

Financing and operating active labour market programmes during the crisis

Background paper

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Introduction

This customised report responds to a request from the European Economic and Social Committee's Labour Market Observatory (LMO) for the Foundation to present data, research and findings on the financing and operation of active labour market programmes during and after the crisis (2008 to date). As this was a subject only indirectly addressed in recent Eurofound research, Eurofound proposed to use its network of national correspondents to provide up-to-date data on recent developments and policy changes, especially those that have occurred since the beginning of the economic crisis in late 2008. We requested extended information updates on recent active labour market policy (ALMP) developments from ten NEO national correspondents in early June 2010 and received draft contributions in mid-July (covering BG, DE, ES, SK, IE, UK, DK, SE, PL, LT). This report seeks to address the request from the EESC-LMO and to summarise the information received from Eurofound's NEO network.

It begins by introducing the background at EU policy level which has underlined the importance of 'active' approaches to labour market policy since the inception of the European Employment Strategy in 1997. It then presents a brief outline of some of the measures typically described as ALMPs as well as the share of ALMP expenditure from country to country and by type of instrument as well as a summary of what recent evaluations say about the success and cost-effectiveness of individual instruments.

The main section includes an overview by theme of some key findings from the national correspondents' contributions. These relate to funding of ALMPs and policy developments especially during the 'crisis period' from late 2008 onwards. Given the diversity of labour market developments across the ten Member States as well as distinctive pre-existing policy mixes, it is impossible to present these inputs in simple tabular format. Instead, what we present are some selected themes with illustrative material from the countries covered. In this way, we hope to identify emerging patterns of policy development, both in the context of the economic crisis and rapid rises in European unemployment, but also changes that may have been in the pipeline in any case, the outcome of shifts in policy consensus arising from programme evaluation, peer-learning in the open method of coordination and other forms of feedback.

The individual national information updates will be published as normal NEO contributions. This synthesis report was prepared in-house in advance of presentation at an EESC-LMO hearing on 1 September 2010.

Background

The principal objective of labour market or employment policy at European and national level has been the maximisation of employment rates. At the Barcelona Council of 2002, European leaders indicated full employment as a common objective. These targets reflect the importance policymakers attach to employment for social cohesion, wealth generation and consumption and ultimately, for human fulfilment and happiness.

At European level, three main employment objectives were set in 2000-1 for the EU to achieve by 2010 as part of the Lisbon agenda in relation to the overall employment rate, the employment rate for females and that for older persons (55-64). Though none of the three has been or will be achieved, progress has nonetheless been made. Responding to overall macroeconomic conditions but also to the stimulus of the European Employment Strategy and the open method of coordination, employment rates, notably for women and older workers, have increased.

Table 1: Lisbon employment targets and employment rates

| EU27 | | 2000 (EU15) | 2008q3 (recent peak) | Lisbon target 2010 | 2010q1 |
|--|------|----------------|-------------------------|-----------------------|--------|
| Employment rate (overall, 15-64 years) | EU15 | 62.1% | 67.6% | 70% | 65.1% |
| | EU27 | | 66.4% | | 63.7% |
| Employment rate (female, 15-64 years) | EU15 | 52.7% | 60.6% | 60% | 59.5% |
| | EU27 | | 59.4% | | 58.0% |
| Employment rate (workers, 55-64 years) | EU15 | 37.5% | 46.0% | 50% | 48.2% |
| | EU27 | | 47.6% | | 46.0% |

Source: Eurostat, ELFS quarterly data

The shock of the 2008–9 financial crisis has undone some but by no means all of the advances of previous years. Indeed, EU labour markets in aggregate have shown greater resilience than those of, for example, the US in dealing with the short-term employment consequences of the crisis (OECD 2010). And predictions that certain policies might only have displaced job losses in time or would result in dampened employment growth during an eventual upturn – we refer notably to the German short-time working scheme, *Kurzarbeit* – have not been confirmed to date. German unemployment levels have declined since February 2010 by over half a million even as hundreds of thousands of workers have been taken off *Kurzarbeit* supports.

Improved employment performance of European labour markets over the last decade and a half may be attributed in part to the growing importance of what has come to be known as active labour market policies. These are measures that generally aim to improve the functioning of the labour market, notably by matching the unemployed or those with difficulties in the labour market to vacancies or jobs or by enhancing their employability with a view to future employment. The key principle is that employment is preferable to unemployment and that policies should endeavour to mobilise the unemployed to re-engage in work either directly or indirectly via upskilling and training, rather than treat them as passive recipients of state welfare. The successful labour market performance of countries that pioneered ALMPs (initially Sweden) has been an important reference for ALMP proponents. Even more important has been the advocacy of the European Commission in the form of the European Employment Strategy. This has established a framework in which other Member States have been encouraged to adopt at least some of the ALMP policy measure mix.

What measures do ALMP encompass?

This is not easily answered. By convention the following measures are generally listed under the ALMP heading:

- Job matching, guidance and counselling (often through the public employment services (PES) but also increasingly through private intermediaries)
- Labour market training
- Specific policies targeting (re)employment of ‘risk groups’ (younger workers, older workers, workers with disabilities, single parents etc)
- Employment subsidies
- Public employment

Passive labour market policies (PLMPs) include unemployment benefits, out-of-work assistance as well as early retirement benefits. It is however misleading to pretend that there is a simple dichotomy between passive and active measures. In virtually all active measures, unemployed participants continue to draw unemployment benefits or assistance at least at the same level as when they were 'passive' recipients. In practice, many active measures offer additional advantages over and above passive benefit levels to encourage take-up, but clearly for most ALMP beneficiaries the transition from passive to active does not involve stopping passive benefits. Seen from this perspective, ALMPs often constitute an activation tier built on top of existing PLMP foundations.

Another important dimension of interaction between PLMPs and ALMPs is evident in the strong activation role played by modifications to PLMP benefit arrangements. Various forms of tightening the benefit system have been associated with positive employment outcomes; indeed in the growing evaluation literature, these appear to be amongst the most cost-effective (if sometimes controversial) measures in increasing re-employment levels of the unemployed. A Member State such as Denmark with a very broad ranging set of active labour market measures has also progressively attached greater conditionality to benefit receipt. Relevant measures include restricting eligibility to unemployment benefits (e.g. in case of non-take up of job offered by a PES), making benefits degressive in time, shortening duration of eligibility and imposing explicit and verifiable job search requirements as condition of benefit receipt. This more active management of the passive benefits system involves a 'mutual obligations' approach where unemployed persons are expected to do their part in exiting unemployment as a condition of continuing to receive benefits and where sanctions in the form of reduced or terminated benefit payments are imposed on those who do not adhere to such obligations.

