

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.

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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.

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Layout: pinkuin satz, Berlin

Printing: Druckerei Conrad, Berlin

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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.

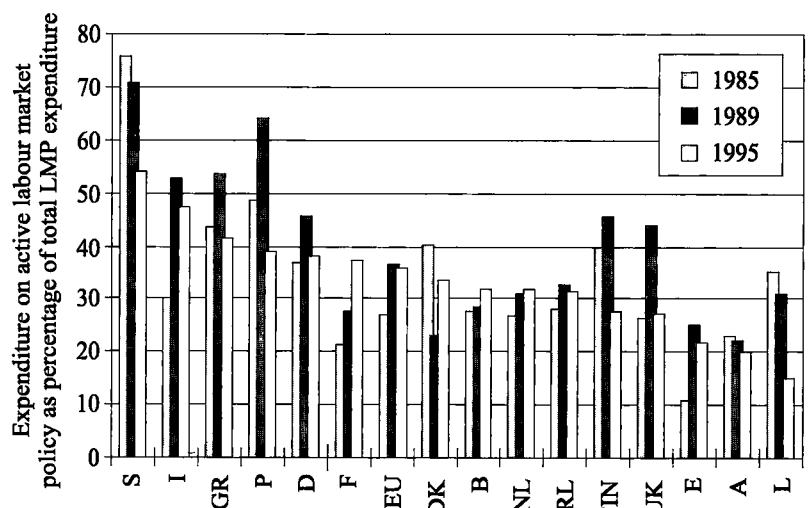
While all these reports agree on the necessity of more intervention in the labour market, they vary considerably in their policy proposals. With regard to active policies, the European Commission takes a clear position: the fourth of the five action areas agreed upon in the Essen Council meeting in late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

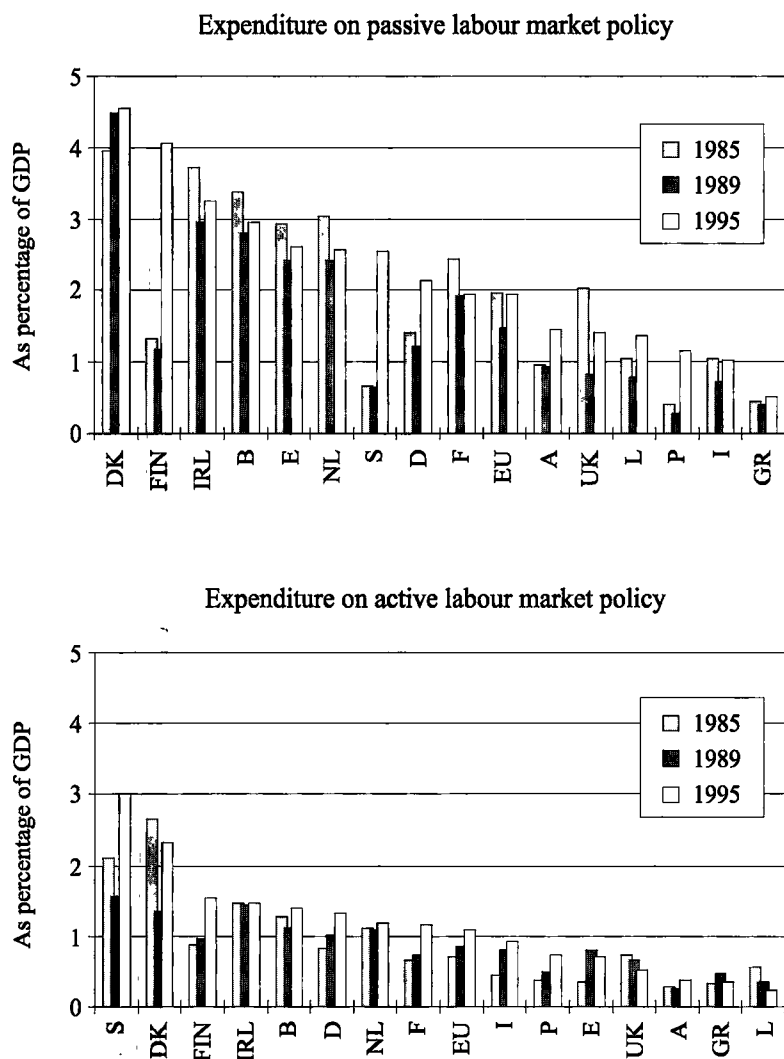
Figure 1: Labour Market Policy Activity Rate, 1985, 1989 and 1995*



* 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.

