measures have been taken to reverse the process. Job creation seems to be the most significant of public policies along with a widespread activation of the labour market institutions. New programmes are also being implemented in order to promote the social and vocational integration of LTU and people in need. So, we are at present observing

a shift from passive to active measures (covering both spending and people involved).

It is unclear whether the recent active employment policy can avoid contributing to the "unemployment trap", as most wage-replacement payments are close to the national minimum wage, which is the wage level of a substantial proportion of the work force. The lack of "activation by sanctions" measures reinforces this risk. Some forms of control are thus conceivable that would better support an "activation" of the unemployed.

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### Ongoing-Projects:

- "População Desempregada – composição e processos de Inserção/Exclusão" [Unemployed people – composition and insertion/exclusion process]  
 "Avaliação do Programa Pessoa-Formação Profissional" [Evaluation of the Vocational Training Programme]



## Finland

### Active and Passive Labour Market Policies in Finland

Historically, labour market policies in Finland have always been designed to sustain income and employment through active measures rather than by passive income support. The dramatic rise in unemployment – from 3.4% in 1990 to a peak of 18.4% in 1994 – called this approach into question, however. In 1990, active labour market policy (ALMP) measures accounted for about 47% of total spending on labour market programmes (active measures plus income maintenance), a figure substantially higher than the EU14 average. In the early 1990s, there was a doubling of ALMP measures. During the past few years, about 5% of the labour force have been in active programmes, on average: for about four months in labour market training and five months in subsidised job placements. Thus, the number of people starting these schemes annually is about two and a half times that of the average stock. Despite this high level of active measures, high unemployment led to a decrease in the LMP activity rate, which was only 28% in 1995. Given the very high level of unemployment, however, it is obvious that any substantial increase in the volume of active measures is difficult without harmful or distortionary side-effects.

Total public expenditure on labour market policy rose from 2.2% of GDP in 1990 to 5.6% in 1995. When adjusted for the rise in unemployment, however, both passive and active expenditure declined relative to GDP. The most striking feature of unemployment dynamics has been the lengthening of unemployment periods; the average duration increased from 15 weeks in 1990 to 48

weeks in 1996. The number of new spells doubled, which was partly due to an increase of recurrent unemployment spells among the same people. The role of active programmes – excluding job placement – in terminating spells of unemployment has remained quite stable during the 1990s, at about 25% of total exits from unemployment. Due to differences in employment prospects in the normal labour market and the priority given to young and long-term unemployed people when targeting active measures, the importance of active measures varies markedly across different groups of unemployed jobseekers and across regions.

Within the ALMP measures, the share of labour market training has increased somewhat, accounting for 40% of all measures (excluding employment-based public investment schemes) in 1996. Labour market training is primarily vocational training that has been increasingly targeted at unemployed people and people at risk of unemployment. Although job-related training is chiefly the responsibility of employers, labour market training may be purchased jointly by local authorities and employers, in order to meet companies' specific needs. The scope of training has also been extended to help those interested in entrepreneurship and self-employment.

However, the majority of active labour market programmes have taken the form of selective employment subsidies for employers. The basic idea is to lower the employment threshold for target groups by compensating the employer for the initially lower productivity and the extra costs incurred by hiring a less-qualified unemployed person. They are not instruments for net job creation, but their main purpose is to achieve greater equality of opportunity in the labour market.

In the early 1990s, there were almost 20 different forms of employment subsidy. The strict and detailed subsidy rules rendered the system inflexible and time-consuming. When the problems inherent in the system were aggravated by mass unemployment, the employment subsidy schemes were changed. The statutory obligation on municipalities to arrange training or temporary work for teenagers and the long-term unemployed – as a measure of last resort – was totally lifted from the beginning of 1993 because of the tremendous increase in unemployment which – it was feared – would lead to an unmanageably large volume of ALMP. Moreover, in April 1995, the number of subsidies was reduced to five, the discretionary power and freedom of action of the local employment offices were increased and the conditions for granting subsidies to enterprises were tightened. A great majority of the placements are in the public sector. Apart from employment subsidy schemes, various training and other programmes, which include practical training in a job (often without an employment relationship and pay), have markedly increased. And, in fact, the division between active and passive measures has become less clear-cut, along with the pro-active changes in unemployment benefit schemes.

### Recent Initiatives

#### Activation by sanctions

Unemployment benefit schemes based on both insurance and assistance principles as well as an unemployment pension scheme are in operation in Finland. The detailed provisions of the schemes have been changed countless times in the 1990s – either to achieve savings in unemployment expenditure generally or,

more explicitly, to introduce coercive qualifying conditions into the schemes. The compensation rate of the earnings-related benefits was lowered from the beginning of 1992. The following year, amendments were made to tighten the qualifying conditions. The initial waiting period for the basic allowance for those entering the labour market (except for new graduates) was lengthened from six weeks to three months, and the disqualifying period for those who had voluntarily quit their last job was lengthened from six to eight weeks. Legitimate reasons for refusing job offers were also tightened and students' benefits were scrapped, even during summer vacations.

In 1994, the basic unemployment allowance was changed to make it more similar to unemployment insurance by introducing a qualifying period in employment and a maximum duration of benefit payment (500 days) and by waiving means-testing. A new labour market support was introduced for those who are not eligible for the benefits or whose benefits have been exhausted. This labour market support is usually means-tested and equal in amount to the basic unemployment allowance; first-time entrants to the labour market who live with their parents get 60% of full benefit. The labour market support is always paid at the full rate and without means-testing when the recipient participates in ALMP measures. The new element was, however, that a person who receives labour market support may participate in apprenticeship training, labour market training, rehabilitation or practical training in a job (without an employment relationship and pay). In return for the support, he or she may also be obliged to participate in such measures. Despite the activating tendency involved in labour market support, most of the beneficiaries are "passively" unemployed. However, among youths, placements with labour market support account for a majority of all measures under active labour market policy.

The entitlement to labour market support was further restricted for teenagers in 1996 and for young adults under 25 years of age in 1997. Young people without any vocational or other training beyond compulsory education are now eligible for the labour market support only when participating in active measures. The reform aims to improve the employment prospects of young people by reducing the numbers leaving education with few or no qualifications. Alongside such coercive measures, far more places in upper secondary education have also been provided.