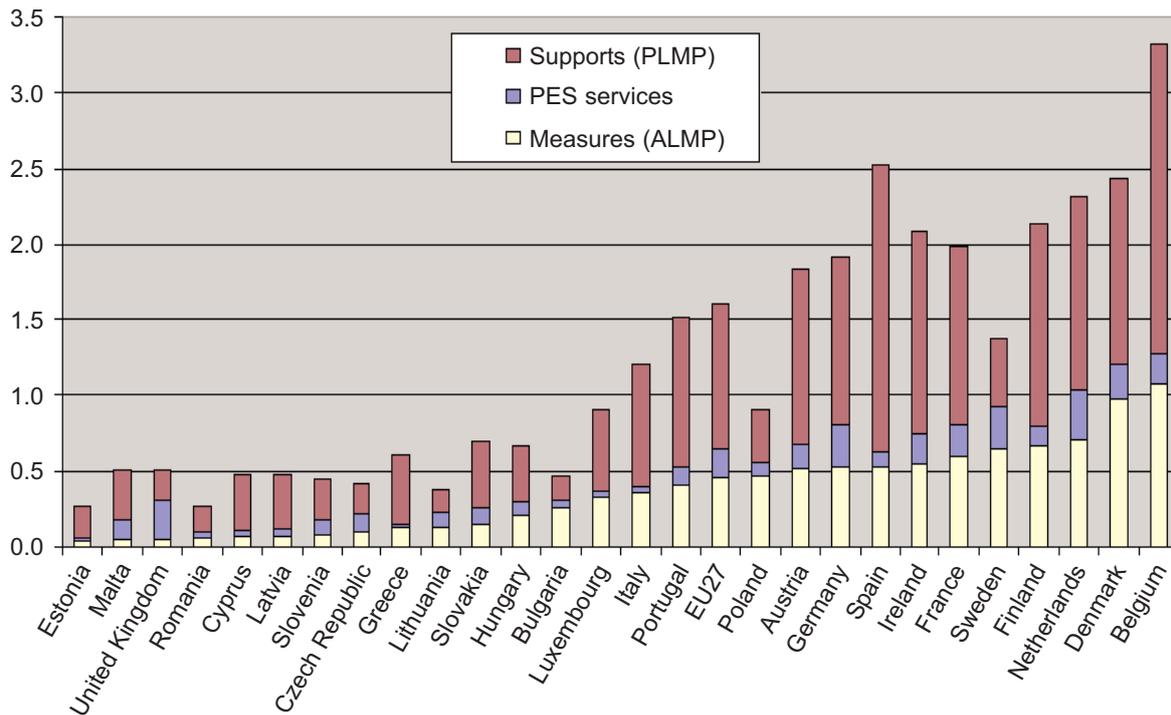
It should be pointed out that such a mutual obligations approach is much more likely to yield positive outcomes in pre-crisis than post-crisis labour markets where the issue is not matching people to jobs but declining availability of jobs and vacancies in the first place. This indeed is the central dilemma of active labour market policy in a time of rapidly rising unemployment: activation assumes that there are jobs to go to. The benefits of employability-enhancing measures such as training are also likely to 'wither on the vine' if they are not accompanied by opportunities to put them into practice in real jobs.

A confirmation of the problematic distinction between passive and active labour market measures is the topical example of short-time working schemes. These were extended or newly introduced in a majority of Member States since late 2008 and have been assessed positively as having saved tens of thousands of jobs which might otherwise have been lost permanently during the crisis (OECD 2010, ONEM 2010). On the one hand, state-funded short-time working schemes clearly are labour market policies with a concrete employment objective, the retention of the employment relationship during a period of reduced product or service demand. But are they active or passive? Some definitions of ALMPs refer exclusively to the unemployed as the target group. To the extent that short-time work affects those already in employment, it would therefore not be considered an ALMP. This in fact is the approach of Eurostat when they differentiate between state funding for active and passive measures. They include for example the German *Kurzarbeit* payments under the heading 'Out of work income maintenance and support' (passive measures). The German Federal Employment Agency (BA), on the other hand, includes short-time work payments as ALMP expenditure (Stettes 2010).¹

¹ In Belgium and France, similarly, *chômage partiel* (partial unemployment, the name given to short-time working) is counted by Eurostat under the same, passive, heading. The French government has implemented as part of its anti-crisis arsenal in 2009 a new instrument called *activité partielle de longue durée*. This extends some traditional *chômage partiel* possibilities and offers particular incentives for training during unworked hours. It will be interesting to see whether or not Eurostat consider this active or passive LMP spending. In any case, such redesignations clearly reflect a preference for active headings.

Of course, as the German NEO correspondent points out, it is moot whether we consider short-time working payments passive or active spending. If successful, as the schemes appear to have been in Germany and elsewhere (OECD 2010), short-time work curbs the increase in unemployment and ‘without it, expenditure on PLMP would have risen to a much greater extent’.² More generally, active and passive measures are complementary in the sense that one person on an ALMP programme is likely to be one less on passive benefits.

Figure 1: *Share of GDP spent on labour market policies (%)*



Source: Eurostat

ALMP expenditure

There is a huge diversity across countries in the share of GDP dedicated to labour market policy measures, both passive and active. Based on the most recent comparable data available (from 2008³), expenditure ranges from as high as 3.3% of GDP in the case of Belgium to as low as 0.3% in the case of Estonia. The newer Member States tend to have lower levels of expenditure, both on passive measures – due to comparatively underdeveloped unemployment benefit systems – but also for active measures. Poland is a partial exception with levels of active measure expenditure comparable to other older Member States. This may be one factor behind the impressive performance of the Polish labour market over the last eight years (from 20% unemployment in 2002 to 7% in 2010), though strong growth fuelled by a multifactor increase in foreign direct investment (World Bank 2010) has provided a very advantageous macroeconomic context.

² In light of the above, caution is urged in interpreting a frequently cited statistic, the ratio of passive to active labour market expenditure. For Germany, shifting the around 4.6 billion euro direct costs in 2009 of short-time working benefits (not including associated training expenditures) from the active to the passive side of the LMP expenditure ledger would involve a change in the active:passive expenditure ratio of approximately 0.9:1 to 0.6:1.

³ With end date of 2008, this Eurostat data fails to capture developments during the 2008–9 crisis. Some more recent data from selected national sources will be presented later and will give an indication of subsequent developments.

Across the EU, labour market policy measures account for 1.6% of GDP with a ratio of approximately 2:1 in expenditure between passive and active measures (with the caveats already noted).

Table 2: *Share of EU27 expenditure (2008) on ALMPs by type of measure*

| Measure | % of total ALMP expenditure |
|---|-----------------------------|
| Training | 39.0 |
| Employment incentives | 24.0 |
| Supported employment and rehabilitation | 16.1 |
| Direct job creation | 13.4 |
| Start up incentives | 7.2 |
| Job rotation and sharing | 0.4 |

Source: Eurostat

While again there is great diversity across Member States in terms of the types of ALMP measures undertaken and associated funding, training (institutional, workplace and other) accounts for the biggest share of expenditure at nearly 40%. Employment incentives (including hiring subsidies) account for around a quarter of expenditure. Supported employment and rehabilitation (aimed at integrating those with reduced work capacity) and direct job creation (involving subsidies for temporary, non-market jobs which would not exist or be created without public intervention) are the other two types of measure attracting a significant (>10%) share of funding.

Evaluation of ALMPs

What works and what does not work in terms of active labour market policy? There are a variety of measures that come under the general ALMP heading, often targeting specific target groups – the young, the recently unemployed, non-nationals etc. There is a growing evidence base upon which empirically to assess the impact of specific instruments, usually against the benchmark of employment status of individuals at a given interval after participating in a measure. The higher the (re)employment rate of programme participants, the more successful the instrument.