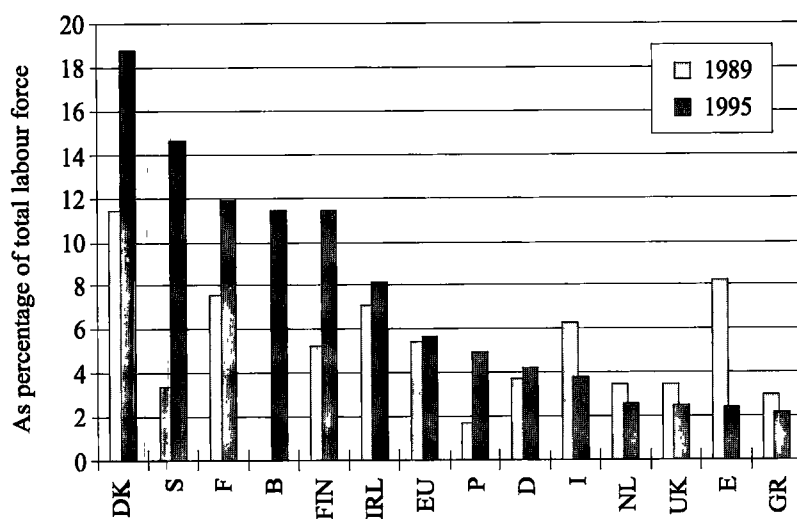
This might indicate that after a period characterised by an emphasis on supply-side measures, demand-side (job-creation) measures are staging a comeback. This is partially linked to the growing number of long-term unemployed for whom employment programmes are sometimes more appropriate than training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

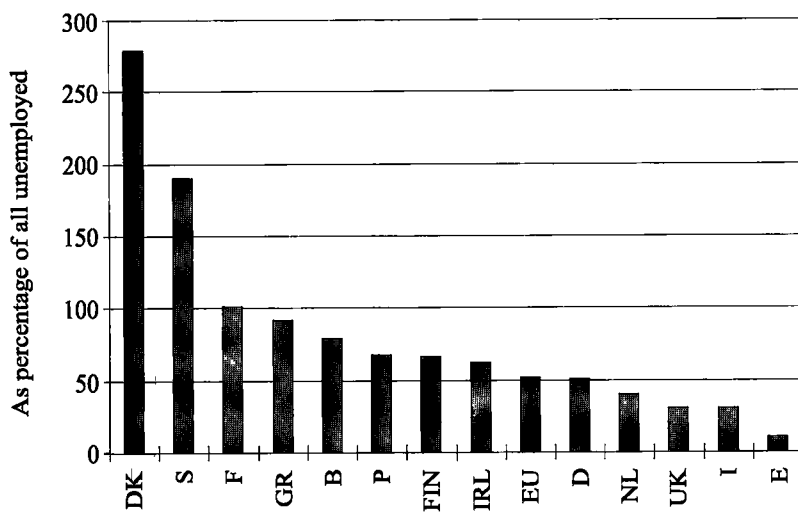
Figure 4: Entries to ALMP Programmes as Percentage of Total Labour Force, 1989 and 1995*



* 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.

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"⁴ 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-

⁴ 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.