The other main pro-active amendments, which were implemented in 1997 and based on tightening the benefit provisions, were as follows. The qualifying period was prolonged from six months (in the last eight months) to ten months (in the last 24 months). The reference pay used in calculating the earnings-related unemployment allowance is determined by the pay during this ten-month period and never dates further back, as previously. The aim was to bring earnings-related benefits more closely into line with potential changes in the earnings capacity of the unemployed people. Older people's entitlement to extra benefit days was also restricted. Previously, those who reached the age of 55 before the exhaustion of benefits were entitled to extra days so that unemployment benefits were payable till the age of 60, when the person qualified for an unemployment pension. The age limit has now been raised from 55 to 57 years. The pension that accrues from the period of UI benefit was also reduced to 80% of the previous level. Finally, the income thresholds below which income is considered negligible in the means-tested labour market support were lowered, for spouses from FIM 5,540 (ECU 953) to FIM 5,040 (ECU 867) and for single persons from FIM 3,700 (ECU 636) to FIM 1,500 (ECU 258). For spouses, however, the rate at which benefits were cut was lowered from 75 to 50%, while for single persons this rate remained at 75%.

The qualifying conditions for unemployment pensions, too, were tightened in 1994.

### Activation by incentives

There has been great concern about the problem of so-called "unemployment traps" in Finland. Besides high compensation rates in some cases, the problem can also be attributed to structural defects in the social security system. Very high effective tax rates may arise from the combined effects of means-tested income transfers, income taxation and graded fees for public services (like children's day-care), preventing even those with low unemployment benefits from increasing their disposable income by accepting precarious, low-paid jobs. The measures for combating these problems have included alleviation of the tax burden on low earnings, alleviation of means-testing in unemployment benefits with respect to earned income, as well as changes in the schemes for supporting care for small children. To improve indirect job-related benefits in atypical employment, efforts have also been made to identify and abolish any remaining inequalities in entitlement to social security, depending on the form of employment.

Unemployed persons who have accepted part-time or full-time work lasting less than a month are entitled to an adjusted unemployment allowance. In cases of casual earnings, the rate at which benefit is reduced was lowered from 80 to 50% at the beginning of 1997. This rate is applied to all monthly earnings, however, whereas an income threshold of FIM 750 (ECU 129) used to apply. The amendment actually decreased the net gains from monthly earnings up to FIM 2,000 (ECU 344), but increased the gains from higher casual earnings.

Besides youth training, great efforts have also been made to give a new impetus to adult training. Employees dismissed for economic or production-related reasons are paid – subject to certain qualifying condi-

tions concerning age, duration of employment relationship and unemployment – a lump-sum compensation. The scheme, administered by the Education and Redundancy Payment Fund, has been gradually modified along the lines of an adult education scheme by paying supplements for time spent in training and relaxing the eligibility criteria in the case of training. This adult training supplement is tax exempt and amounts to FIM 1,000 per month (ECU 172).

In autumn 1995, the government decided to allocate a certain amount of money for granting unemployed people within the UI scheme the right to income support equal to their earnings-related benefit for periods of vocational training. At present, participation in labour market training entitles people to a similar training allowance. In optional training, however, the person is entitled to an adult study grant which is much lower than the UI benefit. The government nominated two administrators, who made their proposals for training allowances for optional training in January 1997. The government is to submit its proposal for the training allowance for the long-term unemployed in April 1997. According to the proposal, long-term unemployed people with at least 12 years' employment are to be entitled to a training allowance for a maximum of two years. The allowance is equal in amount to the unemployment benefit and the time spent in training is not included in the maximum period of entitlement for unemployment benefits.

There are three publicly funded schemes in operation in Finland whose aim is to encourage work-sharing. The part-time pay supplement scheme, first introduced in March 1994, was established permanently in 1997. As a compensation for loss of earnings, pay supplement can be allocated to a person who voluntarily changes from full-time to part-time work. The replacement rate is 50%, with a ceiling of about FIM 4,300 per month (ECU 740). The maximum duration of the pay

supplement is 12 months and the employee is entitled to return to full-time work after the period. The arrangement is based on a voluntary agreement between the employee and employer. The employer has to recruit an unemployed jobseeker, but not necessarily in the same job.

Experiments into reduced working-time schedules in the local government sector are also supported by granting employment subsidies for recruiting additional staff. The experiment is to run from July 1996 to the end of December 1998 in 20 municipalities.

Besides encouraging work-sharing, the job-rotation scheme – introduced on a pilot basis in 1996–1997 – also intends to broaden the scope for individual career breaks and to bring “young blood” into workplaces. It is based on a voluntary agreement between a full-time employee and his or her employer for the employee to take leave for studies, training or personal reasons for a fixed period of between three months and a year. The person on job-rotation leave receives 60% of the unemployment benefit allowance he or she would be entitled to, up to a ceiling of FIM 4,500 per month (ECU 774). In the case of vocational training, a training supplement can also be granted. The allowance is tax exempt and amounts to FIM 1,000 per month (ECU 172). The employee is entitled to return to the same job, and the employer is obliged to recruit an unemployed jobseeker for the same period, but not necessarily for the same job.

The role played by the public employment service in the implementation of ALMP measures is critical. Most active labour market policy spending passes through the public employment service. To qualify for unemployment benefits, unemployed people have to register at a public employment office, which performs the control function of assessing the responsibility of claimants to seek jobs. The public employment service also provides placement, vocational guidance and information services. Due to changes in

the composition of clients, there are strong demands for diversified, individually tailored packages of services. Staff resources at local employment offices have been scarce, however, restricting the adoption of labour-intensive operational methods.

## Evaluation

Finnish evaluation studies have mostly dealt with the two measures – employment subsidies and labour market training – that make up the great majority of all active measures. In general, the findings have been more favourable than public opinion on the measures. Even though there have been many follow-up studies on ALMP measures, few of them have made use of econometric methods to control for the effects of individual characteristics and to disentangle the specific effects of policy measures. In the face of oversupply on the labour market, short-run outcomes in terms of employment following the training or subsidised work have admittedly been quite poor. Participation in these schemes has contributed to closer involvement in the labour market, however. A widely held view, though, is that subsidised jobs have been concentrated too heavily in the public sector, where the number of permanent staff has been cut and regular tasks are being circulated among the temporary subsidised workers. The critical challenge, therefore, is to design schemes that encourage private companies to provide subsidised job opportunities, while avoiding deadweight effects as well as distortion of competition between companies.

Due to insufficient staff resources, the extensive ALMP measures have exhibited little by way of individual design and implementation. New efforts have recently been launched for screening elderly long-term unemployed people to examine their individual circumstances and needs for training or rehabilitation. Making the ALMP measures a part of an individual upgrading plan calls for greater resources in the local employment



offices, but could probably improve the attainment of sustainable results. In many remote regions, the very limited job opportunities on the normal labour market necessarily diminish the benefits of ALMP measures. In these circumstances, voluntary work in citizens' organisations could be developed – at the initiative of local partners – to provide alternative avenues for meaningful activities.

