

# **INNOVATIONS IN LABOUR MARKET POLICIES**

CHALLENGES IN TIMES OF  
GLOBALISATION

**INTERNATIONAL CONFERENCE**

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# PREFACE

Globalisation, technological progress and demographic changes are major challenges for European economies. To meet these challenges Europe has established a common “life model” involving a commitment to social cohesion, to the fight against social poverty and discrimination, and to a universal access to health and education systems.

The trend towards a services society has resulted in a redefinition of work, which is primarily characterised by flexibility. However, this kind of mobility can only be achieved if workers are offered appropriate security in return. “Flexicurity - flexibility though security” is a major step in this direction.

This is why flexicurity was also a guiding theme of the Austrian EU Presidency and the focus of debate at the international conference “Innovations in Labour Market Policies - Challenges in Times of Globalisation”, which took place in Vienna’s Hofburg on 16 and 17 February 2006.

The flexicurity approach is a comprehensive policy strategy which uses appropriately matched measures to achieve flexibility in the labour market and a modernisation of work organisation and industrial relations on the one hand, and foster employment security and social security with due regard to the more vulnerable and disadvantaged groups of workers on the other.

The importance attributed by the Austrian Presidency to this issue has led to a lively exchange between scientists, stakeholders and policy-makers at European and more international levels and has been well received both at home and abroad.

The feasibility and efficiency of innovative strategies in labour market and employment policies were the main topics of this conference in Vienna. Within a European context participants did not only explore the individual national approaches but also and in particular the employment policy areas of the Lisbon Strategy.

Workshops addressed the organisation patterns of public employment services, the labour market participation of migrants and youth and the issue of employment in the low-income sector.

As an effective follow up to the work done during this conference, the Austrian Presidency deems it very important to submit this comprehensive



sive documentation. Alongside the written papers, some of which have been supplemented for print, it also includes the recorded contributions to the discussion by delegates.

I trust that this conference will provide a valuable impetus for designing sustainable and efficient labour market and employment policies, and that the findings included in this documentation will be taken up for further labour market policy considerations and measures.

Dr. Martin Bartenstein  
Federal Minister of Economics and Labour

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## 1.1 Martin Bartenstein, Federal Minister of Economics and Labour, A

I would like to welcome you all very cordially, in particular the representatives of the European Commission, as the Commission and the Austrian Presidency are co-organisers of this two-day conference. A special welcome goes to Director Antonis Kastrissianakis representing Commissioner Vladimir Špidla, who will join us tomorrow.

I also welcome my two counterparts, the ministers Roberto Maroni from Italy and Tony Killeen from Ireland. I wish Robert Maroni continued success for the Olympic Games in Turin with a great many medals for all EU Member States, and especially for Austria.

Ladies and Gentlemen, let me also welcome representatives of the European Parliament. The Vice-Chairman of the Committee on Employment and Social Affairs, Thomas Mann, will arrive later, and he has good reason to do so. In my eyes the European Parliament has just taken a landmark vote: a great majority of MEPs have agreed in the first reading to the Services Directive, a particularly important proposal for an EU law. Let us all realise the few chances we have to ensure growth and thus employment, such as creating and implementing a single market for European services.

The European Parliament has walked a difficult and stony path towards successful conclusion. I am convinced that the wide majority that voted in favour of the directive has signalled to the Commission to follow this path and largely agree with what Parliament submits. For the Council Presidency this is of course a call to seek political agreement as soon as possible by trying to achieve a consensus with all Member States, which are now 25.

This is a very important day, Ladies and Gentlemen. Just remember that in recent months or even in the last one or two years, this proposal for a Services Directive has been styled - probably without justification - into something like a wedge that is being driven between Europe and its institutions on the one hand and European citizens and workers on the other.

Some of the referenda on the European Constitution are said to have had a negative outcome precisely because of this Services Directive. It is a major success that a vast majority of the two large political groups in the European Parliament, the European People's Party and the Party of European Socialists, and major representatives of the social partners, such as the Secretary General of the European Trade Union Confederation, have agreed to it. True, the directive has been weakened in some areas to help implement a single services market that prevents wage and social dumping. This is a great success for the European Parliament, a good day for Europe and indirectly also for our Presidency.

So whenever the representatives of the European Parliament join us they will deserve our applause.

Ladies and Gentlemen, I also welcome the delegates from all Member States, from the two accession countries and from the candidate countries. However, this meeting also has a very global perspective, with Europe being amidst global competition, which is why I am happy to welcome Professor Michael Wiseman from the United States and Alison Durbin from Australia. They will provide valuable input from the USA and from "down under".

The OECD is represented by Director John Martin, the ILO by Peter Auer. I also welcome the representatives of the social partners. I already mentioned the European Trade Union Confederation ETUC. Other social partners who have joined us are UNICE and the European Association of Craft, Small and Medium-Sized Enterprises UEAPME. An important focus of our Presidency is to strengthen Europe's SMEs.

My welcome also goes to representatives of NGOs, public employment services, ministries of labour and to all of you, Ladies and Gentlemen.

Innovations in labour market policies in Europe: a topic that is situated within a framework that can hardly be more diverse. Wherever we analyse or review the situation, we see very different outline conditions and realise that "one size does not fit all". This is why we should also exchange experiences based on the knowledge that Europe is not only characterised by different frameworks but also by

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varying degrees of regulation in our labour markets and different institutional structures. We have one common objective defined by the Lisbon Strategy: to improve growth in Europe and thus raise employment and reduce unemployment, but we have to achieve this on the basis of very different long-lived traditions, behavioural patterns and structures throughout Europe. The Lisbon Agenda was no resounding success during its first five years. This was the reason why it was relaunched a year ago, an important move, since it is not only a question of labour market and growth policies. We have realised that Brussels cannot be made responsible for all. Much, if not most, of the responsibility lies with the Member States. This prompted the European Commission to request National Reform Programmes from the Member States by mid-October of last year. We responded to this request, and meanwhile the Commission has submitted its progress report wherein it provides a rather positive assessment. In principle, the National Reform Programmes are a useful supplement to the initiatives taken by Brussels and designed to put new life into the Lisbon Agenda. Let me repeat in this context how important a role the Services Directive is bound to play.

We know that we need a consistent implementation of the entire Lisbon Strategy to create jobs. Today, and with a view to future developments, we have the opportunity to do so. In the past, there was much talk but comparatively little action.

We also know, Ladies and Gentlemen, that we need the interplay between enhancing competitiveness to create more growth, and growth to create more jobs. In these days we are being informed by Eurostat that last year's growth in the Eurozone was 1.3 per cent and in the EU-25 1.6 per cent. Some countries - among them Austria - are far above, but others below this level. However, the perspective for 2006 is not too bad, especially the performance of the still largest and thus most important economy in Europe, namely that of Germany, provides reason for optimism and hope for more growth in 2006.

The new concept of integrated guidelines is already taking root and will provide the basis for the comprehensive overall strategy I was talking about, but we have to be aware of the ever-present

three levels we are dealing with: there is the national level (Member States) on the one hand, the European Union level on the other, plus in matters of performance and competitive strength the global level where the European Union has to stand up to international competition.

A very prominent German economist, the Head of IFO, Professor Sinn, classifies the European Union as nothing more than the tail light of global growth. Hence our starting point is not easy.

Globalisation is something that has become a sort of demon in recent months. People have been talking about risks and hardly ever about chances. I hope that this meeting will help us see more of the chances of globalisation. Let us take a closer look at the foreign trade balance of the European Union as a whole and compare it with that of the United States: here we see the Union's foreign trade strength and thus the European economy's strength in international competition. Just look at small Austria whose global competitive strength has soared in recent years. It is a country where actually every second job and over 50 percent of its domestic product are due to foreign trade (goods and services taken together). In fact, globalisation is an opportunity for us all. At the same time we as policy-makers and those involved in social partnership are of course obliged to watch out for, and minimise, any risks. This is no contradiction, although it makes our task no less easy.

Europe is characterised by largely segmented national labour markets with varying structures, traditions and attitudes embedded in globalised markets for goods and services. I am convinced that larger markets afford greater opportunities. However, as I already mentioned, we have to bear in mind the risks as well, and this is not a purely European issue.