In ‘The Effectiveness of European Active Labour Market Policy’ (Kluve 2006), Jochen Kluve reviewed assessments of 140 specific ALMP instruments across Europe mainly from the 1990s and concluded that:

- training programmes have a ‘modest likelihood’ of having a positive impact on post-programme employment;
- measures based on ‘services and sanctions’ – the mix of measures involving job matching, counselling and guidance allied to tailoring of the benefits system – and private sector employment subsidies are more likely to have positive outcomes;
- direct public sector employment programmes are not only not effective, they may actually worsen employment prospects;
- ‘young people appear particularly hard to assist’; programmes aimed specifically at young workers have a 40–60 percentage point lower probability of generating positive outcomes than those targeted at older age groups;
- the type of programme itself was the primary factor determining the success or otherwise of labour market outcomes, rather than contextual factors such as country, business-cycle timing or institutional labour market features.

A more recent overview summarising this literature is the NBER working paper “Active Labour Market Policy evaluations: a meta-analysis” (Card, Kluve and Weber 2010). Based on micro-econometric evaluations of nearly a hundred programmes across 26 different countries (with a strong EU sample – the six countries contributing the most individual programme assessments were Germany, Denmark, Sweden, Austria, France and Slovakia), the report comes to the following conclusions:

- Longer-term evaluations of ALMPs tend to be more favourable than short-term evaluations (especially true for training-based ALMPs where significant positive employment impacts are much more likely to be identified two or three years after programme participation than after one year)
- Subsidised public sector job programmes are less successful than other types of ALMPs
- ALMPs do not appear to have differential impacts by gender

The meta-analysis also identifies a common weakness of ALMP evaluations which is that they focus largely on more measurable output indicators such as post-programme employment status or earnings and that ‘many studies completely ignore the ‘cost’ side of the evaluation programme’. This is important in that there is competition for scarce funds both between different types of ALMP as well as between ALMPs and PLMPs; comprehensive assessments should assess outcomes against unit costs in order to assist policymakers in deciding between potential measures.

The national reports submitted in July/August 2010 by Eurofound’s NEO national correspondents include the following further inputs adding to the assessment of individual ALMP measures from the cross-national meta-analysis cited above.

Slovakia: according to recent UPSVAR (Slovakia’s Central Office of Labour, Social Affairs and the Family) annual monitoring reports, training programmes are evaluated as being more effective than direct job creation programmes (that nonetheless absorb a greater share of ALMP budget).

Bulgaria: The provision of the individually-oriented employment services is particularly effective for people with higher education qualifications aged between 30 and 50 years. Interventions for other more high-risk groups are less successful.

Lithuania: according to research from the DSTI (the Institute of Labour and Social Research), the ‘effectiveness of ALMPs was impaired by increased negative effects of the economic crisis in 2009’, notably in relation to re-employment rates of those on short-term (\leq three months) training programmes.

Sweden: IFAU (the national Institute for Labour Market Policy Evaluation) has evaluated positively more intensive job-matching for the long-term unemployed by the PES. They found that the expected time for finding a job was reduced by three weeks. Despite extra costs, the measures were also positively assessed from a cost-benefit point of view.

Denmark: evaluations of active measures were generally positive in the 1990s. Increased effective supply of labour, increased labour market mobility and positive employment effects of both education and subsidised training were mentioned as among the benefits. By the end of the decade, however, the evaluations grew less positive, especially concerned with a negative job search effect. Most of these impact evaluations however do not measure long-term impacts as they consider employment status only one year after the end of the activation.

Ireland: a 2010 Forfas review of labour market programmes was critical of two job creation schemes – the Community Employment Scheme and the Job Initiative – which absorbed a high share of overall ALMP spending (around 50% in 2008). Costs per participant (in large majority, the long-term unemployed) progressing to employment, training or

education were much higher than for other labour market measures (estimates were 127,000 euro for the CES and nearly 900,000 euro for the Job Initiative⁴).

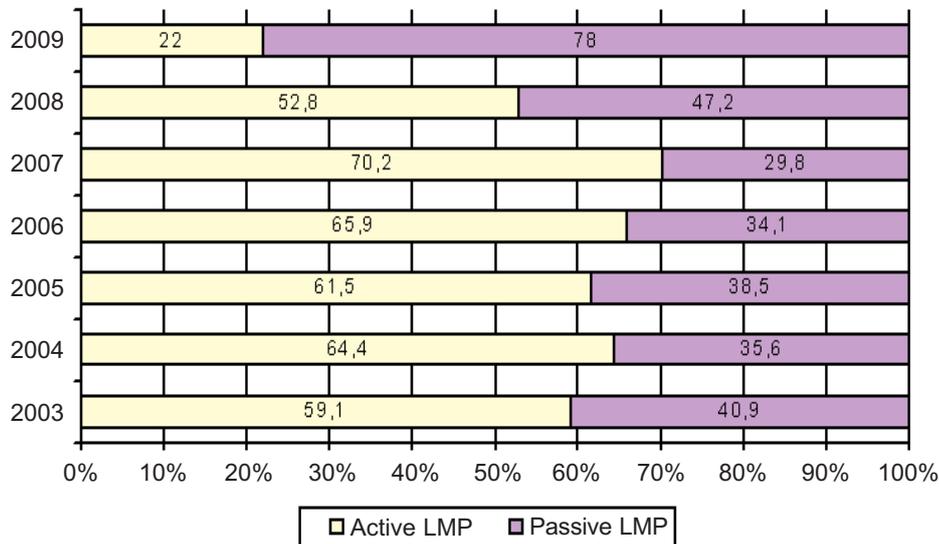
Germany: most evaluations relate to pre-crisis period and have been carried out by IAB (the Institute for Employment Research). Long-term training has a positive long-term impact on starting or performing a regular job. Evaluations of short-term training (<= three months) provide mixed evidence; it may have marginal positive effects in the long run. Wage subsidies to assist private companies to take on unemployed persons in risk-groups have been evaluated positively as have schemes encouraging business set-up for the unemployed. On the other hand, coaching in job applications does not improve employment prospects. Neither do job creation schemes aimed at persons whose prospects of finding a regular job are considered especially unfavourable (outcomes for this group may in fact be worse than if they had never participated in such schemes in the first place).

Key themes from the national contributions

ALMP funding where unemployment has risen rapidly

Some of the national correspondents refer to falling shares of unemployed in ALMP programmes during the crisis related to strains in overall funding of labour market measures occasioned by rising unemployment burdens. In Lithuania, for example, in a period when unemployment rose sharply (from 4.3% in 2007 to 13.7% in 2009), the share of the unemployed participating in ALMP decreased from 43.2% to 12.9%. This was reflected in a shift to PLMP funding as the budget for unemployment benefits and assistance rose by over 350% from 2008–9.

Figure 2: Share of funding of ALMPs and PLMPs in Lithuania, 2003–9



Source: *Lithuanian Labour exchange, cited in Blaziene 2010.*

Even though the absolute decline in funding for ALMPs in Lithuania was not as extreme as the decline in its share of funding, nonetheless there was a decline of over 30% here as well between 2007–9. A similar level of shift from ALMP to PLMP expenditure was reported in Slovakia, while in Bulgaria the shift in share and in absolute terms was more dramatic; rising unemployment costs appear to have largely crowded out expenditure on active measures.

⁴ Intake to this scheme was stopped in 2004.