As to the activating measures, many of them are quite new, so that little evidence is available on their performance. Take-up in the work-sharing schemes has so far been rather low (4,800 persons, on average, were paid the part-time pay supplement in 1996, and the total number of people starting on job-rotation leave was 5,500). The great majority of the users have been middle-aged or elderly women working in the public health and social welfare services. The substitutes have been somewhat younger women, who had typically worked for the same employer earlier and been unemployed for a very short time before the placement. Thus, the replacement obligation does not reach the target groups of ALMP measures. In general, there seems to be a need for some incentives for employers to implement

such schemes and to handle the extra burden of hiring and familiarising the unemployed with the work. Allowing the payment of employment subsidies even for the recruitment of temporary substitutes could serve to integrate work-sharing schemes with selective ALMP measures.

Finally, the very extensive practical training schemes – involving more than 30,000 people on average – seem to exert distortionary effects on the labour market. In the youth labour market, practical training alongside labour market support constitutes a good example of this. The popular option of employing young people without pay risks displaces normal recruitment and makes other alternatives like further apprenticeship training a less attractive option. Besides young people, those whose unemployment benefits have been exhausted (after 500 days) make up another large group on labour market support. In 1996, there were 170,000 unemployed people, on average, on labour market support, 90,000 of them because of the exhaustion of unemployment benefit allowances. Many of them are 40–54 years of age with low educational qualifications and previous work experience in the manufactur-

ing and construction sectors, or people with a very fragmented work career. This is the group at particular risk of labour market exclusion. It is obvious that any sustainable solution will demand intensive measures that should, in order to enhance motivation, acquire a reputation for offering reasonable employment prospects for the participants in the future<sup>1</sup>.

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1 A comprehensive reform of Finnish labour market policies is currently in preparation.



## Sweden

### Active and Passive Labour Market Policies in Sweden

Labour market expenditure in Sweden corresponded to 5.5% of GDP in 1995, of which 3% was spent on active and 2.5% on passive measures.

In the fiscal year 1993/94, outlays on passive measures were almost as high as those on active measures for the first time in decades, but by international standards Sweden is still the country with the strongest emphasis on active measures.

Indeed, over recent years the extent of active labour market programmes in Sweden has by far surpassed the levels of earlier recessions. In 1996, around 200,000 persons participated in regular labour market programmes (excluding pro-

grammes for the disabled, which included an additional 86,000 people).

Around 4 to 5% of the labour force participated in regular labour market programmes in 1996<sup>1</sup>. Combining that figure with an unemployment rate of 8.1% implies that the number of people who were either unemployed or in programmes corresponded to approximately 12–13% of the labour force in 1996. The figures for the unemployment rate and the percentage taking part in labour market programmes have not fluctuated markedly during the past four years.

The active LMP programmes can be grouped into demand-side and supply-side measures. Taken together, the demand-side programmes involve far more people than the supply-side programmes. However, in many of the newer programmes, such as the work-experience scheme (see next section), the border between the supply and demand side is not as clear as in former programmes, because of their alleged training content.

In Sweden, it is possible to combine part-time work with different types of part-time pensions, thus facilitating gradual withdrawal from the labour force. The inflow into partial retirement has varied with changes in the regulations, the wage-compensation rate and the business cycle. The latest changes in regulations imply more restrictions. From 1995, the maximum reduction in working time compensated for is ten hours per week.

### New types of LMP measures

The structure of active labour market policy in the early phase of the present economic crisis, which started in the early 1990s, differed from that of earlier economic slowdowns (see, for example, Johannesson & Wadensjö 1995). Firstly, the government waited longer to increase the volume of labour market programmes. Secondly, employment training was emphasised, as opposed to temporary job-creation schemes

(remunerated at the going wage rate), which had been the main labour market programme used to stabilise the business cycle in former recessions. Thirdly, several new labour market programmes were introduced. Some of these programmes have become very extensive (see below).

From 1992 onwards, the policy of giving priority to employment training changed and temporary job-creation schemes expanded again – but these schemes now had a different profile. In 1993, a new form of temporary employment scheme was introduced, the work-experience scheme (*arbetslivsutvecklingsprojekt* – ALU). Five new and important characteristics of this programme are that (a) only people who are eligible for unemployment benefits may be placed, (b) the compensation paid is the same as the unemployment benefit, (c) the work is supposed to have a training component, (d) the work is carried out not only in the public sector but also in the private sector, with an emphasis on non-profit organisations, and (e) the work undertaken would not have been carried out without the subsidy. This programme has now become the most extensive demand-side programme.

Another important and growing programme, introduced in 1995, is the workplace introduction scheme (*arbetsplatsintroduktion* – API), which is an amalgamation of earlier separate work-experience programmes. The workplace introduction is in many respects similar to the work-experience scheme. The most important difference is that it is not exclusively targeted towards unemployment benefit recipients. In the Spring Bill 1997, presented in mid-April, the government has proposed a relaxation of the rules permitting participation periods beyond the standard six months in ALU and API.

Just as during the downturn in the early 1980s, special programmes for young people were introduced in the early 1990s. The three main differences compared to the programmes of the early 1980s are that (a) employment is now subsidised mainly in

the private sector as opposed to the public sector, (b) national programmes cover mainly persons aged 20–24 years, while municipalities are responsible for those below 20, and (c) the incentives for people under the age of 20 years to take part in upper-secondary education, instead of participating in different types of regular work training, are heavily emphasised. The lower age limit for participation in a labour market programme is usually 20 years.

In late 1996, a new labour market programme targeted towards people who fulfil the following three conditions was launched: (a) older than 55 years, (b) unemployed for more than two years, and (c) eligible for unemployment benefit. This measure is called “public temporary jobs for the elderly unemployed” (*offentliga tillfälliga arbeten för äldre arbetslösa* – OTA), in which employment is expected to be long term (as compared to most other measures where a placement generally ends after a maximum of six months). The participants are given a smaller grant on top of the basic remuneration, which is equal to the participant's unemployment benefit. They are expected to work 90% of normal hours and to look for a regular job for the remaining 10%. The programme only involves the public sector and participants are explicitly supposed not to perform regular work tasks. Up to April 1997, take-up has been relatively low.

In July 1997, a five-year programme to expand adult education commences. Long-term unemployed adults (25–55 years) with less than three years of upper-secondary education are given priority. People in this group will have the opportunity

<sup>1</sup> People who participate in some of the labour market policy programmes introduced during the 1990s are classified as outside the labour force. Therefore, around 80% of the participants in regular active LMP measures are not included in the Labour Force Survey definition. In former recessions, people who participated in programmes, with the exception of employment training and employability institutes, were all included in the labour force.

to enrol in adult upper-secondary education schemes. A grant corresponding to the unemployment benefit will be given for a maximum period of one year.