Almost all people agree to the analysis that European labour markets are mostly over-regulated and in need of deregulation. The Austrian labour market - and this I may say as a representative of the host and presidency country - is deemed to be very dynamic. This is primarily due to our social partners who, no matter which parties govern the country, have undertaken great efforts in the past decades to ensure this dynamic development for our labour market. The job turnover, an indicator



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you all know very well, shows how many new jobs are created/temporarily lost every year. In Austria this indicator is 1.5 million for 3.3 million workers, i.e. far more than 40 per cent. The dynamics are high and closer to those observed in the US or Danish labour markets than to those present in some of the larger EU Member States.

Although the target is clear, we realise how stony the path is. For instance, we come across stumbling blocks whenever we want to introduce more dynamic elements into our labour markets. Together with the European Commission, we are trying in these weeks and months to achieve a breakthrough for the flexicurity concept and strategy. This would finally lead us away from entrenched behavioural patterns that make compromises so difficult and towards win-win strategies that are and have always been available. No less a person than the Chairman of the German Trade Union Confederation, Mr. Sommer, said at the Villach Informal Council Meeting (Employment and Social Affairs) that last year saw dozens of such win-win plant-level flexicurity models evolve in Germany: flexibility based on greater security and working time flexibility for employees in combination with promises of workplace security by employers in individual German enterprises.

Or just think of Austria's new severance pay scheme, a kind of pension account for employees largely devised by our social partners. It replaces a system that covered only 20 percent of employees and was in fact a severance pay model that ossified our labour market. This new severance pay scheme now provides a full-fledged income provision fund for all employees in our country and will thus enhance workers' mobility. The European Commission has made a proposal regarding the portability of supplementary pension rights, i.e. the possibility for workers to take any such rights with them no matter where they are. "Knowing what is in their backpack" will not only enhance mobility but also workers' social security situation.

This conference should deal with experiences, benchmarking and best-practice examples. We want to learn from each other. Why we want to do so is obvious: as already mentioned, we need growth, we need jobs. Moreover, I sincerely wish that we not only develop and discuss innovative

labour market policies and instruments but that we also identify any successful applications so that these can be taken up by other Member States or perhaps the whole European Union.

Towards the end of my welcome address, Ladies and Gentlemen, let me give you a brief overview of the programme. The policy perspective I have touched upon will now be supplemented by my Italian counterpart, Mr. Roberto Maroni. The Commission's view will be presented by Antonis Kastrissianakis. Afterwards we may look forward to the two keynote speakers, Professor Pissarides of the London School of Economics and Director John Martin of the OECD.

Professor Pissarides will focus on a comparison of the US and European labour markets and on an analysis of our employment performance. John Martin will discuss labour market policies as identified by the OECD. The presentations of these two gentlemen will each be supplemented by a brief commentary. Professor Pissarides will be commented by Mr. Fischer of the European Commission and John Martin by Professor Aiginger, the Head of Austria's Institute for Economic Research (WIFO), who is known to be an esteemed expert in Austria and abroad.

Tomorrow we will have three workshops. Workshop I will address institutional structures, Workshop II labour market policies that might help young people, school leavers and migrants, including second-generation migrants, enter the labour market. Workshop III will deal with the delicate and widely discussed issue of wage subsidies, just think of combined wages, the low-income sector, etc.

By the way, this conference will also be documented. A book will be published complete with all contributions and findings.

Ladies and Gentlemen, on this happy note let me welcome you all once more here in Vienna. I wish this conference every success based on your work and your contributions. Thank you.



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## 1.2 Roberto Maroni, Minister of Labour and Social Policies, I

Dear Minister, dear Commissioner, Ladies and Gentlemen, let me start by expressing my warm gratitude to the Austrian Presidency for its excellent hospitality and for organising this European Conference on innovations in labour market policies.

Italy attaches a significant role to this meeting and to the theme chosen for the discussion - the challenges of the globalisation process - given the impact on the labour market and on economic structures.

Today, Europe faces two major challenges: one deals with the demographic pressure of an ageing population and with the financial viability of the European social model; the other one is related to a strongly intensified international competition, which requires faster adaptation to a changing environment.

As a consequence, economic and social policies need to be redesigned so as to improve the functioning of pension systems, health protections and labour markets. The Hampton Court Council during the British Presidency has stressed this challenge and the Spring Council, within the new Lisbon strategy should clearly indicate the ways and the tools to achieve this objective, respecting the characteristics of each Member State.

As the report of the ECFIN acknowledged on Tuesday, this is the way Italy chose to follow during the last five years: an agenda of significant structural reforms in labour market, education, pensions, social inclusion. And these reforms paid off. Now, we can definitely affirm that this was the right way to modernise Italy.

Look at the results achieved in labour. Despite the difficulties related to the long period of low economic growth, Italy is experiencing a robust job creation process, which contributed to reaching the maximum of employment, a fall in the unemployment rate below the EU average, a significant decrease of irregular jobs.

The Italian labour market had been characterized for a long time for lacking in dynamism, with

negative features both in quantitative and qualitative terms, and a low level of investment in human capital. The Biagi reform, adopted by the Italian government in 2003, took as its starting point the need to recognise and deal with the poor performance of the Italian labour market in order to meet the Lisbon objectives.

In general, this structural reform aimed at:

- modernising employment services and creating a network linking private and public services;
- simplifying the process of matching labour supply and demand;
- introducing more flexible organisational structures and models for companies and for employment;
- reinforcing the synergy between work and lifelong learning;
- combating the hidden economy.

As long as the issue of employment services is concerned, the reform has abolished the public monopoly and provided significant openings for private employment agencies. An internet network covering all employment services and permitting the rapid circulation of information about vacancies and the availability of suitable workers has been developed and implemented.

The reform has also introduced new flexible and regulated employment contracts, such as on-call job, job-sharing, occasional work. The regulations concerning part-time work have been deeply revised in order to encourage its diffusion especially for women, young people and workers aged over 55 years.

As far as the training issue is concerned, particular attention has been paid to the reform of apprenticeship contracts, while work experience contracts have been regulated as a means to improving access and re-entry to the labour market, with particular emphasis being placed on the long-term unemployed, women and older workers. All skills gained by the workers, both formally and informally - as set out in the EU guidelines on lifelong learning - provided that they are acknowledged and certified, will be recorded in a personal training portfolio, a new instrument foreseen by the reform.



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Therefore, the Biagi Law does represent an important step in order to make our economy more adaptable, more competitive, and more inclusive. A lot still has to be done, for example in terms of increasing employment rates, particularly of women, reducing regional disparities, allowing quicker changes of our firms without loss of human capital and social wealth, if we really want to meet the objectives of the revised Lisbon strategy.

At the same time, we are committed to tackle the globalisation process if it is the result of unfair competition based on violation of minimum labour standards. Our economies do benefit of significant wealth and social cohesion and we should be able to avoid any danger that could undermine this condition.

In March 2000 we all agreed to make Europe “the most competitive and dynamic knowledge-driven economy by 2010”. Last year the Heads of State and Government agreed on a new Lisbon strategy based also on stronger commitment of our citizens. In these five years some important progress has been reached, but the targets we chose are ambitious and there is a growing concern that the reform process is not going fast enough. That is why I attach a great importance to this initiative and I want to conclude my intervention underlining the central value of this conference for increasing awareness on these issues and for developing a virtuous mutual learning process. Thank you.

## 1.3 Antonis Kastrissianakis, European Commission

Ministers, Ladies and Gentlemen,

This conference focuses on innovations in labour market policies. On behalf of the Commission, I may congratulate the Austrian Presidency with their choice of focus. More than ever, our success depends on our ability to innovate. Innovation is needed not only in products, services and processes, but also in labour market policies. Innovation is the underlying determinant of economic and employment growth, of our quality of life and our social cohesion. Now that the economic situation may be improving, with employment projected to increase significantly in 2006 and 2007, we should redouble our efforts to introduce innovative policies to promote innovation and allow us to capitalize on new opportunities.

The challenges Europe is facing are clear. Globalisation and technological developments accelerate economic change. A shrinking workforce will soon act as a brake on potential growth in the Union and put additional pressure on our social security systems. And we need to tackle urgently the situation of our 19 million unemployed.

