

Employment Observatory

SYSDEM TRENDS No. 28

Summer 1997



Employment & labour market

Employment & social affairs



European Commission

Trends appears twice a year in English, French and German.

It can be ordered free of charge from:

I.A.S.

Institute for Applied Socio-Economics

Novalisstrasse 10

D-10115 Berlin

Phone +49-30-2 82 10 47

Fax +49-30-2 82 63 78

e-mail eurocontact@ias-berlin.de

We will send you *Trends* twice a year in the language of your choice.

Please see the back cover for information about other products of the European Employment Observatory.

If you have any further questions, please do not hesitate to contact us.

Rough currency conversion rates

One European Currency Unit (ECU) was roughly equivalent to the following amounts of national currencies (9 June 1997):

Belgium	BEF	40.15
Denmark	DKK	7.41
Germany	DM	1.95
Greece	GRD	309.79
Spain	ESP	164.73
France	FRF	6.58
Ireland	IEP	0.75
Italy	ITL	1,921.48
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.

SYSDÉM correspondents:

Belgium/Luxembourg: Jan Denys, Higher Institute of Labour Studies, Leuven

Denmark: Per Kongshøj Madsen, Institute of Political Science, University of Copenhagen, Copenhagen

Germany: Kurt Vogler-Ludwig, Institut für Wirtschaftsforschung (Ifö), Munich

Greece: Athena Petraki Kottis, Research Centre, Athens University of Economics and Business, Athens

Spain: Luis Toharia, Departamento Fundamentos de Economía e Historia Económica, Universidad de Alcalá de Henares, Madrid

France: Sandrine Gineste, BIPE Conseil, Boulogne-Billancourt

Ireland: Jerry Sexton, Economic and Social Research Institute, Dublin

Italy: Manuela Samek, Istituto per la Ricerca Sociale (IRS), Milan

Netherlands: Marjolein Peters, EIM International, Zoetermeer

Austria: Ferdinand Lechner, I & R Sozialforschung, Vienna

Portugal: Helena Lopes, DINÂMIA, Centro Associado do Instituto Superior de Ciências do Trabalho e da Empresa, Lisbon

Finland: Tuire Santamäki-Vuori, Labour Institute for Economic Research, Helsinki

Sweden: Anna Thoursie, Swedish Institute for Social Research, Stockholm University, Stockholm

United Kingdom: Nigel Meager, Institute for Employment Studies (IES), University of Sussex, Brighton

European Commission:

Klaus Käding (DG V/A/2)

Secretariat of the European Employment Observatory:

I.A.S., Institute for Applied Socio-Economics, Berlin
Administrative director/publication manager: Angelika Zierer-Kühnle

Scientific director/programme manager: Peter Auer
Translation: Max Guggenheim (French), Klaus Rupprecht (German), Andrew Watt (English)

Layout: pinkuin satz, Berlin

Printing: Druckerei Conrad, Berlin

Foreword	4
----------------	---

Activation of Labour Market Policy in the European Union – Comparative Summary	4
--------------------------------------------------------------------------------------	---

Activation of Labour Market Policy

Belgium	10
Denmark	15
Germany	20
Greece	24
Spain	28
France	31
Ireland	36
Italy	40
Luxembourg	47
Netherlands	49
Austria	54
Portugal	58
Finland	62
Sweden	65
United Kingdom	69

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.

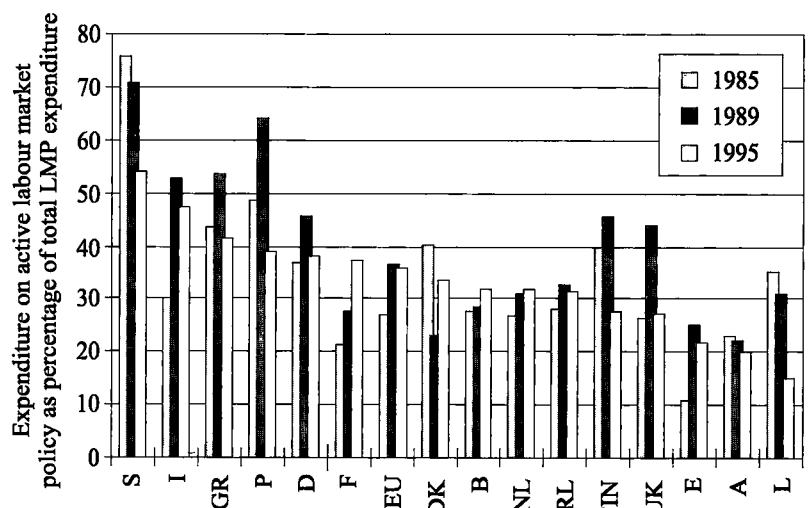
While all these reports agree on the necessity of more intervention in the labour market, they vary considerably in their policy proposals. With regard to active policies, the European Commission takes a clear position: the fourth of the five action areas agreed upon in the Essen Council meeting in late 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.