In the Spring Bill 1997, the government has proposed "a more active use of unemployment benefits". Various, locally based activation projects targeted to benefit recipients are to be initiated over the period from July 1997 to December 1998.

Also in the Spring Bill 1997, temporary so-called "resource jobs" within the public sector are proposed. The jobs are targeted at benefit recipients. This proposal is based on the experience of the so-called Kalmar project, a trial project in the municipality of Kalmar in the south-east of Sweden. In these resource jobs, benefit recipients are supposed to perform quality-improving – i.e. not regular – work tasks during 90% of normal hours and to look for a regular job during the remaining 10%. The participants keep their benefits during participation and the employer may top this up to a maximum of 90% of previous income (up to an earnings ceiling). The maximum duration of participation is six months.

In addition, the government proposes that long-term unemployed people aged 60–64 years shall be given the option to withdraw from the labour force while retaining unemployment benefit up to the normal age of retirement (65 years). Under the proposal, this option remains in force only from July to December 1997<sup>2</sup>. In the Spring Bill 1997, the government has also announced a plan whereby support will be provided in cases where people aged 63–64 years retire and are offered severance payments and the employer instead hires a younger long-term unemployed person.

## Changes in the Unemployment Benefit System

The Swedish unemployment benefit system consists of two parts: a vol-

untary unemployment insurance (*arbetslöshetskassa* or a-kassa), i.e. an earnings-related compensation (up to an earnings ceiling; both membership and qualifying conditions are to be fulfilled), and a flat-rate, comparatively low compensation (*kontant arbetsmarknadsstöd* or KAS), without membership obligation. The compensation rate in the unemployment insurance system was 90% of previous earnings prior to July 1993, after which it was reduced to 80% and then to 75% as from January 1996. The earnings ceiling in 1996 was around SEK 16,500 per month. In the flat-rate benefit system, KAS, the compensation was SEK 230 per working day in 1996. It has been lowered by small amounts since 1993.

In recent years, some restrictions on benefit eligibility have been introduced. In late 1995, the possibility of obtaining unemployment benefit (of any kind) on a part-time basis was restricted to the initial unemployment period if the benefit recipient held a permanent part-time position at the end of this first benefit period.

In mid-March 1997, the government presented a major proposal under which the unemployment insurance and the flat-rate benefit systems are to be merged into one system in 1998. Under the proposal, the compensation rate in the unemployment insurance system is to be restored to 80% in September 1997, and the KAS benefit is to increase somewhat. The increase from 75 to 80% is, however, to be financed by higher contributions to the unemployment insurance funds corresponding to around SEK 20–25 (around ECU 3) per member and month. The benefit period for KAS recipients is to be the same as for unemployment insurance recipients, which means a longer period compared to the current situation. A longer qualifying period is suggested in the proposal.

In addition, an upper limit for the income from marginal employment is proposed. There is currently no such limit: if the marginal job is not

considered to prevent the jobseeker from taking on a full-time job, there is no ground for reducing benefit. Together with this restriction, a loosening of the regulation concerning the self-employed is proposed. Currently, in order for a self-employed person without work to receive unemployment benefit, the activities in the firm have to permanently cease. The government now proposes that it will suffice that activities be temporarily suspended, although the suspension must not be due to seasonal fluctuations.

## Programme participation – a means to renew benefit eligibility and a work test

In the Swedish unemployment benefit system, labour market programmes are available as a means to renew benefit eligibility. This right to benefit renewal means that in practice the benefit period is unlimited: at the same time, programme participation may also be used as a work test. If a benefit recipient refuses to participate in a programme suggested by the employment officer, he or she may lose the right to benefits.

One of the main topics in the current labour market policy debate is the problem concerning the so-called "measure-dominated employment career". This system means that, although long-term unemployment – meaning long, uninterrupted spells of unemployment – is not as prevalent in Sweden as in many other Member States, it is not unusual for those out of work to alternate spells of unemployment with spells of labour market programme participation over an

<sup>2</sup> This measure contrasts with the decision in 1991 to abolish retirement for labour market reasons. Between 1971 and 1991, a special unemployment-related disability pension for older workers was in force. Exhaustion of unemployment benefits entitled disabled people aged at least 60 to this pension. These pensions were frequently used as an exit route from the labour market in cases of lay-offs. A large proportion of registered unemployment among older workers was, in practice, a form of early exit from the labour market.

extended period. Recurrent unemployment is also common<sup>3</sup>.

In 1996, the government proposed that the period of unemployment compensation combined with labour market programme measures should be limited to a maximum of three years. A majority in the Riksdag voted for this proposal and the new rules were meant to come into force in January 1997. However, the decision was annulled during the fall of 1996 and no new rules were implemented. The question of a time limit on the receipt of unemployment benefit is to be investigated again.

## Evaluations

The question of whether, and if so how, active labour market policies can be used to combat persistently high unemployment in Europe has attracted growing interest. In this context, Sweden, with its long tradition of emphasising full employment based on an active labour market policy, has often been seen as a shining example. However, evaluations of Swedish programmes indicate that their effects have been less favourable in the present recession than in earlier periods<sup>4</sup>.

A common belief concerning labour market programmes is that they are too extensive to be effective and that the beneficial effect for the individual of switching between unemployment and programme participation several times in order to renew benefit eligibility is of doubtful value at the macro level. Despite this, there are conflicting views regarding the effects (on unemployment and on the income distribution) of the introduction of an "absolute time limit" in the unemployment benefit system. Some people claim that the positive effects on unemployment of increased search effectiveness would dominate. Others fear that, while the costs for unemployment benefits decrease, the main effect would be to increase poverty and to merely switch spending to social benefits.

One intrinsic problem with evaluation studies is that in most cases

they do not incorporate the effects that active labour market policies may have on the behaviour of non-participants. Such effects include deadweight, substitution and displacement effects. All these effects lower the net employment results of programmes. Sometimes these effects are desired, for example, when a demand-side programme is used to even out the employment effects of the business cycle or when a group of people on subsidised jobs temporarily crowd out persons who have relatively better chances on the labour market. Active labour market policy measures may increase aggregate wage pressure through lower search intensity (while participating in a programme) and if programme participation is seen as a "lesser evil" than being unemployed, thus increasing reservation wages. This in turn suggests that the extent of regular employment, through the increased wage pressure, may be adversely affected. Beneficial employment effects, on the other hand, may occur if the unemployed, through programme participation, acquire more competitive skills. Also, if the competitive position of outsiders on the labour market, e.g. long-term unemployed and youth, is weak, targeting labour market programmes towards these people need not imply upward pressure on wages.