Table 3: Bulgaria expenditure on passive and active labour market measures, 2008-10 (in million BGN)

| | 2008 | 2009 | 2010* |
|------|------|-------|-------|
| PLMP | 98.8 | 237.9 | 262.2 |
| ALMP | 173 | 165.8 | 65 |

* 2010 forecast.

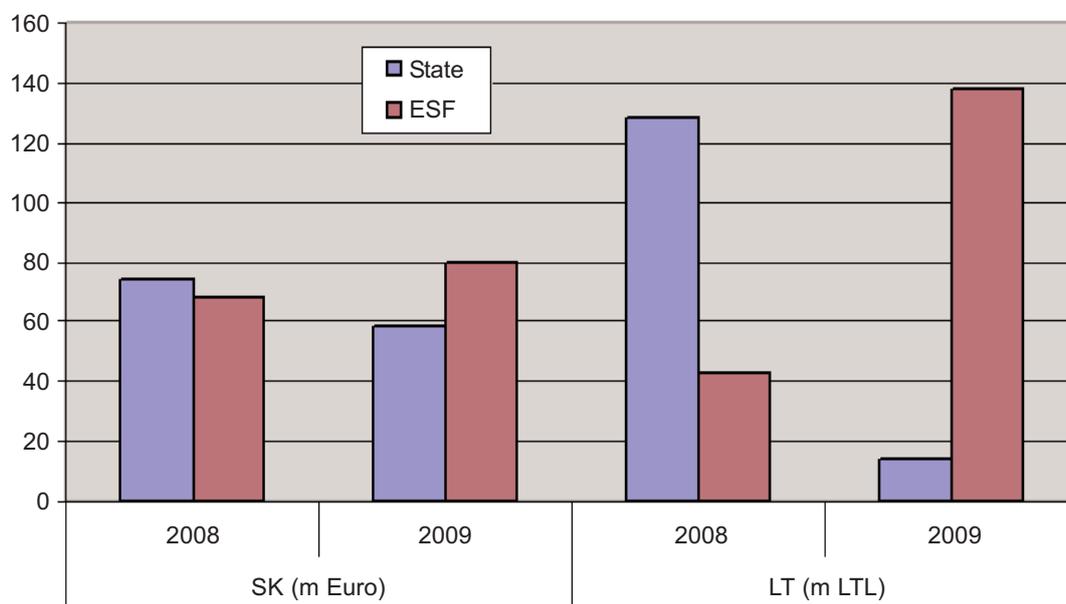
Source: NSI, MLSP cited in Tomev 2010

PLMP budgets have ballooned since 2008 in those countries, like Lithuania, with rapidly rising unemployment. If unemployment levels more than triple in three years – as has been the case in the Baltic States, Ireland and Spain – PLMP budgets tend to rise by the same factor, reflecting the fact that unemployment benefits are in most countries legal entitlements on the part of recipients.

The trade-offs between ALMP and PLMP budgets appear partial in the case of Slovakia and Lithuania. The massive increase in passive benefit expenditure is matched by a comparatively modest decline in funding of ALMPs. In Lithuania, this has been achieved by a combination of reducing participation levels in active measures while making the severest cuts in more costly training measures. In Bulgaria, the trade-off has been more thorough-going.

EU funding has served to buffer ALMP activities, in particular in some of the newer Member States. In Lithuania, Slovakia and, to a lesser extent, Bulgaria, funding from the European Social Fund (ESF)⁵ has increased and offset some at least of the decline in state ALMP funding.⁶ In Lithuania, almost the entire ALMP budget came in the form of ESF commitments in 2009.

Figure 3: Share of state and ESF funding for ALMPs in Lithuania and Slovakia, 2008–9



Source: Lithuanian Labour Exchange, Centre for Labour, Social Affairs and Family (SK) cited respectively in Blaziene 2010 and Henzelova 2010.

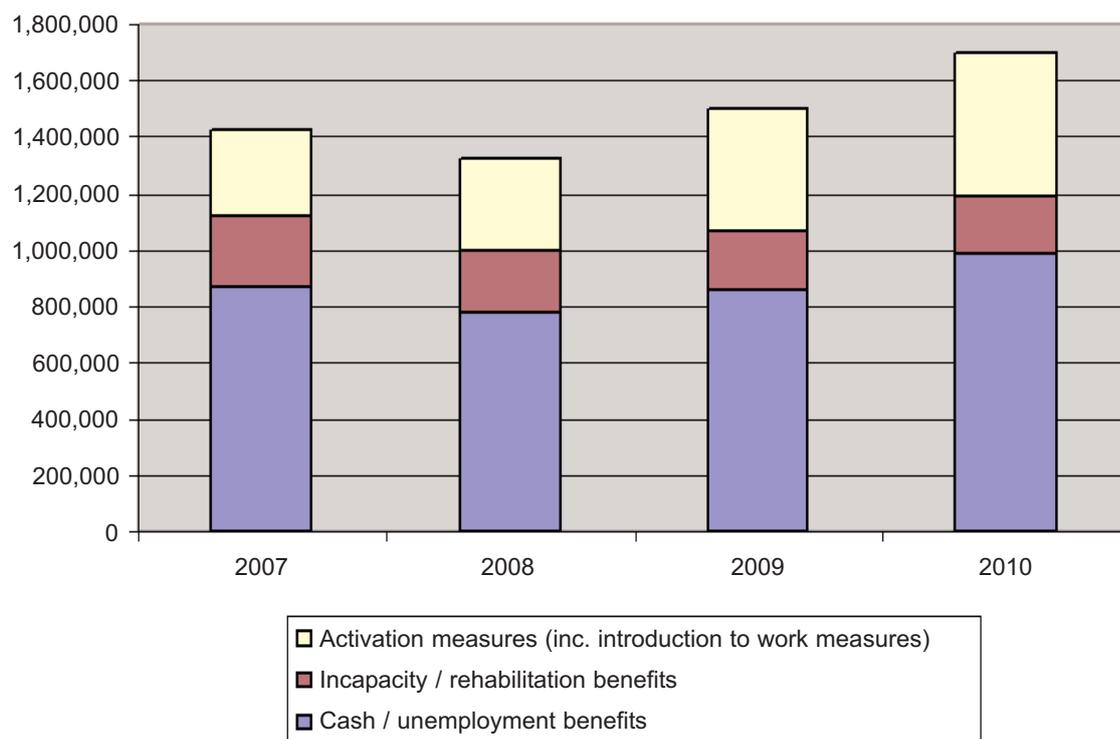
⁵ And to a very limited extent the European Globalisation Fund in Lithuania

⁶ Poland again is the exception. EU funds accounted for a sharply reduced share of the overall Labour Fund in 2008 compared to previous years (ESF funding accounted for less than 3% of ALMP expenditure in 2008 compared to 12% in 2006 and 2007).

In the other countries which have experienced rapidly rising recent unemployment, Spain and Ireland, data was limited on developments in terms of the share of funding for active and passive measures. Nonetheless, it was noted that ‘there are clear signs that spending on ALMPs has been decreasing since the recession hit Ireland from 2008’, notably evidenced in a fall of 4% in funding for the National Training Fund. In Spain, ‘the main development has been the reinforcement of passive policies and a limited development of active policies which have been mainly concentrated in the extension of tax benefits for hiring/recruitment’. In the UK, data was not available on recent changes in ALMP funding but it was noted that passive measure expenditure has risen from £3.8 billion in 2004–5 to over £7 billion in 2009–10.