Our policy priorities are also clear. We have set employment rate targets that imply an increase in employment in EU 25 of some 22 million. We have included specific targets for women and older workers. And we must urgently reverse the secular decline in labour productivity growth.

To achieve these goals, we need to attract and retain more people in employment, increase labour supply, and modernise social protection systems to promote mobility and incentives to work. We need to improve the adaptability of workers and enterprises by increasing their ability to anticipate, trigger and absorb change. We need to increase investment in human capital through better education and skills, closely linked to economic and employment needs. All these policies are treated in detail in the Employment Guidelines.

The challenge is now to match words with deeds and to achieve the objectives and targets

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we have set for ourselves. The Lisbon Strategy has been reshaped, focusing on growth and jobs and on improving delivery systems. The Member States have submitted their National Reform Programmes. In its Annual Progress Report, just published, the Commission has analysed the strengths and weaknesses of the programmes and has identified elements on which each Member State and the EU should focus attention.

Generally, the picture is encouraging. Member States are showing ambition. Policies are gradually being reshaped. However, one major finding is that measures so far seem to be too piecemeal and patchy. We need to develop more comprehensive policies starting from a future-oriented vision of our labour markets, in the light of the challenges we face.

In this regard, the Commission has identified two main themes that, with a view to our discussion on innovative policies, I would now like to focus on. The European Employment Guidelines already underline their importance.

Firstly, in order to attract and keep more people on the labour market, we should promote a new lifecycle culture to employment, addressing the specific needs of people of all ages, and offering them incentives and support to stay in work. This is also essential for ensuring the stability of public finances in Europe, an important condition for securing social security systems.

Lifecycle policies can be seen as a continuum, starting with the education system and moving through different phases of life, increasing people's capacity to be mobile and stay in work longer. Innovative policies are needed all along this continuum. Education and training systems should facilitate the transition into work, while employment services should support entry into the labour market. We have all taken the commitment that every young person who has left school or university should effectively be offered a job, apprenticeship or additional training within six months of becoming unemployed. We must urgently deliver on this commitment! We should also be inspired by best practice and try to reduce the period to 100 days by 2010.

People with children or other care responsibilities should be encouraged to stay on the labour

market. Developing leave systems, including part time leave, allows people to reconcile work and family life. In line with the explicit commitment taken at EU level, the Commission considers necessary that Member States set national targets for the provision of affordable, quality childcare and take action to meet them. "Active ageing" policies should be implemented to keep older workers in employment, resulting in more training for those over 45, with financial incentives for prolonging working lives and the use of part-time work.

Because these issues are closely linked to the way we live and work, they imply fundamental cultural changes. Clearly, there is no longer such a thing as a job for life. Transitions between jobs and between different phases in life become increasingly important. People need to adjust to this fact and should be encouraged to take initiatives.

The second theme regarding the future of our labour markets is the adaptability needs of workers and enterprises. In the National Reform Programmes, policies to improve adaptability generally do not receive enough attention. This is worrying because many Member States face an increasing problem of segmented, two-tier or multi-tier labour markets. Some workers enjoy a high degree of security while others are trapped in less secure employment, or undeclared work, with fewer opportunities to progress into better paid jobs. Segmentation demonstrates in practice that our policies treat flexibility and security as a trade-off. This dichotomy needs to be overcome. Only four weeks ago, on the initiative of Minister Bartenstein, the Council held its first debate on "flexicurity". Flexibility and security need to be combined, offering the opportunities of both to everyone. Security can generate flexibility, but flexibility also can generate security. This is what „flexicurity“ is all about.

With this in mind, we should ask ourselves about the concrete state of „flexicurity“ in each of our countries:

- Do we have modern labour laws, allowing for sufficiently flexible work arrangements and reducing labour market segmentation and undeclared work?
- Do we have active labour market policies to help people cope with rapid change, unemployment spells and transitions to new jobs?



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- Do we have reliable lifelong learning systems, responding to the requirements of ever changing work organisations?
- Do our social security systems combine the need to facilitate labour market mobility with the provision of adequate income support?

Moving from any initial situation into a „flexicurity“ framework requires political leadership and commitment and public conviction in the need for reform that can be achieved through broad partnerships. Business and social partners should take up their responsibilities.

Moreover, flexicurity does not come cheap. In itself, modernisation of labour law may even reduce costs. The same holds, generally, for arrangements facilitating cross-border mobility. Effective active labour market policies and lifelong learning strategies, however, are costly. But compare it to the cost of 19 million unemployed! Evidence indicates that Member States are improving the cost effectiveness of their active policies. Early intervention, possibly even before a person becomes unemployed, and combining activation with financial incentives greatly improve cost-effectiveness.

Lifecycle and flexicurity policies are clearly interlinked. Both issues call for innovative approaches to the design of work organisation, labour laws and social protection systems. Through social dialogue, we can explore and exploit synergies, in order to serve the interests of workers, jobseekers and enterprises alike.

The Annual Progress Report calls for comprehensive rather than ad hoc policies and for combinations of innovative policies. This is why we all, I believe, are looking forward with great interest to our discussions today and tomorrow. The topics that will be explored in the workshops represent important aspects and preconditions of successful lifecycle and flexicurity policies.

The EU is involved, to varying degrees, in all aspects of these policies: in co-setting some legal frameworks and facilitating cross border mobility; in building on the experience of the best performances to promote mutual learning; in providing financing, through the European Social Fund, to achieve a breakthrough in the development of active labour market policies and lifelong learning

systems; in promoting social dialogue; and in providing policy guidance through the integrated guidelines for growth and jobs.

In its recent report to the European Council the Commission proposes that, in implementing their National Reform Programmes, Member States consider the need to open the debate on comprehensive lifecycle and flexicurity policies. Many stakeholders are involved, at national, regional and sectoral level. Multinational firms and European Works Councils have also acquired experience, in a national as well as a cross border context. At European level, the European Parliament and the European Social Partners should be fully integrated in this discussion.

The Commission has also stated that it intends to facilitate the debate. It will gather contributions from all stakeholders. It is currently consulting the social partners on better ways to reconcile work and family life. Later this year, a Green Paper will be published about the evolution of labour laws, inviting all stakeholders to express their views. In 2007, the Commission is also proposing to present a report outlining a set of common principles on „flexicurity“.

We also hope that, in the course of this year, an extraordinary Social Summit will be held to underline the crucial contribution of the social partners in designing and implementing comprehensive lifecourse and flexicurity policies.

Today and tomorrow, we focus on innovations in labour market policies. I have tried to show why an innovative approach is so important. Thank you for your attention.

# KEYNOTE SPEECHES

## 2.1 Christopher Pissarides, London School of Economics (LSE), UK – „Lisbon five years later – What future for European employment and growth?“

### The Lisbon agenda

The Lisbon agenda of 2000 was an ambitious agenda for making the European economy the most competitive economy in the world. It was accepted with unanimity by European leaders and has been applauded as a major breakthrough in European integration. But was it realistic, and could anyone be expected to disagree with it? The objectives that it put forward are objectives that every country in the world should have, as a matter of routine. It was essentially an agenda for increasing the wealth of European nations, one with which no politician could disagree. The key questions that will concern students of European integration in the years to come is why did our leaders decide to put their reputations on line and proclaim such an ambitious agenda for Europe? Why were such specific detailed targets set, a practice not common with politicians that come under regular public scrutiny by an inquisitive press? And why was it done at European level and not at the national level, according to each country's preferences and needs?

The experience of the five years that followed Lisbon proved that the agenda was over-ambitious. It may also have given a hint why politicians were prepared to risk their reputation on such specific targets: precisely because it was done at European level. As far as I know, no national politician has been voted down or re-elected on the basis of his or her record vis-à-vis Lisbon. Normally, if Europe is an issue in national elections, it is in connection to the relations between the country in question and the European Union; not in relation to how well the country is doing within an agreed European agenda.

In the words of Wim Kok, who in 2004 headed a High-Level Group on the Lisbon Strategy, the stra-

tegy was a kind of “Christmas tree”, consisting of over one hundred targets, sub-targets and indicators (in a speech to the Munich Economic Summit, May 2005). The conclusions of the Group were that the Strategy was indeed over-ambitious, setting as its primary target the overtaking of the United States as the leading knowledge-based economy in the world. In the five years since Lisbon Europe continued to lag behind the United States, with the gap widening, and dynamic Asian economies have been getting closer to it. The Group emphasized the more sober objective of an economically strong Europe that was also socially responsible and environmentally sustainable. The key objectives were more growth and employment, because a Europe with more wealth is also more capable of supporting better social programmes and a better environment.