But there are risks connected with targeting programmes exclusively towards outsiders. Such a narrow targeting may give programmes a bad reputation and thus function as a negative screening mechanism for employers.

In the case of the work-experience scheme (ALU), the workplace introduction scheme (API) or the public temporary jobs for the elderly unemployed (OTA), it is explicitly stated that no crowding-out should occur. OTA and API are such recent measures that no evaluations have been carried out so far, but some studies have been conducted into ALU. They indicate that undesired substitution effects are present (see Forslund 1997; Hallström 1995).

The following policy-related conclusions can be drawn from the studies of Swedish labour market programmes:

- Active labour market policy was used as a fairly efficient counter-cyclical measure to stabilise the business cycle over several decades. In the early 1990s, by contrast, implementation was poorly timed: labour market programmes were reduced at the same time as unemployment grew.
- Most studies have been conducted in the context of low unemployment. In the present high unemployment context, it has been suggested that labour market policy programmes might be less effective.
- The effects of programmes on wage determination are still unclear. Studies have produced conflicting results, often based on just a few observations. Unsolved methodological problems remain.
- There are indications that demand-side measures have larger undesired employment effects than supply-side measures.
- Because of the existence of such undesired effects, only marginal positive net employment effects have been acknowledged.
- Few real negative effects have been found, although Regné (1993) did find significant negative effects on average earnings one year after participating in employment training (a supply-side programme).

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3 Ackum Agell et al. (1995) find that most of the unemployment periods during 1991-1994 were rather short, but that 60% of those who ended an unemployment spell by programme participation were unemployed again within six months and as many as 85% were unemployed again within a year. The corresponding figures for those who found a job were 44 and 60%, respectively.

4 Calmfors (1994) presents the theoretical background to and an overview of Swedish and international evaluation studies. In Johannesson & Wadensjö (1995), some evaluations of Swedish labour market programmes are presented. An extensive overview of recent Swedish evaluation studies is found in Zetterberg (1996).

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## United Kingdom

### Active and Passive Labour Market Policies in the United Kingdom

OECD data on expenditure and participant inflows in labour market programmes show that:

- the UK spends proportionately less of GDP on labour market policy than most of the EU Member States;
- the UK spends proportionately less of its total labour market policy expenditure on "active" labour market policy (ALMP) than do most Member States;
- participant inflows into ALMP represent a smaller (but growing) proportion of the labour force in the UK than in most Member States.

Two factors dictate caution in interpreting these data:

- The UK has recently had a lower unemployment rate than most Member States. Its ranking in terms of participant inflows is, therefore, somewhat higher when expressed as a percentage of the unemployed stock, rather than of the total labour force.

- OECD data on ALMP participants do not cover initiatives delivered through the Employment Service (ES), including job-search assistance, counselling and similar support activities, although they are included in the expenditure data. The recent shift in the UK towards such initiatives, involving lower per capita costs than more "traditional" ALMP measures, means that the static (and relatively low) overall ALMP expenditure levels conceal growing participation levels, not fully reflected in the OECD data.

### Targeting by unemployment duration

A key feature of UK ALMP is that target groups are typically defined by unemployment duration. Most active measures cut in at six months of unemployment or later. The assumption behind this approach is that there is no reliable method of identifying those at risk of long-term unemployment (LTU)<sup>1</sup>. Since most entrants to the unemployment register flow off again within six months<sup>2</sup>,

early intervention would have a high deadweight element. The short-term unemployed are offered the job-broking services of the ES, and some counselling and advice, but the major policy input is reserved for those reaching six months unemployment, and higher duration thresholds trigger eligibility for further, more intensive measures.

### Classification of active measures

We adopt a simple classification of the main types of ALMP in the UK (see Gregg 1990). The categories in the classification overlap, but they enable us to examine the main strategic shifts in the UK approach. We distinguish, in particular, between:

1. recruitment subsidies;
2. direct job creation in the non-market sector (including small-scale

1 See the discussion of the "early identification" issue in Hasluck et al. (1996).

2 Of new claimants entering unemployment in the period 1994-95, 52% leave the register within three months, and two-thirds (67%) leave within six months (Department for Education and Employment 1997, p. 31).

local programmes generating jobs in the “intermediate” labour market);

3. labour-supply reduction, e.g. by subsidising work-sharing or early retirement;
4. vocational training for the unemployed to increase their employability in the regular labour market;
5. other support or training aimed at employability, including job-search training and counselling aimed at improving “motivation” and work attitudes;
6. measures addressing market failure in recruitment; e.g. through targeted job-matching services, or subsidising employers to “try out” the unemployed;
7. several of the above categories incorporate “activation” through sanctions; but activation is sufficiently important in the UK to identify separately. Two strands can be distinguished: measures reducing the reservation wage of the unemployed by making it harder (through benefit sanctions) to refuse low-paying jobs; and measures based on a “workfare” model, whereby the unemployed are required to work for their benefit;
8. measures involving “activation” through incentives, tackling the “unemployment trap” by making it possible to retain benefits on entering employment.

### Evolution of UK ALMP strategy

Table 1 gives a simplified overview of the recent evolution of UK ALMP. The “ticks” represent the relative importance (interpreted in terms of expenditure and/or participant numbers) of the different policy types in the overall portfolio.

In the late 1970s, the economic crisis that followed the first oil shock led to unprecedented mass unemployment. Aggregate demand management remained important, and ALMP focused on employer subsidies, direct job creation and small-scale measures reducing labour supply. Training measures were not

widespread and were focused on youth.

The early 1980s brought a Conservative government, a deep recession, and a growing emphasis on supply-side policies, although this did not feed through immediately into ALMP. The main shift occurred in the mid-1980s, when demand-side measures were replaced on a massive scale with training measures. The dominant belief was that state intervention was justified only in cases of market failure, which was seen to apply not only to training, but also to job-search and job-matching measures delivered through the ES, which also expanded rapidly. The first elements of compulsion appeared at this time, with stricter behavioural tests for benefit receipt, the removal of benefit entitlement for some groups refusing to participate in schemes, and the introduction of schemes aimed at reducing “reservation wages”.

In the 1990s, the supply-side thrust continued, but accompanied by a proliferation of schemes under some of the traditional headings. Further, the emphasis on training for the adult LTU has lessened, under growing scepticism regarding its effectiveness. In part, the balance has further shifted to the lower-cost schemes of job-search training, improving work attitudes, and subsidising work placements for the LTU. There has, at the same time, been a re-emergence of interest in job-creation measures and recruitment subsidies, albeit on a

smaller scale and with more targeting than before.