Danish unemployment, though low, has also risen sharply since 2008 but impacts on ALMP spending are less likely in theory to have materialised given that rights to activation for the unemployed are legally enshrined and less discretionary as a consequence. This is in practice what has happened. Recent data from the Danish national statistical agency show that expenditure on activation measures has increased in both absolute and relative terms during the crisis.

Figure 4: Social security expenditure by type of measure, Denmark 2007-2010 (DKK, monthly totals for March in each year)



Source: Danmarks Statistik, Arbejdsmarked KONT2 (own calculations) cited in Jorgensen, Stuvoy 2010.

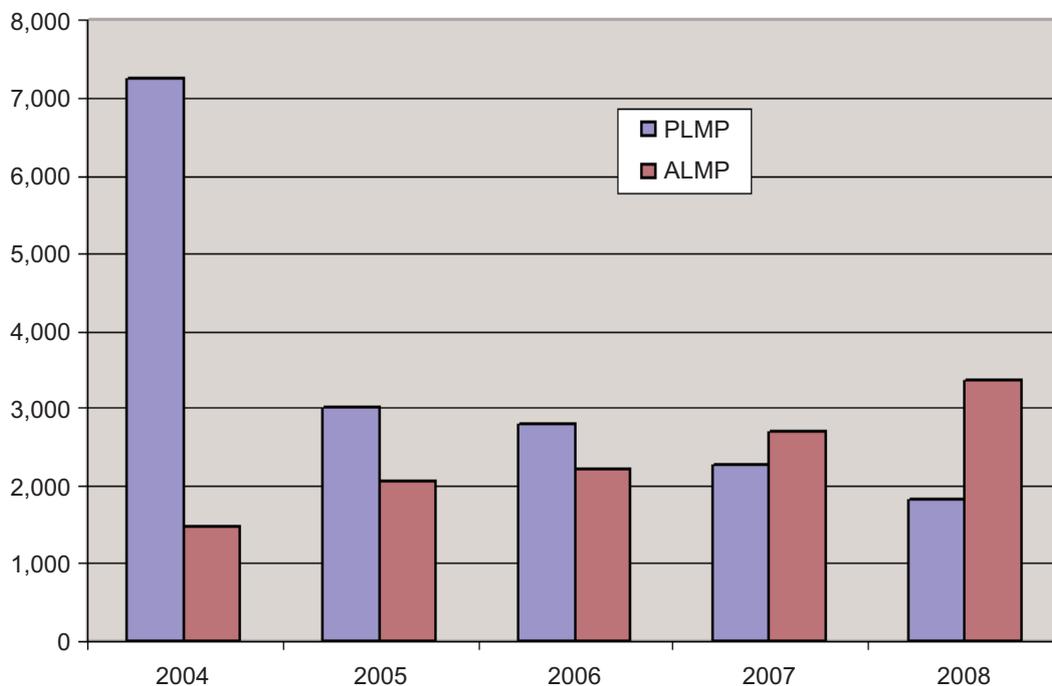
ALMP funding during crisis in other countries

Sweden is a country which has traditionally high employment rates linked to explicit public policy goals of full employment. Even in the 1970s in the post-oil crisis period until the sharp recession of the early 1990s, unemployment rarely rose higher than 3% (OECD 1997). It has however suffered a relatively sharp increase in unemployment since 2008 (up three percentage points to 9%) due in large part to a slump in world demand for the outputs of its large internationally traded goods sector. Expenditure by the public employment service (PES) has grown in line with unemployment from 56 billion SEK in 2008 to 84 billion SEK in 2010 and takes up a greater share of GDP (2.61% in 2010). But, unlike in the countries already discussed above, Swedish ALMP expenditure, funded mainly from general

tax revenue (Pointecker 2008), has held up, rising significantly over the period of crisis both in absolute terms (from 4.8 billion SEK in 2008 to 8 billion SEK in 2010) and as a share of overall PES spending.

Two labour markets comparatively less affected by the crisis have been Germany and Poland. In Germany, ALMP funding has increased sharply though this is in large part due to the costs of short-time working (*Kurzarbeit*) and associated training measures which peaked in mid-2009. If we exclude this expenditure, which as already noted Eurostat classifies as passive spending, ALMP funding has been rising but by much more modest increments. In Poland, data was available only up to 2008 and confirms that there has been a large shift from PLMPs to ALMPs in the period 2004–8 which has coincided with the decline in unemployment from very high levels in the early 2000s to around average EU levels in recent years.

Figure 5: Active and passive labour market policy spending, Poland 2004-8 (million PLN).



Source: Krynska 2009, cited in PL national contribution

The Polish Labour Fund (Fundusz Pracy, FP) is funded by over 90% from obligatory employer wage contributions and despite increasing ALMP expenditure ran a surplus each year from 2005 to 2008. Similar to other predominantly wage contribution based systems (employer and / or employee), including the German system, efforts are made to balance budgets over the business-cycle.⁷ This involves building reserves during good years which can then be spent in a downturn when need is greatest. In Poland’s case, a significant share of the recent surplus has been spent on extending active labour market policy programmes, especially in the training area, and in opening up measures to groups other than traditional risk categories, including in some cases to those still at work but in danger of losing their jobs.

⁷ One potential weakness of such systems reveals itself in the case of Bulgaria. Having run a surplus in the previous years of high growth, the government cut contribution rates for unemployment insurance from 3% to 1% of pay in January 2007. This means there are limited funds available to address the consequences of the 2008–9 crisis.

The ALMP literature advances some hypotheses on how expenditure on ALMPs may be constrained during a downturn and on how different modes of funding of ALMPs might impact on the share of funds going to active as opposed to passive measures as unemployment rises. The first hypothesis holds that the share of expenditure on active measures will tend to decrease as they are crowded out by a rising burden of obligatory unemployment benefits often coming from the same or similar budget lines. The second hypothesis relates to whether ALMP is funded from wage-based social security contributions or comes instead from general taxation and holds that long-run requirements of budget neutrality on contribution-funded systems make them less flexible and adaptive in a downturn than general tax funded systems.

Unfortunately, fragmentary evidence from a limited sample of ten Member States does not give us an adequate basis on which to test the above hypotheses or draw any firm conclusions. Tentatively, we can say that there does appear to have been a shift of resources from active to passive labour market measures in the case of those Member States where unemployment has risen fastest. It should be added however that this is not necessarily evidence of ‘crowding out’; other plausible explanations include a decision to depriorise active labour market instrument funding in the face of strong contending claims on state funding, especially in a context where comparatively expensive ALMP measures face likely diminishing returns given limited job creation and vacancies.

The corollary of the above observation is that ALMP expenditure has held up well in countries such as Poland and Germany where the employment effects of the crisis have been much more muted. These countries also happen to be where ALMP and PLMP funding is substantially wage-contribution based.