My focus in this presentation will therefore be growth and employment. The targets of the Lisbon Strategy are well known: by the year 2010 the European Union should have employment rates for the working-age population (15-64 years) as close as possible to 70 per cent, for women at least 60 percent and for the age group 55-64 years 50 percent. As the main driver for growth the Strategy sets a target for R&D spending of at least 3 percent of GDP, with two thirds or more done by the private sector. Although the targets were set at European level, the policies needed to achieve them have to be set at the national level. The evaluation process is also done at national level, and league tables of member states' performance vis-à-vis the targets are regularly published.

The Lisbon Strategy's targets for growth and employment are not likely to be achieved. Progress has been slow, and a comparison between European countries post-Lisbon and other OECD countries does not give one the impression that there is something different about the European countries (see figure 1). As shown in the figure, although some countries improved their employment performance, in the first five years since Lisbon no country that was below the 70 percent line in 1999 progressed sufficiently far towards the line by 2004. In fact, when it comes to specific measures designed to achieve the growth and employment targets, the Lisbon agenda does not appear to n



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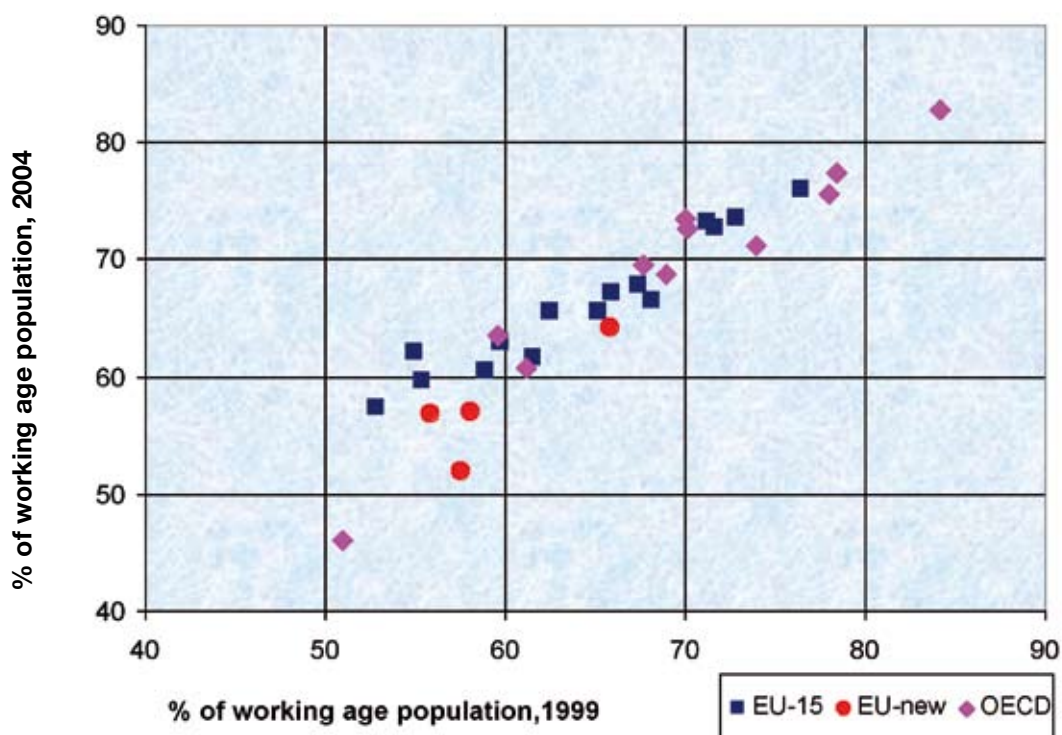
impact on national policies. There has been a lot of talk and a lot of support for the objectives, but not much direct action, at least not more than would have been taken by a responsible government faced with the challenge of economic survival and growth in a rapidly globalizing world.

Because of the failure to address the issues raised by the Lisbon agenda, there are frequent calls for reinvention of the process. New policies and a new focus are constantly sought. But the problem with the Lisbon process is not lack of knowledge of what policies can work. The problem is related to implementation. The European Employment Strategy of 1997 already had several specific measures designed to increase job creation. The OECD has repeatedly emphasized increased flexibility, adaptability, active labour market measures towards the unemployed and lower taxes, for at least those at the lower end of the wage distribution. Similar recommendations were included in the report of the European Employment Taskforce, which reported

in 2003. There is abundant knowledge of what is needed, if anything too much is written about what is needed and too little on how to put policies into practice. The reason might be that the types of policies needed are universal, they apply to all countries. But the processes needed to implement them are not common; they need to be decided at the national level, within the context of the institutions and objectives of the national government, which is much more difficult. And there are likely to be objections from many stakeholders who have vested interests in the status quo.

I do not have the knowledge and it is not my objective to look at each member's labour market performance and recommend specific measures for reform in individual countries. I will instead review policies that can be in principle effective in achieving the overall employment objectives. The adaptation to individual country needs will have to be done at the national level. A novel feature of my approach is that it puts policy in the context of the

**Figure 1: Employment Rates in 1999 and 2004**



Source: OECD Employment Outlook

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dynamic evolution of the economy, in a world of fast technological progress and increasing international competition. I consider it important to understand the underlying causes of low employment in Europe within the context of economic development and growth, before a policy prescription can be made.

## The connection between growth and jobs

I will argue that although the emphasis in the Lisbon agenda is on the knowledge economy and on high-tech jobs, much of the job expansion that is needed to satisfy the Lisbon employment objectives will be in labour-intensive sectors of the economy, which experience low productivity growth. So job creation is not likely to be the main contributor to growth. The link runs the other way: more growth will bring job creation. There is evidence that increasing the growth rate of labour productivity, either through capital accumulation or through total factor productivity growth, increases the demand for labour, reduces unemployment and increases participation. In research that we did at LSE we found that increasing the growth rate of TFP by 1 percentage point reduces unemployment by about 1.3 percentage points (Pissarides and Vallanti, 2004). Such changes in the growth rate of TFP in Europe are feasible, given the low starting points.

High growth is not spread uniformly across the economy. Inevitably some sectors will grow faster than others. The knowledge economy that is emphasized in the Lisbon agenda is the high-tech sector that is the driver for growth. But it is not the main job creation sector. High growth usually does not create many jobs in the sectors that experience it. It creates wealth and this wealth creates demand for services elsewhere. The jobs growth that comes with productivity growth is more widespread through the economy than the productivity growth itself, and usually more heavily concentrated in low productivity sectors, such as retail trade, community services, medical care and the like. Of course, the people who take these jobs still need to be compensated sufficiently to give them the incentives to enter employment. High compensation

in the low-growth sectors is achieved through high prices for their final products, not through more productive use of resources. This is why we experience more price inflation and more job creation in low-productivity service sectors, a process sometimes known as Baumol's cost disease (Baumol, 1967; Baumol et al, 1985).

## The European jobs deficit

How can we tell that most jobs will be created in the low-productivity sectors? First, in the recent history of Europe employment has been moving out of agriculture and into the low-productivity service sectors, with manufacturing showing either a small fall or no change. In countries which completed earlier the transition out of agriculture, such as Britain and the United States, the subsequent transition was mainly out of manufacturing and again into services. Importantly, however, although average hours of work decline with economic development, there is also pressure in these countries for an increase in the participation rates of women of working age, especially those aged 15 to 50 years. So historically, European countries should expect that given their small agricultural sectors, there will be pressures on their manufacturing sectors to contract as well, and pressures for an increase in women's employment rates. The pressures on manufacturing to contract are likely to intensify with the emergence of large Asian manufacturing producers. Trade and export-led growth can provide a cushion for manufacturing, as it happened with Japan and Germany in the last thirty years, but it is not likely to continue in the future. Europe has to face the reality of the dynamics of the 21st century: most employment growth is likely to come to service sectors that do not rely on high-tech knowledge or trade. But in some ways this is good news for the employment objectives of Lisbon. The economic forces in Europe should be creating demands for job creation in sectors of the economy that can easily be met with the existing human capital stock of each country.