How can recent developments be explained? In part, the new policy diversity reflects evaluation evidence that many existing measures have had little impact on the integration of disadvantaged groups into the labour market. Also, however, there is growing recognition that no single approach is effective for all groups, and there has been a growth in small-scale experimental and local policies. The wheel has not come full circle, however, and the current range of measures remains very different from that of the late 1970s, with more emphasis on interventions delivered through the ES, incorporating an increasing element of compulsion. These measures are large in terms of participant numbers, but have low per capita costs, and even if they have not had huge positive effects, their negative effects (e.g. market-distorting displacement and substitution) are also small.

### Current Measures – The Growing Role of “Activation”

Table 2 summarises the main recent active measures in the UK, highlighting those involving a degree of “activation” (through incentives or sanctions).

#### Activation through sanctions

The table shows that “activation” measures are well established in the UK’s overall ALMP strategy. We

**Table 1: Recent Evolution of UK Active Labour Market Policy**

Approach	Period			
	1970s	1980s: 1st half	1980s: 2nd half	1990s
Subsidies	✓✓✓	✓✓		✓
Job creation	✓✓✓	✓✓		✓
Supply reduction	✓	✓	✓	
Training – skills	✓	✓	✓✓✓	✓✓
Job-search support/counselling, etc.			✓✓	✓✓✓
Improved job-matching			✓✓	✓✓
Activation through incentives/sanctions			✓	✓✓

have already noted the growing "compulsion" associated with many active measures as one dimension of the emphasis on "activating" the unemployed. A trend towards a "stricter benefits regime" has been in evidence since the early 1980s<sup>3</sup>. The process began in 1982, when claimants of unemployment benefit were required to demonstrate that they were available for work. The main shift was in 1986, however, with the introduction of compulsory "Restart" interviews (now every six months), combining job-search assistance with rigorous checking of benefit eligibility and benefit penalties for non-attendance. Also in 1986, the period for which unemployment benefit is disallowed for those leaving employment "voluntarily" was extended from six to 13 weeks (and to 26 weeks in 1988). In 1988, 16–17 year-olds lost their right to unemployment-related benefits, effectively making the Youth Training scheme compulsory for unemployed young people. From 1988 all new claimants were interviewed to examine "availability for work", from 1989 were required to show that they were "actively seeking work", and after 13 weeks of unemployment were expected to widen their job search beyond their normal occupation and reduce their "reservation wage".

This trend accelerated in the 1990s. Those reaching 12 months of unemployment are now required (depending on their age) to participate in 1–2–1, Workwise or Jobplan Workshops, all involving compulsory job-search training or counselling, with temporary loss of benefits for non-attendance. Compulsory Restart Courses for those unemployed for two years similarly combine job-search training and benefit sanctions.

Further intensification of the sanctions approach is reflected in two new initiatives:

- The first (from October 1996) involves a new approach to benefit payment, merging Unemployment Benefit and Income Support

into the *Jobseekers' Allowance* (JSA). This simultaneously reduces the generosity of the benefit regime and further tightens the eligibility requirements. JSA is guaranteed for a period of only six months (previously one year), after which it is means-tested. All new claimants must sign a *Jobseekers' Agreement*, specifying their job-search activities, breach of which may involve benefit sanctions; they must attend an interview with the ES after 13 weeks of unemployment to reinforce the process of "widening" their job search.

- The second is *Project Work*, piloted in two areas of the country in 1996 (with an expected 8,000 LTU participants), and expanded to 29 other areas in early 1997 (to cover 100,000 participants). The basic principle (with local variation) is that after two years' unemployment benefit claimants must undergo 13 weeks' job-search training. After this, if they are still unemployed, they must undertake 13 weeks' compulsory work experience. Refusal to participate leads to loss of benefit.

### Activation through incentives

A second strand of this strategy has been an emphasis on "activation through incentives", via measures tackling the disincentives posed by the interaction between the benefits system and wages at the lower end of the labour market.

Key developments here are:

- *Family Credit* (FC), introduced in 1988, aims to encourage unemployed people to take low-paid work, and consists of a regular tax-free cash payment currently averaging GBP 48 per week (with around 600,000 recipients). To qualify, claimants must have at least one dependent child, work more than 16 hours per week, and have less than GBP 8,000 personal capital.
- *Disability Working Allowance*, introduced in April 1992, has a simi-

lar structure to FC, but aims to reduce the particular disincentives to work facing disabled people, in the light of their (relatively) high levels of benefit, and the growing numbers receiving disability benefits since the mid-1980s. Take-up of DWA is much lower than planned, however, with fewer than 10,000 recipients in April 1996, in contrast to the forecast 50,000.

- The three-year *Jobmatch pilots*, introduced in April 1995 in four areas, grant a weekly allowance of GBP 50 per week for six months to the long-term unemployed (over two years on the register) who take a part-time job (16–30 hours per week). Two further GBP 50 bonus payments are offered to those still working at six and 12 weeks after the end of the initial allowance period. Participants can also receive training vouchers worth up to GBP 300.
- The *Back to Work Bonus*, introduced in October 1996, alongside the new *Jobseekers' Allowance*, consists of a tax-free lump sum payable to an unemployed person moving into work. Related work incentives associated with JSA are a new rule enabling the partners of unemployed claimants to work 24 hours a week before losing benefit (the previous limit was 16 hours), and a new threshold disregard enabling a couple to earn GBP 10 per week before benefit loss.
- *Earnings Top-Up (ETU) pilots*, also introduced in 1996 in eight local areas (at a cost of GBP 75 million over three years, with 20,000 recipients planned), are a major innovation in UK in-work benefits, which for over 20 years have focused on families with children. ETU is payable to single people, the amount varying from GBP 47 to GBP 73 per week in the pilots,

<sup>3</sup> A comprehensive account of the shift towards "conditionality" in the receipt of unemployment benefits can be found in House of Commons Employment Committee (1996, pp. 20–23).