In Poland, ALMP expenditure has increased in both absolute and relative terms in recent years which would tend, if anything, to support a quite contrasting proposition to that of the second hypothesis above: that a wage-contribution based system which generates surpluses during periods of decreasing or stable unemployment tends to ringfence a share of this surplus for active measures which tend as a result to expand. In other words, the trade-off between active and passive measures can, in some circumstances, be positive rather than negative for ALMP expenditure. It should in any case be noted that the requirement on most wage-contribution systems to be balanced over the business-cycle is rarely absolute. It is frequently hedged with subsidies from general taxation when a downturn raises passive burden benefit abruptly. In Poland, for example, 2004 was the last year in which wage contribution funds failed to cover expenditure on active and passive measures; in that year, a central government subsidy of 1.1 billion PLN, around 12% of total expenditure, made good the shortfall. Similar non-repayable subsidy arrangements exist in Germany as well where the federal government is obliged to cover any deficits incurred by the BA.

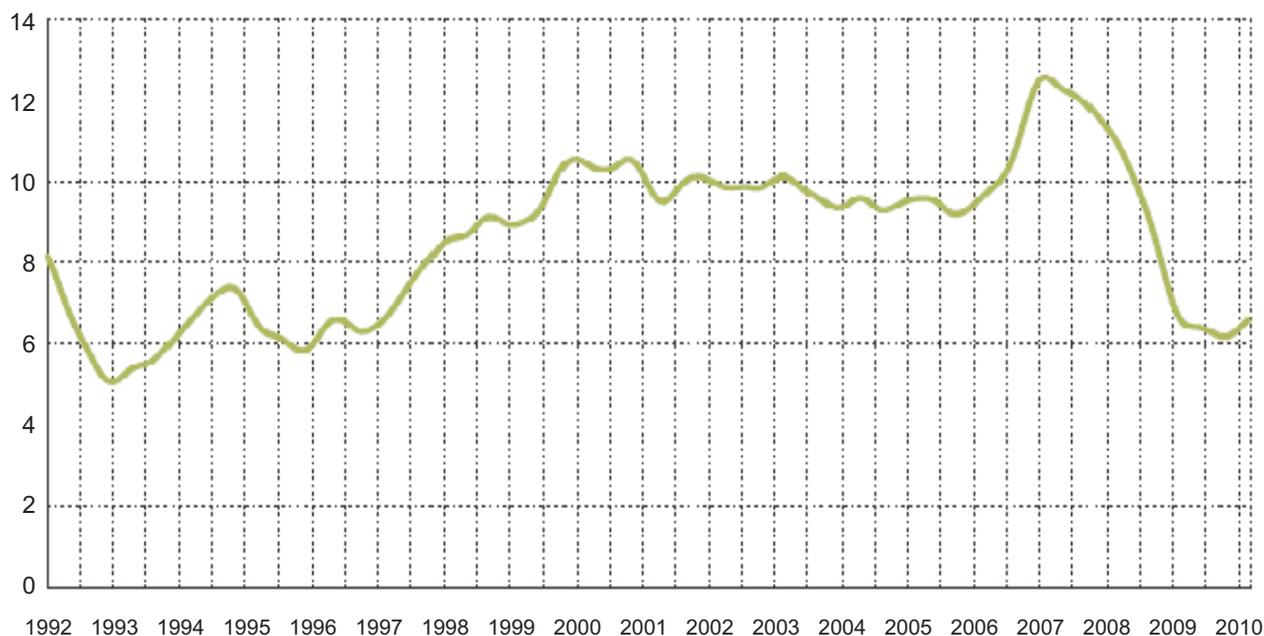
Shifts in ALMP focus by instrument-type

Labour market policy funding has tended to focus more on ‘services and sanctions’ in recent pre-crisis years. This reflects findings that measures such as job search supervision and guidance, especially in conjunction with potential benefit penalties for non-compliance, tend to be both effective in employment terms and inexpensive compared to other generally more costly ALMP interventions.

Some Member State governments, such as the Danish, have been explicit about the change of focus in ALMP provision from training to accelerated job matching. This has been a hallmark of Danish policy since the change of government in 2001. A recent decision to cut the maximum duration of employment benefits for the insured unemployed (from four to two years) is seen as a supporting element of this policy but has been criticised as being motivated purely by cost-saving considerations. In the UK, participants in the New Deal (and the more recent Flexible New Deal) programmes introduced by the previous Labour government have faced increasingly stringent obligations in terms of job search, ‘action plan’ development and job centre contact. Similar shifts were observed in Sweden where since 2007 the PES has expanded job-matching activities from a previous focus on training with an increasing reliance on private contractors hired via a public procurement process.

Active job matching and similar measures are likely to be especially effective in times of growing employment and tight labour markets. They are however less well adapted to the post-crisis situation in many Member States with increasing unemployment. Public employment services are in the front line of service provision to the increasing numbers of jobseekers in the wake of the crisis and case-load increases have only in part been met by increases in recruitment to the PES. And the task of the PES in facilitating job matches has been made more difficult by dwindling vacancy levels. The chart below based on recent Swedish data illustrates the negative impact of recessions (in the early 1990s and especially 2008–9) on ALMP effectiveness measured by outflow to employment.

Figure 6: *Unemployed and participants in ALMP programmes that found a job each month (%)*, Sweden 1992-2010



Source: *The Labour Market Report 2010 (Sweden)*, cited in *Persson et al, 2010*

The corollary is that training, still the largest single instrument in terms of ALMP expenditure, but which appeared to be decreasing as a priority in the pre-crisis period, has obvious attractions in a downturn. It enhances social contact for the unemployed while catering to individual and collective skill gaps. It has some qualities of an automatic stabiliser by generating services and economic activity that might not otherwise exist. And it does this at a time when reduced demand for labour limits the effectiveness of job matching.

The evidence from Member States is mixed in relation to provision of training during the crisis. Some countries, such as Germany, have expanded budget and scope of training programmes since 2008. In others, such as Slovakia, training continues to receive only a small share of overall ALMP budget despite positive evaluations of its employment outcomes.

Accelerated activation

Work-first type policies have been reinforced through increasing job research requirements and especially by obliging those on unemployment benefits to submit to more intensive activation earlier in their period of benefit receipt. In the UK, claimants of Jobseeker's Allowance (JSA) will be included on the new welfare to work programme more rapidly than is currently the case, according to the new government's policy programme.

In Denmark, an important difference is that this compulsory activation is framed as both an obligation but also a right. The unemployed have the right and duty to activation – in the form of guidance and skill development, traineeship or subsidised employment – nine months after they become unemployed. More rapid activation is foreseen for the unemployed under 30.

Target groups: young unemployed

The young unemployed have been specifically targeted with accelerated activation in a number of countries. In the UK, claimants aged under 25 will be included on the welfare to work programme after a maximum of six months (rather than a year as is currently the case), and those individuals 'facing the most significant barriers to work' will be included on the programme 'immediately'. In Denmark too, the obligations on young unemployment recipients have been tightened and require participation on ALMPs after three months of unemployment.