Creating demands, however, is not equivalent to creating jobs. The United States is the most advanced country in the dynamic economic process that I described. Its manufacturing sector is shrin-

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king and service employment rising. Female participation is also rising. As a result, the main gaps in employment now between European countries and the United States are in service employment. Production industries and agriculture occupy more or less the same fraction of people in most economies, with some small differences. Can Europe expect a similar dynamic evolution as the one experienced by the United States, and so can it sit back and wait for the natural economic forces to satisfy the Lisbon objectives?

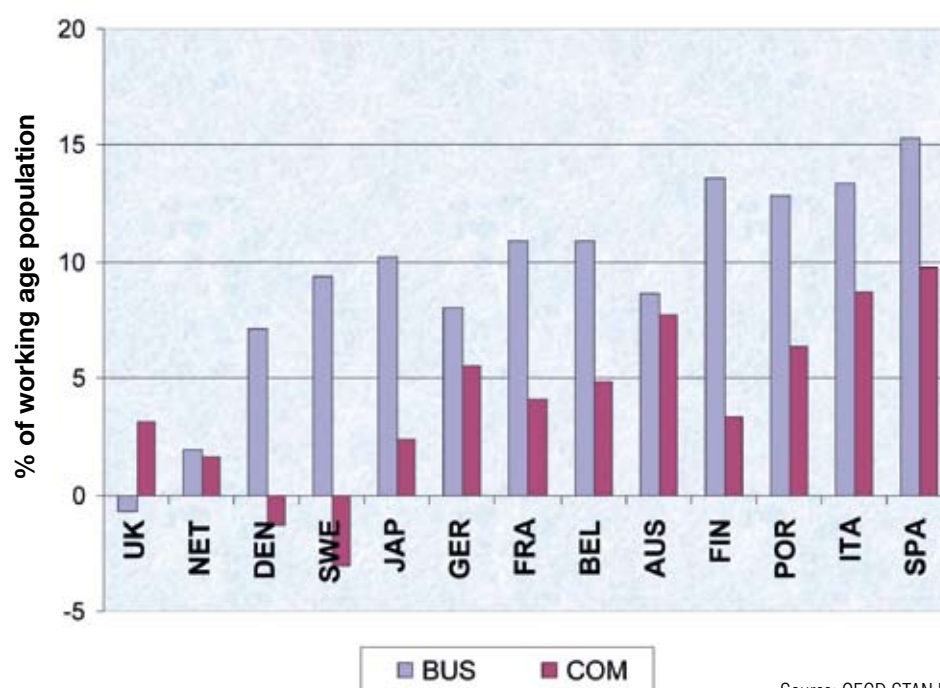
This is a difficult question to answer, but given the different performance of countries within Europe, despite their similar level of economic development, the answer is probably no, at least in the foreseeable future. Big gaps remain in employment between Europe and the United States, and within Europe, mainly between the north and the south. These gaps are mainly in business services and community services. Figure 2 shows the gaps in the two types of services. The main gaps are in business services, with only Britain surpassing the United States because of its large financial sector

in the City of London. But there are also substantial gaps in community services, with the exception of the Scandinavian countries (Sweden and Denmark), which have many community services supported mostly by the state.

Figure 3 decomposes the employment gaps in the business sector. Here we find the biggest gaps in retail and wholesale trade. There are also gaps in financial services, mainly in business services connected with real estate and in the provision of a variety of other services to employers. The biggest gaps in financial services are in the southern European countries. The third sub-sector in the business group includes transport and communication but gaps here are small.

Perhaps the most interesting figure in this group is figure 4, which looks at employment growth in the business services sector. Over the last thirty years European countries have been achieving good rates of growth in finance, real estate and insurance services, which include high-tech computing services. But they have not been able to match the US rate of growth in the retail and wholesale tra-

**Figure 2: Business and Community services US-EU gap**

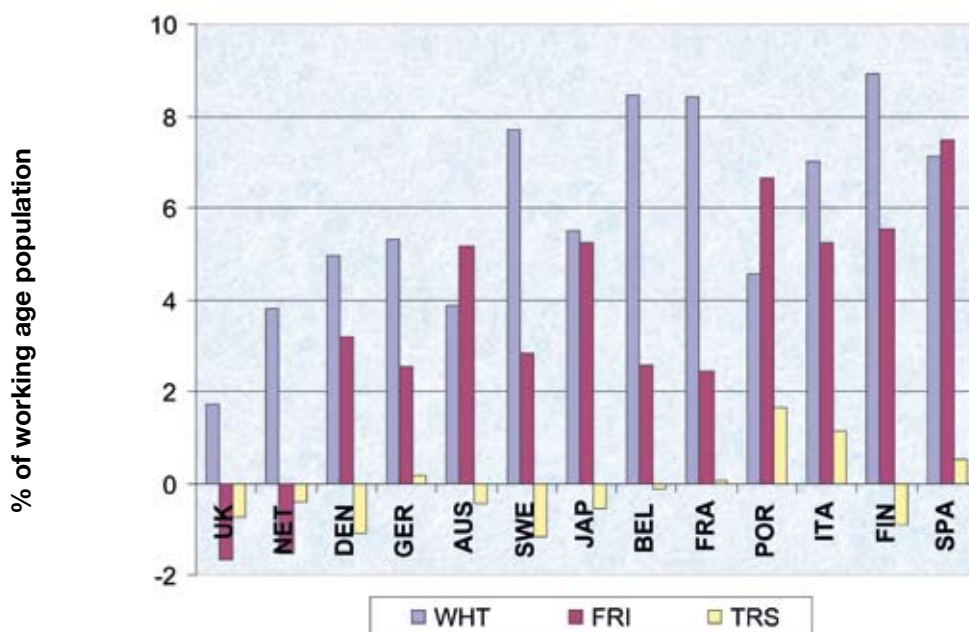


Source: OECD STAN Database (online)



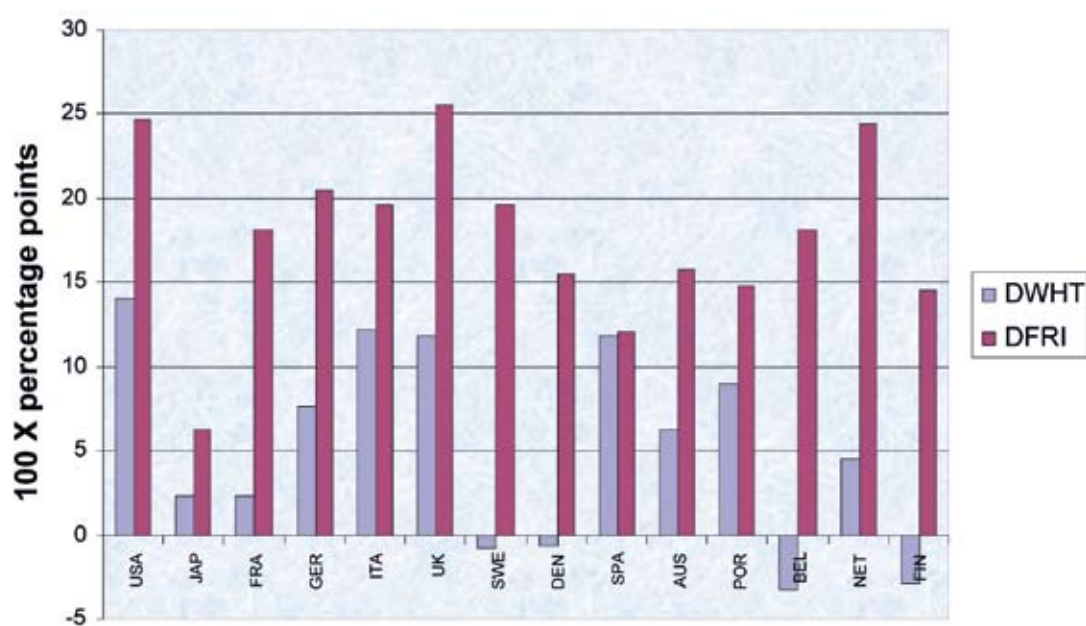
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Figure 3: Business services, US-EU gap



Source: OECD STAN Database (online)

Figure 4: Average annual change in employment rate, 1970-2004



Source: OECD STAN Database (online)

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de sector, which is the one characterized by lower productivity growth in this group.