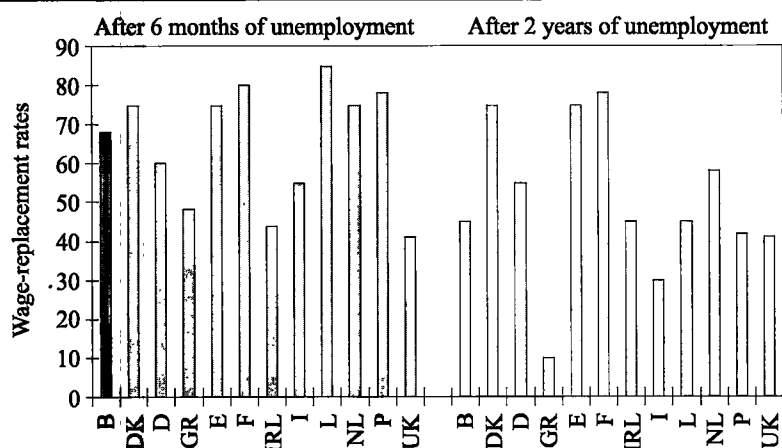
The Unemployment Benefit System and Unemployment

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*)



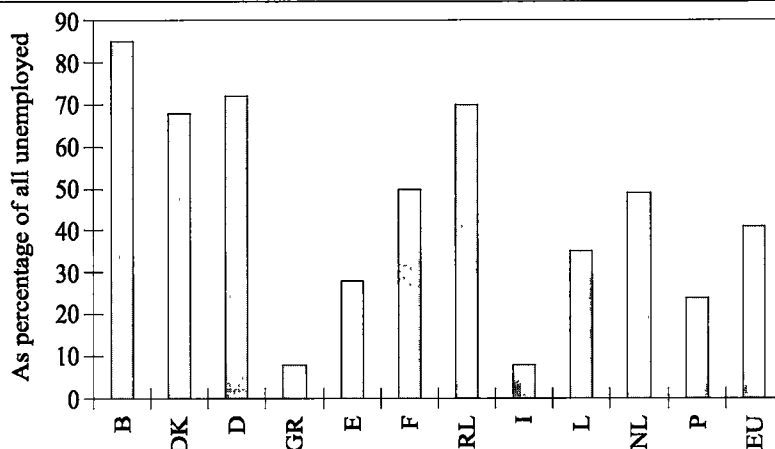
* Person aged 35 who has contributed to the system for ten years. The estimate for Italy for two years of unemployment is from Liguria.

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
SUBSIDISED EMPLOYMENT	50,100	46,100	-8	8
Education, ordinary	7,400	14,200	92	3
Education, special	5,800	5,900	2	1
EDUCATION, TOTAL	13,200	20,100	53	4
OTHER ACTIVATION	2,900	3,100	8	1
ACTIVATION, TOTAL	66,100	69,300	5	13
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
LEAVE SCHEMES, TOTAL	83,100	70,000	-16	13
UNEMPLOYMENT PENSION	133,700	165,600	24	30
UNEMPLOYED	285,400	239,100	-16	44
TOTAL	568,300	544,000	-4	100

- 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.

Per Kongshøj Madsen

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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 ^a	37,691.0	80,718.4	23,397.0	51,430.2	14,294.0	29,288.2
– active labour market policy ^b	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 ^a	33	40	31	29	2	11
Job-creation measures of all kinds	362	488	105	91	257	397
– General ABM ^b	362	346	105	89	257	257
– “Productive” wage-cost subsidy	0	142	0	2	0	140
Full-time training ^c	379	486	210	245	169	241
Rehabilitation ^d	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 ^e	63	153	63	146	0	7
Total	2,455	1,693	574	621	1,881	1,072

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 office¹. 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 increased². 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
Total ALMP	43,087.6	37,205.0	35,465.9	29,846.4	49,230.4	92,653	94,608	95,798	85,085	92,986
<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
Total UB and other transfers	96,104.6	94,029.7	102,261.6	120,355.1	133,431.3					
Total expenditure on ALMP, UB and other transfers	139,192.2	131,234.7	137,727.5	150,201.5	182,661.7					

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 activation¹.

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

¹ 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
Total expenditure on active policies and unemployment benefits	1.07	0.90	0.90	0.86
ALMP spending as a percentage of total LMP spending	33.6	36.7	32.2	34.9

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 contributions² 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 activation³. 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 1997⁴ 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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⁴ 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)¹.

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 offers² 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 France¹

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 countries².

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 ¹ (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 rate³ 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

³ 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*)⁴

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

⁴ 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 France⁵.

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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⁵ "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."