Table 2: Summary of Current and Recent Active Measures					
Programme	Type	Eligible	Participants (annual unless otherwise indicated)	Cost	Year introduced
Family Credit	<i>Activation through incentives</i> – in-work benefit	People in low-paid employment with dependent children	650,000 in Nov. 1995	£ 1,683m (1995/96)	1988
Disability Working Allowance	<i>Activation through incentives</i> – in-work benefit	Disabled people in low-paid employment	Total recipients – 5,800 (April 95); 9,400 (April 96)	£ 11m (1994/95) £ 15m (1995/96)	1992
Back to Work Bonus	<i>Activation through incentives</i> – allows benefit claimant to undertake part-time work	3m unemployed	Not known	Not known	1996
Earning Top-Up Pilots	<i>Activation through incentives</i> – in-work benefit, for people without dependants	Pilot in 8 areas	Total recipients in pilot expected to be 20,000	£ 75m over 3 years	1996 (3-year pilots)
Parent Plus Pilots	<i>Activation through incentives</i> – support and incentives for single parents to enter work	Pilot in 12 areas	Up to 100,000	£ 20m	1997
Jobseekers' Allowance	Replaces unemployment benefit and income support <i>Activation through sanctions</i>	All unemployed	Total claimants of unemployment benefit and income support 2.1m (Nov. 1995)		1996
Youth Training & Modern Apprenticeships	Training – vocational skills	Unemployed 16–17 year-olds	247,900 (1996/97)	£ 701m	Variant of scheme since 1970s
Job-search Seminars	Job-search counselling/advice	3m unemployed	66,200 (1994/95) 61,870 (1995/96)	£ 4.4m £ 3.5m	1991
Job Review Workshops	Counselling/advice	3m unemployed	37,400 (1994/95) 31,000 (1995/96)	£ 2.2m (1994/95) £ 1.9m	1991
Job-search Plus (replaces Job Review Workshops & Job-search Seminars)	Job-search training and support	3m unemployed	80,000	£ 5.3m	1996
Travel to interview scheme	Subsidy for job-search costs	3m unemployed, from 1996 (previously 4 weeks)	51,000 (1994/95) 47,000 (1995/96)	£ 1.8m (1994/95) £ 1.7 (1995/96)	
Restart Interviews	Counselling/advice <i>Activation through sanctions</i>	6m unemployed	3.3m interviews 1993/94	£ 31m (1994/95)	1986
Job Interview Guarantee	Targeted job-broking	6m unemployed (+ priority groups)	300,000 (1994/95) 243,300 (1995/96)	£ 1.0m (1994/95)	1989
Work Trials	Subsidised short-term placements	6m unemployed (+ priority groups)	20,000 (1994/95) 29,000 (1995/96)	£ 8m (1995/96) £ 6.4m (1996/97)	
Jobclubs	Job-search support/counselling	6m unemployed (+ priority groups)	266,400 (1994/95) 243,300 (1995/96)	£ 42.7m (1994/95) £ 41.9 m (1995/96)	1984
Workskill Pilots	<i>Activation by incentives/training</i> (allows unemployed to study part time)	6 months unemployed	4,000 (1997/98)	n/a	1997



Training for Work	Training – vocational skills	6m unemployed (earlier for special needs groups)	276,000 (1994/95) £ 693m (1994/95) 214,000 (1995/96) £ 540m (1995/96) 197,000 (1996/97) £ 485m (data for England only) 30,000	1993
Pre-vocational Pilots (for those not ready to benefit from Training for Work)	Training – basic skills	unemployed with “special needs”		1997
Community Action	Job creation	12m unemployed	47,600 (1994/95) £ 98.5m (1994/95) 28,700 (1995/96) £ 70m (1995/96)	1993 (abolished 1996)
1-2-1	Counselling + <i>compulsion/activation</i>	12m unemployed (18-24 year-olds – to include over 25s in 1996/97)	95,000 (1995/96) to be increased to 240,000	1994
Workwise	Job-search support + <i>compulsion/activation</i>	12m unemployed (18-24 year-olds) Normally follows 1-2-1	10,000 (1994/95) £ 1.9m (1994/95) 29,300 (1995/96) £ 5.7 m (1995/96)	1994
Jobplan Workshops	Job-search support/counselling = <i>compulsion/activation</i>	12m unemployed (over 24 year-olds)	250,000 (1994/95) £ 29m (1994/95) 145,000 (1995/96)	1993
NI “Holiday”	Subsidy (social costs)	2 years unemployed	120,000 planned £ 28m planned (2,000 actual in first 6 months) Revised to £ 1.5 m	1996
Job-match Pilots	<i>Activation by incentives</i> – allowance to unemployed taking part-time jobs	2 years unemployed	3,361 (1995/96) £ 4.4m (1995/96) £ 5.1m (1996/97)	1995 (until 1998)
Project Work (pilot) Project Work (extension)	<i>Compulsory job-search assistance</i> + “workfare”	2 years unemployed (age 18-50)	8,000 (1996/97) £ 12m 100,000 (1997/98) £ 100m	1996 1997
Restart Courses	Job-search training + <i>compulsion/activation</i>	2 years unemployed	147,100 (1994/95) £ 11.4m (1994/95) 107,100 (1995/96) £ 9m (1995/96)	1990
Jobfinders’ grant	Grant to offset initial costs of starting work	2 years unemployed	4,700 (1994/95) £ 0.7m (1994/95) 25,000 (1996/97) £ 5.0m (1995/96)	1994 (pilot) 1995
Contract for Work Pilots	Placement contracts for long-term unemployed with private sector	2 years unemployed	6,000	1997
Workstart Pilots	Subsidy (wage costs)	2-4 years unemployed	1,200 (1994/95) £ 2.35m (1996/97) 5,000 (1995/96)	1993

Sources: various (including DFEE Departmental Report 1996; Social Security Statistics 1996; DFEE Press Release; House of Commons Written Answers). Note that most of the data above refer to England and Wales. Similar schemes exist in Scotland, and Northern Ireland, but the data are collated separately.

with a 70% taper as income increases. Other conditions are similar to Family Credit, although a lower rate is paid to those aged under 25.

## Evaluation

The evaluation literature in the UK has been recently summarised elsewhere (see Robinson 1996; European Commission 1997; Meager 1996). Here, we selectively examine the findings of a few recent UK evaluations of sanctions and incentive-based measures.

### Evaluation of sanction-based activation measures

Restart was the first major ALMP initiative with a sanction-based element, and it remains unclear whether its positive impact on the unemployment register (as revealed by early evaluation results) (White & Lakey 1992) reflects its job-search support component or its sanctions orientation. Some recent research (Dolton & O'Neill 1996) suggests that the latter is important, with Restart participants being no more likely to exit to “stable” jobs (three months plus) than a control group, raising the possibility that Restart sanctions may encourage people to leave the register for short-term employment with poor prospects.

Evaluation of the more recent Project Work (“workfare”) and

the Jobseekers' Allowance has yet to be completed. Monitoring evidence on both initiatives suggests, however, that they are both leading to significant numbers "signing off" the unemployment register<sup>4</sup>. There is no evidence, however, on the composition of these register effects, and it is unclear how far they reflect genuine movements (into jobs, other benefit states or economic inactivity), and how far they reflect the deterrence of "fraudulent" benefit claims.