It is apparent from this analysis that the jobs deficit in Europe is in sectors which are labour-intensive with low productivity growth. Europe has been creating jobs in the “knowledge” sectors at a comparable scale to the United States, although it has not substantially closed the gap yet. But the low-growth sectors in the United States attract big numbers of workers, especially women, which is not matched in Europe. Compensation in these jobs is good in the United States because the prices of their final products are relatively high. The fact that consumers can afford to pay the high prices is itself the result of more employment. When women leave the home to take employment they create demand for market services such as cleaning, food preparation and child care, which creates more jobs for other women.

## Why are European economies not creating so many jobs?

The same pressures for an increase in the consumption of business and communal services are present in Europe. Europe has more or less caught up with the United States in productivity per hour, although, because Americans work more hours, income per head is higher. But do Americans really work more hours than Europeans? Americans work more hours in the market, and so create more jobs, but they work fewer hours at home. In recent research on the hours worked by Americans and Europeans, Freeman and Schettkat (2005) concluded that they work approximately the same number of hours, but Europeans work much more in the home than Americans do – see table 1. The

difference between market and home allocation is particularly marked for women. European women work on average 8 hours less than do American women in the market, but they work 10 hours more in the home. They do more house maintenance, they cook more at home and they look after relatives. They are engaged in “home production”, something Americans do much less. The Lisbon agenda wants Europeans to move to the market, to “marketize” their home production. I leave to one side the question whether this is a good policy to encourage, and address the question how can it be done?

The natural conclusion is that in order to increase employment in Europe we need to make the market more accessible to women, who now shy away from market work, and we need to create good jobs in labour intensive sectors of the economy. It is interesting, and encouraging for Europe, that the sectors that lag behind the United States in job creation are female-friendly sectors: retailing, restaurants and hotels, and community services, such as childcare and nursing care. Men need not be displaced from their current jobs in order to make room for women in the labour market.

An explanation why the market pressures that have given rise to more employment in the United States have not had the same impact in Europe runs as follows. Consumers work out the relative cost of buying some services in the market versus providing them at home. When the price of market goods relative to per capita incomes is lower more households will choose to use the market for services that have close substitutes in the home. So in order to understand why Europeans use the market less than do Americans we need to look at

**Table 1: Weekly hours of work, early 1990s, ages 25-54**

	men			women		
	market	home	total	market	home	total
US	44,1	16,1	60,2	28,7	30,1	58,8
EU	43,4	13,6	57,0	20,7	40,5	61,2

Source: Freeman and Schettkat (2005)

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the factors that influence the relative costs of buying in the market versus producing at home.

There cannot be large differences in the cost of producing services at home in Europe and America. Consumer durables are widely available and homes are as well equipped in Europe as they are in America. The factors that can explain the differences in employment patterns in Europe and America must be in the returns to market work and in the cost of buying services from the market. The interpretation of these costs must be general, to include convenience factors and not only prices and wages, although prices and wages are important too. Several factors can be contributing to making the products of market work in Europe too expensive for consumers, and market work itself unattractive for workers. The two factors are, of course, interconnected. If there are features that make market work unattractive they could be offset by higher prices for the final product; but higher prices would then choke off demand and so reduce employment.

## What can make market work more attractive?

The key question for Lisbon then is what can make market work more attractive? And especially more attractive to women?

First, there are various restrictions on market work, which, although individually may not appear very important, when aggregated they add up to a lot. I include here, flexibility in market work hours, flexibility in shop opening times, and the availability of inexpensive child care services (see Freeman and Schettkat, 2005). These types of facilities make it easier for women with children, and for those without children who have a household to run, to enter employment. Examples of European countries that have liberalized restrictions such as the ones I listed here, and succeeded in increasing female employment to the Lisbon target levels, include the Netherlands and United Kingdom. Both countries have very large numbers of part-time jobs, and, in Britain at least, evenings and weekends are the busiest times in the shops. The Scandinavian countries have also succeeded in increasing female employment. A factor here is

the widely available child care, but also the fact that many of the communal services marketized in the United States are provided by the state, which employs large numbers of women.

Another important factor in the employment of women is education. Employment differentials across countries become less at higher educational attainments. Women with university degrees have similar rates of employment everywhere. Of course, it would take long for substantially more women to acquire university degrees and gain employment. But the impact of higher education on women's employment is not one-for-one. When more women acquire education and gain employment they create demand for the services of other women with less education. There is a multiplier effect of education which brings to the market a larger number of women than the ones leaving college with higher qualifications.

The initiative to increase education in Europe comes from the state. But for it to be effective two pre-conditions need to be satisfied. First, women need to know that jobs will be available and that they would be compensated as well as men's jobs are. There is legislation in the European Union against discrimination but it is not always effectively implemented (Boeri et al., 2005). Increasing the effectiveness of legislation and making working conditions good for women will certainly improve the chances of the European Union to satisfy the Lisbon objectives. In the United States anti-discrimination legislation has been in existence and given a high profile since the early 1970s, before any European country did it, and it contributed to the expansion of female employment.

Second, highly qualified women need to know that there will be less qualified people around, mainly women, prepared to do for compensation the tasks normally done in the home. This is where childcare services become important, but equally important, because they affect larger numbers of women, is the availability of workers who would be prepared to work as cleaners, in restaurants and in laundries. In order to achieve this the European Union needs to think seriously about unskilled migration and its potential contribution to the Lisbon agenda. To bring an example from a smaller country with which I am familiar, in Cyprus employment

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levels are within the Lisbon targets. Educational levels and female employment rates are unusually high for a Mediterranean country. These rates are supported by large numbers of unskilled immigrants on regulated fixed-term contracts, working in business and community services, mostly domestic service, nursing and retailing. Similar patterns are apparently observed elsewhere: the Pilipino domestic worker has freed many European women from home production and helped her make the transition to the market (see Ehrenreich and Hochschild, 2003, cited by Duflo, 2005).

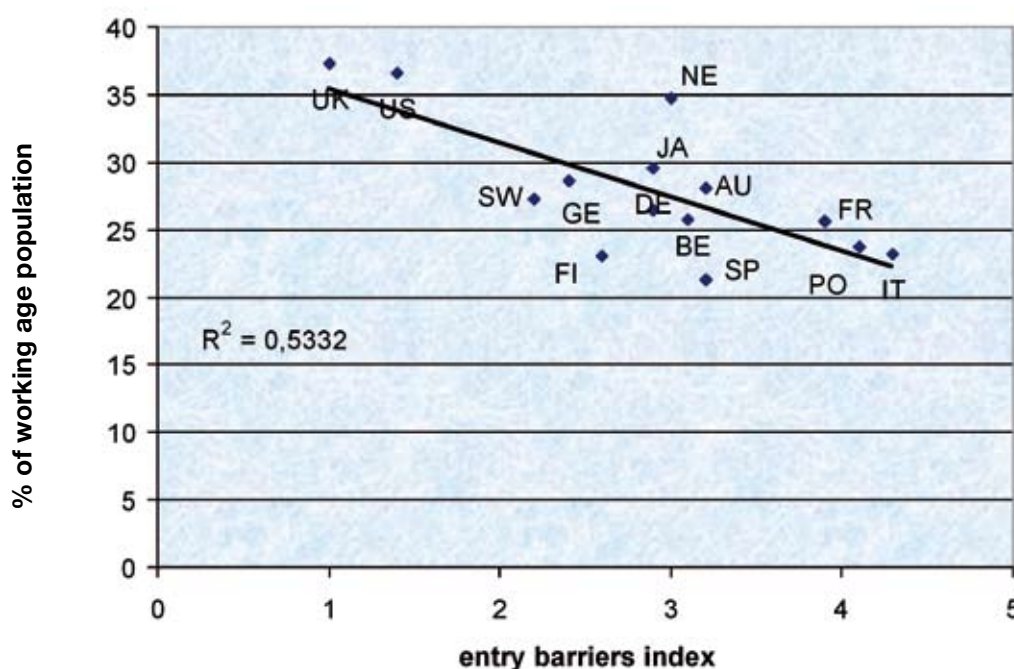
## Making it easier for employers

Job creation needs to be attractive to potential employers too. An obvious policy reform here is that labour markets should be liberalized, especially at the lower end of the skills distribution. This is not new: it has been emphasized in numerous writings by the OECD and the European Commission. But

reforms have not been forthcoming at the required speed. The administrative burden on companies, especially on new companies and on small ones, certainly explains some of the gaps in service jobs. Jobs in business and community services are frequently performed within small companies, or by individuals working on their own account. It is important if these individuals are to be attracted to the market that setting up a small company and running it should be easy and inexpensive. For example, there should be one window for completing all the necessary administrative work for a new company, setting it up should be fast and completed within a week, and the company should not be required to report detailed accounts and register for VAT if turnover is expected to be below a certain limit, which should be generous. Direct assistance from the state for new entrepreneurs is also important.