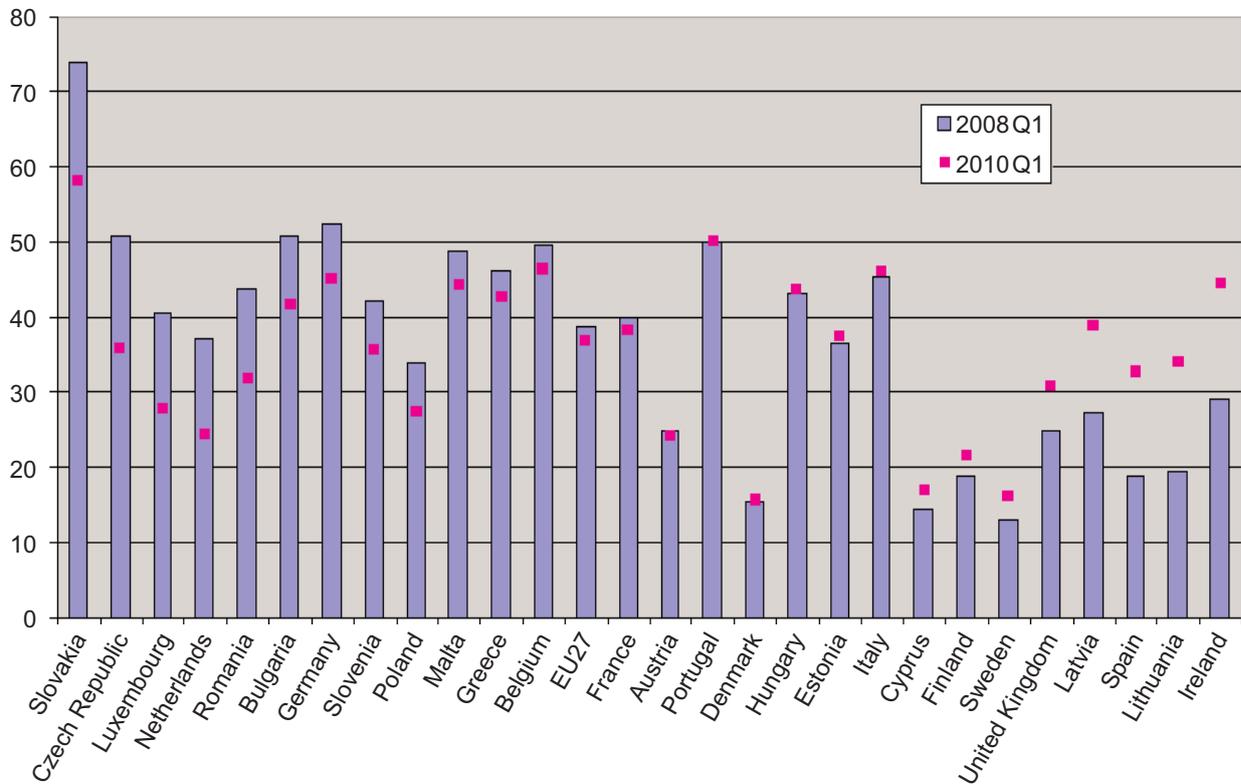
An alternative facet of Danish policy in respect of youth unemployment is to oblige subjects who have not completed formal education to re-integrate in the education system. This follows the lead of a similar Dutch programme. The so called Youth Effort (*Ungeindsats*) is an initiative introduced in 1996 and updated recently in 2009. The earlier initiative cut the benefit by half after six months unemployment and made participation in education compulsory. In the 2009 adaptation, very early activation of under 30 year olds (first job interview within a month of becoming unemployed) is accompanied by obligations for under 25 year olds without formal qualifications, prioritising participation in formal education over employment. In the words of Inger Stojberg, Danish Minister for Employment, 'Young people must be in education, education is the best gateway to a life of jobs' (Danish Ministry for Employment 2010).

In Sweden, there is a special programme called the work guarantee for young people (*Jobbgaranti för ungdomar*). This programme is for all those under 25 years of age who have been unemployed and registered at the public employment service for more than three months. The services provided are mostly preparatory. Included in the service provision is help and guidance with job seeking, coaching and traineeships as well as help in identifying appropriate training courses. Enrolment in this programme has more than quadrupled between May 2008 and May 2010 (from 12,000 to nearly 50,000).

Target groups: long-term unemployed

The long-term unemployed are a traditional core target group of ALMPs and their numbers have increased in line with overall unemployment in the last two years. In some of the countries hardest hit by the recession, notably Ireland, Spain and the Baltic Member States, the share of the unemployed on long-term unemployment (>12 months) has risen sharply.

Figure 7: Share of long-term unemployed in total unemployment, first quarter 2008 to first quarter 2010



Source: Eurostat

In Denmark, a key policy objective has been to slow the rise in long-term unemployment even though it already has a low share of long-term unemployment. Recent activation initiatives by the Danish government have included measures such as the screening of reading, writing and calculation abilities and clarification of competences held by the unemployed, additional funding of mentor and business networks and more business contact.

In Sweden, the Work- and Development Guarantee (*jobb och utvecklingsgarantin*) programme caters to the long-term unemployed.⁸ The programme has three phases:

- **Phase 1:** identification, job search activity with coaching and preparation efforts.
- **Phase 2:** work experience, job training and enhanced job training.
- **Phase 3:** employment in selected firms (employer pays no salaries, payroll taxes or insurance and receives contributions towards training costs)

When one phase ends and the unemployed has not found a new job or started a training course, the next phase starts. Enrolment has doubled since 2008 and it is currently the single largest Swedish ALMP in terms of participant numbers.

⁸ Or what is considered the functional equivalent, those having used more than 300 days of unemployment benefits.

Tax breaks targeting employment of vulnerable groups

In Spain and Ireland, fiscal measures have been at the forefront of labour market policy during the crisis. In Spain, new measures were introduced in 2008/9 incentivising employers with tax and social security breaks to recruit on a permanent basis workers with at least two children or to facilitate the self-employed to hire employees. These extend previous measures introduced in 2006 which aimed at encouraging employers to recruit individuals from risk groups (younger, older, female and long-term unemployed workers) on permanent contracts by reducing employer social security obligations over a number of years following recruitment. This is of course a specific form of activation which aims both to incentivise job hires in general while also correcting what is seen as an excessive share of temporary workers in the labour market (>30%).

Under the Irish 'Employer Job Incentive Scheme' introduced in June 2010, approved employers who create a full-time position in 2010 will be exempt from paying employer's social security contributions for 12 months with savings estimated at 3,000 euro for employing each additional worker. It is anticipated that in Lithuania also tax breaks will be available to employers who recruit young people (<29 years old).

Integrated programming

One of the problems identified in existing ALMP policy implementation is the sheer number and variety of instruments. In Bulgaria, for example, 67 separate programmes were identified in 2009. In some cases, existing budget is spread thinly across so many measures that ALMP interventions end up being small-scale and piecemeal. In the UK and Ireland the integration or coordination of policies which are seen to be increasingly fragmented was identified as an explicit concern at national level. A related concern is that since responsibility for ALMP provision often spans a number of different government departments (notably labour, social welfare, education), there exists a potential for waste or duplication in programming.

The policy programme of the new coalition government in the UK (May 2010) included the creation of a new single welfare to work programme which would consolidate all existing programmes (such as the New Deal programmes and the Pathways to Work programme).

Decentralisation of services

A trend that appears to go in the opposing direction is that of decentralising responsibility for ALMP service provision which has been evident in Member States such as Denmark, Germany and Spain and is planned in Lithuania. Under the Danish job centre reform of 2009, local authorities have assumed much wider responsibilities in relation to support for the unemployed and ALMPs. The state refunds a certain part of the local authority expenditure and incentivises the implementation of active measures by giving higher levels of refund in respect of those measures. Previously, the state had been in charge of supporting the insured unemployed and the local authorities in charge of supporting the unemployed with no insurance. The decentralisation has been seen as undermining social partnership in Denmark. The role of the social partners in the development and implementation of labour market policy has traditionally been based on strong traditions of negotiation with the state. Their connections and scope for influence at local authority level are considered weaker.