### Evaluation of incentive-based activation measures

Despite the long history of in-work benefits in the UK, they have been seen as part of social security policy rather than of ALMP, there has been, until recently, little evaluation of their labour market impact, and the evidence on this remains mixed.

An evaluation of Family Credit in 1991 showed that 35% of those eligible did not claim FC, although take-up has subsequently grown. There has been no evaluation of its labour market impact, although survey research (Marsh & McKay 1993), concluded that the benefit had helped mainly single parents into low-paid work, with little hard evidence of a wider incentive effect. On the positive side, employer surveys suggest, contrary to expectations, that FC has not lowered wages (see Callender et al. 1994). It has been argued, however, that any impact on the unemployment trap is offset by the creation of a "poverty trap" (see Robinson 1997), since as earnings rise, FC is withdrawn at a rate of 70%. When combined with income taxes, this implies an effective marginal tax rate of over 90%.

The evaluation of Disability Working Allowance (Rowlingson & Berthoud 1996) casts further doubt on the extent to which means-tested in-work benefits provide an incentive to work. The research indicates both low awareness of the benefit among the target group, and that "DWA has had a very small impact in terms of encouraging people into work", giv-

en the many other barriers facing disabled people, including their own low expectations of work, reinforced by employer discrimination.

There is no full evaluation of the Jobmatch grants for part-time work, but a monitoring study<sup>5</sup> of the first scheme showed little impact in facilitating a transition to full-time employment, with only 4% of those completing the scheme having increased their working hours since the start of the scheme.

No monitoring or evaluation has been completed of the most recent initiatives (Back to Work Bonus, Earnings Top-Up), but it is important to note that ETU is the first major social security benefit to be fully piloted, and a rigorous evaluation is under way, examining the impact of different benefit rates in different pilot areas, the experiences of participants and non-participants, and the impact on wage-setting and recruitment behaviour. This will provide the first comprehensive assessment of the labour market impact of in-work benefits in the UK.

### Conclusions

Evaluation evidence suggests that most active measures adopted in the UK (including skills training, job-search support, counselling, job-matching and subsidies) have had some (often small) positive impact on employment outcomes. The main exception is that there is little evidence that direct job-creation programmes alone (such as Employment Action and the Community Programme) have had significant employment effects beyond the scheme period (see Payne et al. 1996; Disney et al. 1992). A further key evaluation finding is that mixed approaches may be the most effective. For example, training programmes which incorporate other elements such as job-search support, or practical work placements with employers, may be more effective than training alone.

The evaluation results provide *prima facie* justification for the current

UK approach, which essentially consists not of a shift from passive to active measures, but rather of a reorientation in the balance of active measures themselves towards a portfolio consisting of:

- a wide range of measures;
- increased targeting of specific measures at the most disadvantaged groups;
- growing emphasis on low-cost-per-place schemes run through ES (job search, counselling, etc.);
- declining emphasis on skills training in favour of schemes offering work experience, work trials, or other means of bringing the LTU in contact with employers; as well as measures focusing on improving work attitudes and motivation.

As far as the other key aspect of recent policy development is concerned, namely measures involving "activation" through sanctions and/or incentives, there is little or no evaluation evidence allowing us to disentangle their impact. In the one comprehensively evaluated initiative (Restart), the overall short-run impact is small but positive, although this may be due as much to the "sanctions" leading to participants "signing off" the unemployment register for short-term jobs (or leaving the labour market altogether), as to Restart's job-search assistance and advice. Similarly, initial monitoring evidence on the important new initiatives (Jobseekers' Allowance and Project Work) suggests in both cases that the "signing off" disincentive is considerable. In the case of Project Work, the low initial rate of post-scheme entry into employment raises questions about the benefit of compulsory work schemes. Arguably, if the benefits system itself is struc-

4 Recent evidence suggests that around half of the fall in unemployment since October 1996 has been due to the changes in benefit eligibility associated with JSA (Working Brief, March 1997, pp. 4-5), and that 20-25% more people are leaving the unemployment register in Project Work pilot areas than in comparable areas (Working Brief, November 1996, pp. 4-8).

5 *Evaluation of Jobmatch*. London: The Stationery Office, 1996.

tured to deter fraud, a training or work-experience initiative for the genuine unemployed will have little need of compulsion. Indeed, given the clear evidence of employers' concerns about the motivation and work attitudes of the (long-term) unemployed (see Atkinson et al. 1996), it is questionable whether participation in a compulsory scheme will improve employers' perception of this group, and it may even stigmatise them further.

Full evidence on the incentive-based approach (in-work benefits), awaits the evaluation of Earnings Top-Up, but the existing evidence is at best disappointing, suggesting relatively low take-up of the benefits, little significant incentive effect, and that any impact on the unemployment trap may be at the expense of creating a poverty trap among the lower paid.

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# European Employment Observatory



The aim of the European Employment Observatory is to promote the multilateral exchange of information on labour markets and labour market policies between EU Member States and to produce and disseminate quality analyses and research on relevant issues for employment and labour market policy.

The European employment strategy adopted by the European Council in Essen in December 1994 imposed new demands on the Observatory. In particular, it is expected to contribute effectively to the task of monitoring the progress of labour market reforms that are in line with the common strategic goals. Following the changes introduced in 1996 to cope with these new challenges and tasks, the Observatory now consists of two networks — MISEP (Mutual Information System on Employment Policies) and SYSDM (System of Documentation, Evaluation and Monitoring of Employment Policies) — and a new RESEARCH advisory group.

The main products of the networks, which consist of members of the national labour market administrations (MISEP) and independent researchers (SYSDM, RESEARCH) and are administered by a common secretariat, are the following:

## **inforMISEP Policies**

This series reports four times a year on recent labour market policy developments in Member States. Following a summary drawing on the five recommendations for an integrated European employment strategy, the main section of "Policies" consists of the national reports supplied by the correspondents. Since 1993 "Policies" has also included a longer article ("Focus"), which is the responsibility of the Secretariat; "Focus" discusses a labour market or employment policy-related topic and often extends to non-Member States.

## **Basic Information Reports**

These are comprehensive national reports on all EU member countries. They are updated every two years and report on public labour market institutions (ministries and employment services), the statutory bases for labour, labour market and employment policies and, in particular, "active" and "passive" labour market policy measures; details of information and research institutions dealing with employment policy are also provided.

## **Tableau de bord**

The "Tableau de bord" is a synoptic overview of the labour market and employment policy measures implemented by the Member States, classified according to the five policy areas recommended at Essen.

## **Trends**

This main product of the SYSDM network appears twice a year and provides a comparative and in-depth overview of selected policies and developments in the labour markets of the Member States.

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