There is good correlation across countries between the severity of barriers to entry and em-

Figure 5: Business services employment and entry barriers



Source: OECD Employment Outlook

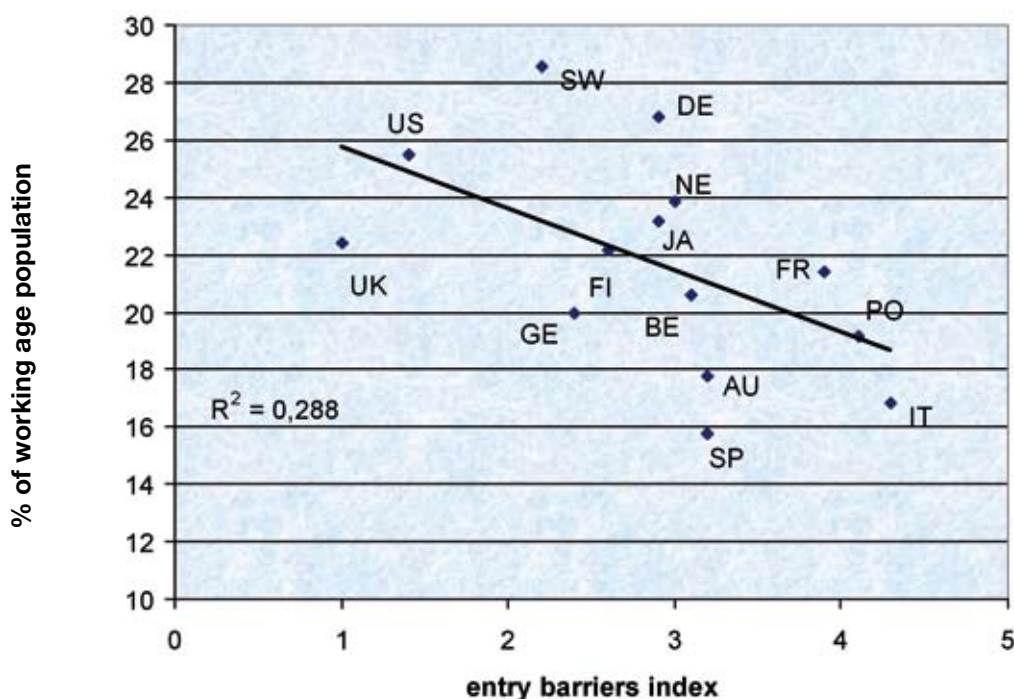
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ployment. Not surprisingly the correlation is better with business services, which as we saw are dominated by shops and small offices, than with community services, which are mainly related to health and education (see figures 5 and 6). In a more micro study of the French retail sector Bertrand and Kramarz (2002) also found that barriers to the setting up of supermarkets have a negative impact on the local labour market. And other studies done by industrial economists have discovered that unimpeded entrepreneurship helps both in the diffusion of new technologies and in the adaptation of businesses to new challenges. Diffusion and adaptability are important for Europe in a world that combines the two challenges of technological catch-up with the United States and globalization. In fact, in the presence of these two challenges adaptability is more important than R&D geared to new discoveries.

Another obvious factor in the attractiveness of job creation, that has attracted a lot of atten-

tion recently, is taxation, which can discourage both employers and employees. The reason for the recent interest is Prescott's (2002) claim that the entire gap between European and American hours of work can be explained by it. Taxation makes home work relatively more attractive because it is not taxed. But econometric evidence has failed to find a large impact of taxation on employment. There seems to be a divergence between the findings of studies based on computations with simple equilibrium models, such as those of Prescott and Rogerson (2005), and the findings of econometric studies. A criticism that can be made of the computational findings is that they do not distinguish between different types of taxation and the uses to which the tax revenue is put into, which must influence the impact that taxation has on employment. They model taxes as a proportional tax on income from work which is subsequently returned to the worker as a lump sum transfer. This type of tax has the biggest im-

**Figure 6: Community services employment and entry barriers**



Source: OECD Employment Outlook



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pact on the supply of labour, but it is not necessarily the typical European tax.

Nevertheless, taxation has a bigger impact on economic activity at the lower end of the productivity distribution. Profit margins and net gains from employment are smaller when productivity is lower so a given tax takes a bigger proportional slice of net gain. Low-wage labour and jobs should not be taxed. It is now widely accepted that capital should not be taxed much because it is mobile. If one country taxes it, capital will flee to another. The experience with home and market work in Europe shows that low-wage labour is also mobile, between the home and the market. Based on the same principle, low-wage market work should not be taxed much either. Otherwise it will flee to the home.

## What can the Commission do?

As I emphasized, the most important reforms that are needed to achieve the Lisbon targets are at the national level. Not all countries of the Union need the same reforms and it is up to individual governments to look into their own situation and decide what is more urgent. But the Commission can also help. The final question that I want to address is: is there anything that the European Commission can do other than give advice and exert moral pressure?

The answer is that there is – and although a lot has been done a lot remains to do. The Kok report highlighted five areas of policy that require urgent action. Four of them are firmly in the national domain: encouraging R&D, improving the business climate, improving the performance of the labour market and ensuring environmental sustainability. But the fifth, the completion of the single market, requires largely action from European institutions. The most important steps towards the single internal market were taken in connection with the 1992 process. Integration is important because European companies can take advantage of economies of scale. Prices of goods are generally lower in America than in Europe and the reason is that American companies have better distribution networks and make better use of diversified locations within the United States. Europe can do the same, but it is

not doing it yet. The main benefits from European integration so far have been the benefits from free trade. The Commission estimates that in the first ten years of the single market European GDP gained about 1.5 percent. This is not very much when compared with the annual rate of growth of GDP, in fact it corresponds to about a year's growth. There have also been some gains in job creation but with respect to services, the biggest component of GDP, integration has not yet taken place. The Kok Group rightly emphasizes that efforts towards completing the single market should be stepped up, especially in the liberalization of services. Even financial services are not fully integrated, although there is an agreement that they should be. On paper integration is complete in the goods sector, but the large differences in prices that remain across Europe is evidence that it has not yet fully taken place. However, the limits here may be due to corporate policies and not a matter of national policies. If that is the case the Commission can again take action to improve integration.

Beyond this channel, which is important enough, the Commission has been emphasizing mainly the need for reform and the need for more effort to achieve the Lisbon objectives. But it has not taken concrete action. The failure to take the necessary action at the national level is partly the result of countries not doing what they said they would do, and partly not saying or doing what is needed. The Commission could work out a system or incentives to make countries more willing to take on the necessary measures. For example, it could give some financial compensation for research and other spending which is now financed by national budgets, but which contributes to the Lisbon objectives. Financial aid or incentives have not been tied closely to the Lisbon objectives. If the Commission wishes to accelerate the reform process this is one area through which it could contribute a lot.

## Final remarks

I conclude by listing the main claims made in this paper

- The job creation required to achieve the Lisbon targets will be mainly in sectors with low pro-

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ductivity growth: retail trade, a variety of business services, and community services.

- European countries have been successful at creating jobs in the “knowledge sectors”, such as financial services, but have been unsuccessful at creating them in the more labour-intensive service sectors.
- Most new employment will come from women now outside the labour force and it will “marketize” many of the services now done in the home, such as child and other personal care, cleaning, shopping etc.
- In order to achieve the new job creation employment needs to be made more female-friendly through more flexibility of working hours, more flexibility in shop opening hours and easier availability of domestic service.
- Education needs to be further advanced and supported by less expensive immigrant labour in the labour-intensive service sectors, including the home.
- Other labour market reforms include an increase in the flexibility of employment, less taxation of low-wage jobs and less administrative burdens on new entrepreneurs.
- Finally, it should be apparent from this discussion that the failures of Lisbon are not due to lack of knowledge of the principles behind the right policies, but to lack of urgency in the reform and implementation process needed to put those principles into practice.