In Germany, the Federal Employment Agency (BA) administers labour market policy, active and passive, on behalf of its principal, the Federal Ministry for Labour and Social Affairs (BMAS). However, providing that they comply with the recommendations and guidelines issued by the BA and relevant legislation, local and regional agencies of the BA are 'more or less independent in the detailed implementation of ALMP measures' (Stettes, 2010). They manage local budgets governing programmes which used to be regulated by specific regulations and as a result the discretion of the local agencies and their staff has grown and ALMP has become more decentralised in recent years. In Spain, the autonomous regional authorities have assumed responsibility for implementation of ALMPs since 2003, though the Spanish state remains in charge of managing and monitoring unemployment compensation.

Even in the UK, which is relatively centralised, and where programmes such as the (Flexible) New Deal are nation-wide, substantial scope is left for local authorities and JobCentre Plus organisations to implement locally targeted employment strategies.

Private sector involvement in ALMP service provision

The trend towards decentralisation is not however universal. In Sweden, the Public Employment Service which replaced the National Labour Market Board (*Arbetsmarknadsverket* - AMV) and its regional offices in 2008 is more centralised than in its previous incarnation. This centralisation has however been accompanied by a large increase in reliance on external private contractors. Their responsibilities relate mainly to job-matching for the unemployed.

In the UK, increased private sector involvement in labour market intermediation had already been introduced by the previous Labour government and appears likely to be extended under the new Conservative-Liberal coalition. Private companies such as A4E (Action for Employment) have been involved in administering the New Deal and Flexible New Deal programmes. In its policy programme in May 2010, the new government announced that it will review existing contracts with contractors providing ALMP services 'to reflect more closely the results they achieve in getting people back to work' (UK Cabinet Office 2010).

In Spain, the government has recently approved a decree law (10/2010, June 16 2010) enabling private employment intermediaries to intercede in relation to risk sectors that had been previously vetoed. This potentially extends the reach of private sector companies in the provision of ALMP services from 2011 onwards. The German Federal Employment Agencies accredits private agencies to perform job placement services on their behalf and the Danish government has also stated its interest in including more private agents to implement labour market policy.

Expanding scope of ALMPs to new categories

Traditionally, ALMPs has been concerned with core target groups. These have included in the first instance the unemployed but often with a special concentration of resources on the long-term unemployed, the young unemployed and other categories seen as particularly at risk such as single parents, people with disabilities or the low-skilled.

The crisis has prompted a number of governments to expand the scope of ALMPs to cover new categories of individual who formerly would have been excluded. In addition to the unemployed, those in potentially precarious employment are now eligible to participate in training. For example in Germany, a scheme aimed at promoting further vocational training for low-skilled and older workers who are still employed (*Weiterbildung geringqualifizierter und beschäftigter älterer Arbeitnehmer in Unternehmen* - WeGebAU) is considered one of the more successful innovations of labour market policy in recent years and has seen its funding rise by over 600% between 2007 and 2009. WeGebAU aims to improve the employability, in particular, of workers whose jobs may be jeopardised in the long run due to deskilling and technical change by granting companies training and wage allowances. The scope of the scheme originally proposed by the tripartite board of governors of the BA was further modified at the onset of the crisis in 2008 to include skilled workers subject to certain conditions.

In Poland, eligibility for ALMP training initiatives was expanded in 2009 to include the following groups in addition to the unemployed: workers pending dismissal for non-personal reasons, those working in a bankrupt company, farmers and reserve soldiers. Entitlement to participate in ALMP training courses and to have costs at least partially covered was also extended to those on short-time working (Germany and Poland), on notice pending dismissal (Lithuania) or on involuntary part-time working (Bulgaria).

ALMPs tend to have both integrative as well as disciplinary dimensions. While the above examples highlight the integrative or inclusive dimension, in some Member States the more disciplinary dimension is prominent. In the UK,

mobilisation of the inactive has become a major policy objective – as it has also been in recent years in the Netherlands and Sweden among others – given the scale and growth of the incapacity benefit system (2.6 million recipients in 2010). The new government has announced that those on incapacity benefits will have their cases reviewed and that those considered ‘fully capable’ of working will be moved onto Jobseeker’s Allowance and its more demanding activation regimes.

Declining differentiation between insured and non-insured unemployment

The traditional differentiation between those in insured and non-insured unemployment is showing signs of weakening even in those countries where its continued existence has had the active support of the social partners, who often have a significant stake in its operation. The difference has been important for the ability of the trade unions in particular to recruit members as their involvement in management of the unemployment insurance system has secured better benefits for their members. In Denmark, the major reform already described under the heading of decentralisation has also involved a convergence of treatment of the insured and uninsured unemployed. Formerly, each had different rules and different job centres where they sought help. They are now treated more equally and have to stand in the same line at the job centres operated by the local authorities.

Conclusions

ALMP funding

- There is some evidence – from a limited sample of countries – that unemployment benefits have been accompanied by reduced active labour market measure expenditure in Member States where unemployment has increased more rapidly during the economic crisis.
- In some of the new Member States, such shifts may have been compounded by increased coverage and levels of unemployment benefit entitlement since accession or by reductions in social security contribution rates in the surplus period just prior to the crisis.
- The importance of the European Social Fund as a source for ALMP funding has increased during the crisis.
- Active labour market policy expenditure held up well or increased in countries where the employment impacts of the crisis have been less marked, for example, Germany and Poland.

Evaluation of ALMPs

- Recent evaluation evidence of ALMP effectiveness tends to favour general ‘sanctions and services’ measures from a point of view of cost-effectiveness as well as positive employment impacts. Training and subsidised employment in private firms are generally evaluated positively though often with small positive effects while public job creation measures tend to have little if any positive employment effect.
- Measures targeted at the young unemployed have had limited success. This has reinforced the case of those who contend that funding would be better allocated to early education, i.e. with preventative rather than remedial objectives and greater potential for enhancing human capital.
- ALMP effectiveness is likely to diminish during a downturn as job placement possibilities dwindle.

Recent trends in ALMP operation

- There has been an increasing emphasis on ‘service and sanction’ type activation measures with active counselling and guidance – often on a more individualised basis – accompanied by obligatory job search requirements with benefit sanctions in case of non-observance. In some countries with a strong ALMP tradition, such as Denmark, periods of unemployment benefit entitlement have been cut.

- Fiscal incentives for job hiring have been implemented in some Member States with the steepest rises in unemployment, for example, Spain and Ireland.
- Immediate or accelerated activation has become commonplace especially for younger unemployed. In some countries, notably Denmark and the Netherlands, the primary form of activation for the young unemployed without qualifications is increasingly to re-engage them in the basic education system.
- There is some evidence of moves to integrate ALMP policy development and provision, responsibility for which tends to be spread across different government departments.
- At the same time, there is evidence of significant autonomy at local and regional level in how ALMP funding is administered, often based on the subsidiarity principle that local authorities and social partners have a more direct understanding of local needs and can react more effectively as a result.
- The scope of activation is broadening to encompass other labour market risk groups beyond the unemployed – for example, those on incapacity benefits.

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