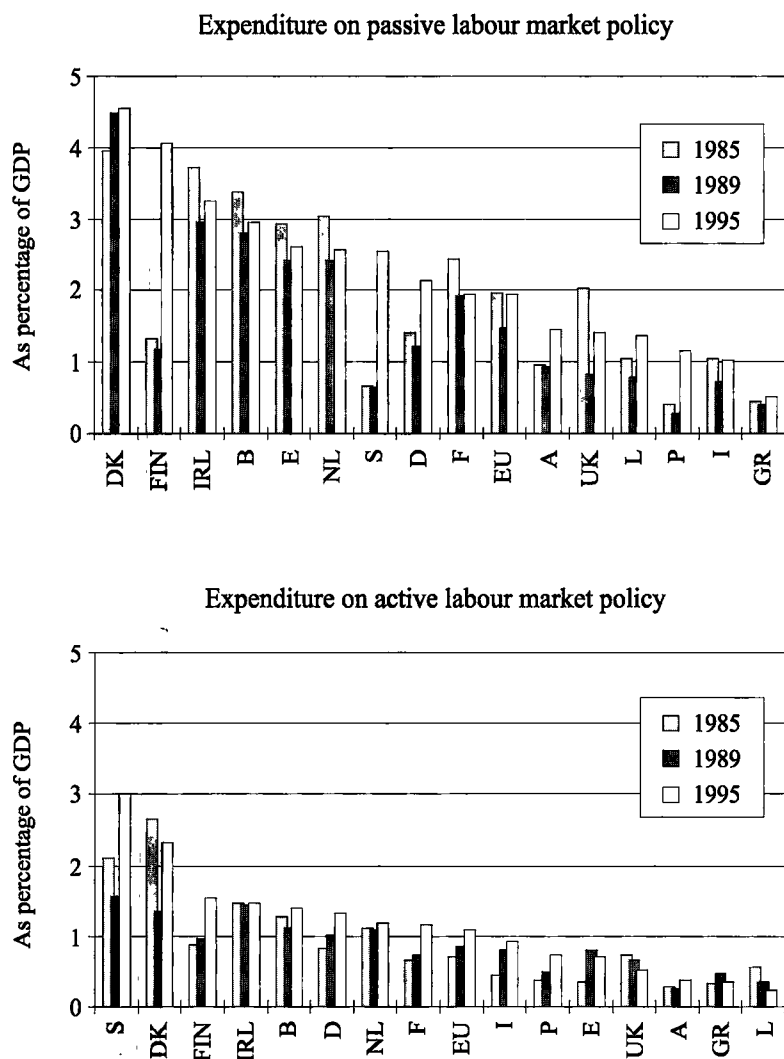
Figure 1: Labour Market Policy Activity Rate, 1985, 1989 and 1995*



* 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 OECD¹, 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)².

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.

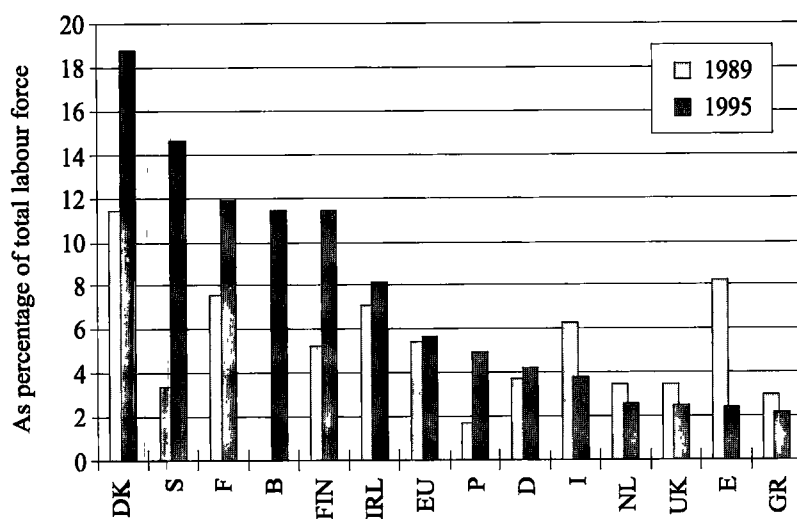
This might indicate that after a period characterised by an emphasis on supply-side measures, demand-side (job-creation) measures are staging a comeback. This is partially linked to the growing number of long-term unemployed for whom employment programmes are sometimes more appropriate than training 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.

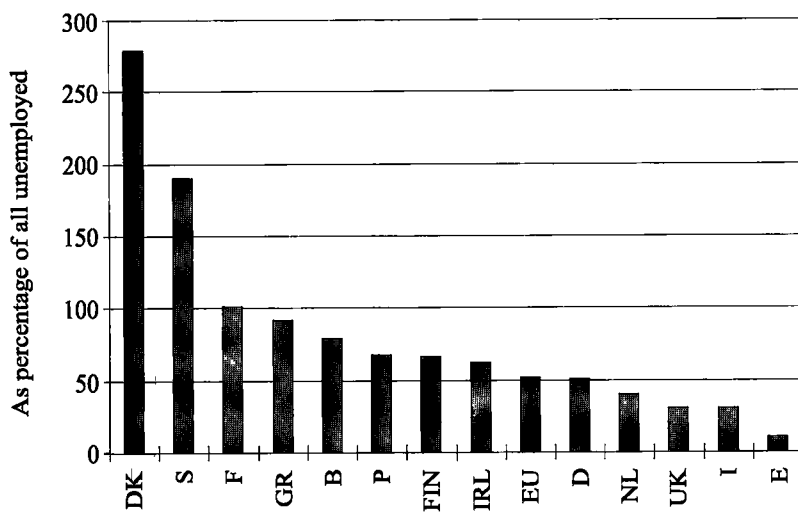
Figure 4: Entries to ALMP Programmes as Percentage of Total Labour Force, 1989 and 1995*



* 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 means³.

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-

³ 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.