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## 2.2 Georg Fischer, European Commission, Commentary on the presentation by Christopher Pissarides

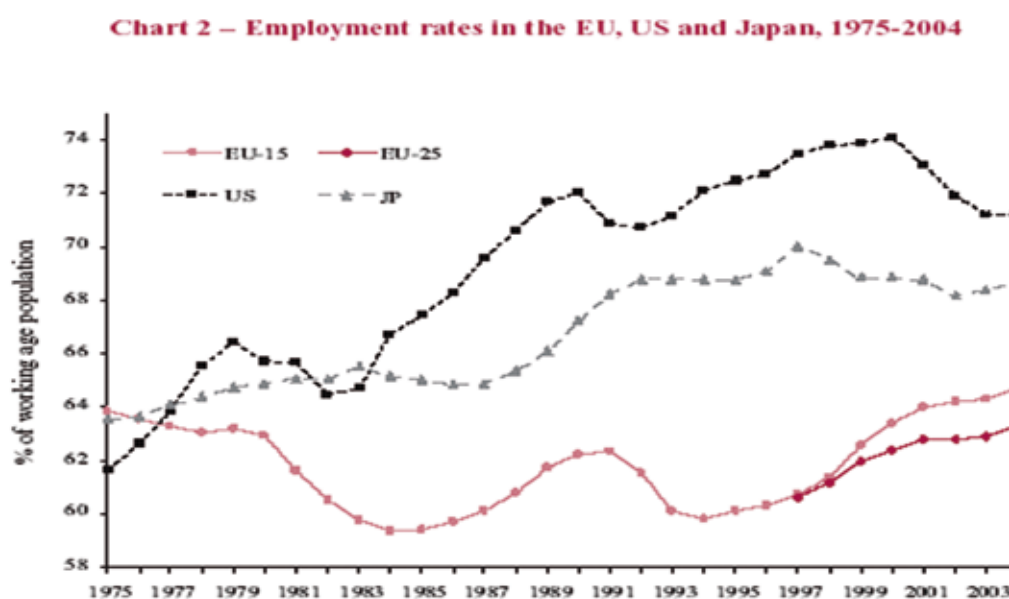
Prof. Pissarides analyses an important and burning question: Why is the European employment performance inferior to the American and what would need to change to “move up a gear” (as the Commission Report on the national reform programmes responding to the revised Lisbon Strategy demands)? He confronts us with bad news: first Europe is well behind the US in terms of employment levels; and secondly, Europe seems not to be improving despite the emphasis on employment in EU policies since the late 1990s and notably since Lisbon. While the first observation is the basis for the renewed emphasis in the revised Lisbon stra-

tegy on employment, the second observation is worth some second thoughts (see below).

The first policy message is seemingly straightforward: growth and employment are mutually linked. A fuller use of the employment potential of an economy will increase output but not necessarily proportionally; it depends on the pace of productivity growth in an economy with a higher employment level. But he tells us this is not a one way street. Economic growth creates the income which can be used to finance labour intensive activity which will employ a growing share of the population in working age. The mechanism through which increasing national income translates into demand for labour intensive activities differs depending on economic structures and societal preferences. This is a point Prof. Pissarides makes – when referring to the Nordic countries – but it may deserve more attention and I will come back to this at the end of these comments.

A major part of the paper deals with the determinants of how rising incomes translates into job creation and how policy could influence the con-

**Figure 7: Employment rates in the EU, US and Japan, 1975-2004**



Source: DG EMPL calculation based on long-term trends in employment and population, Commission Services.



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ditions for this process of job creation. Apparently economic and social systems do this in different ways but also with differing outcomes as illustrated by the wide variety of the levels of employment in the service sector in countries of similar income levels. He discusses a number of policy options including tax policies and the need to provide for flexible labour markets.

He stresses the link between the position of women in European labour markets and job creation potential – an issue the Commission has highlighted already at an early stage in the EU employment policy debate. One should be particularly grateful that he draws our attention to the virtuous circle which could emerge from creating the conditions for women to participate more fully in employment and the unlocking of a huge job creation potential (as he demonstrates when referring to the US labour market experience). He emphasises the importance of paid child (and old-age) care, retail trade and catering as well as domestic services which frees women for other paid

employment. He concludes that most of these services are by nature low productivity and some of the more debatable policy conclusions result from this fact.

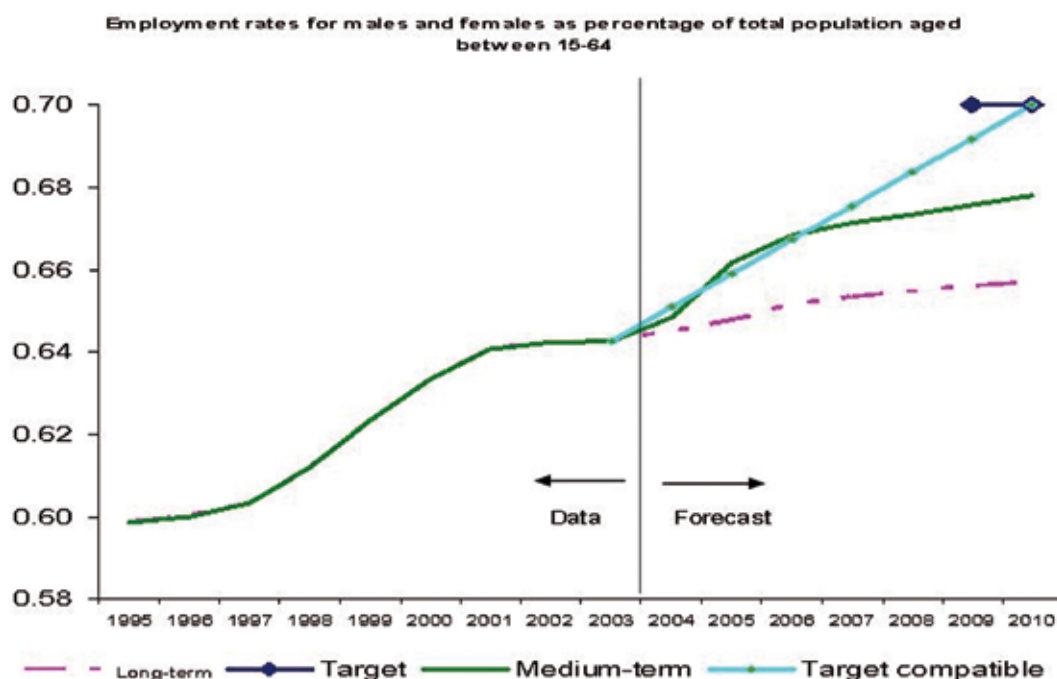
I would like comment on three aspects of the paper

1. How does European employment performance compare ?
2. What kind of service employment an advanced economy is likely to generate ?
3. The contribution welfare systems can make to job creation in the service sector?

## Has employment performance improved since employment became a central issue of EU policies?

There is clear evidence that a structural improvement in employment in the EU economies has occurred. The NAIRU and non-cyclical long-term unemployment rates have gone down, employment

**Figure 8: Employment rates for males and females as percentage of total population aged between 15-64**



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rates have for the first time in the last 30 years increased over the cycle and employment rates have even developed somewhat more favourably than in Japan and the US (figure 7: Employment Rates in the EU, US and Japan 1975-2004). In fact, improvements appeared in almost all Member States allowing for a certain degree of convergence. However, employment rates are well below the level of ambition articulated at the Lisbon Council of 70% and performances differ widely between Member States.

Figure 8 illustrates both observations. The chart is based on labour supply projections on a twenty year period long-term trend and on a 20 year period medium term trend. The fact that the medium trends proposes a far stronger increase in employment than the long-term trend, suggests a structural improvement in EU employment performance, however, even if labour supply and employment follow this pattern the employment rate would reach only around 68% in 2010.

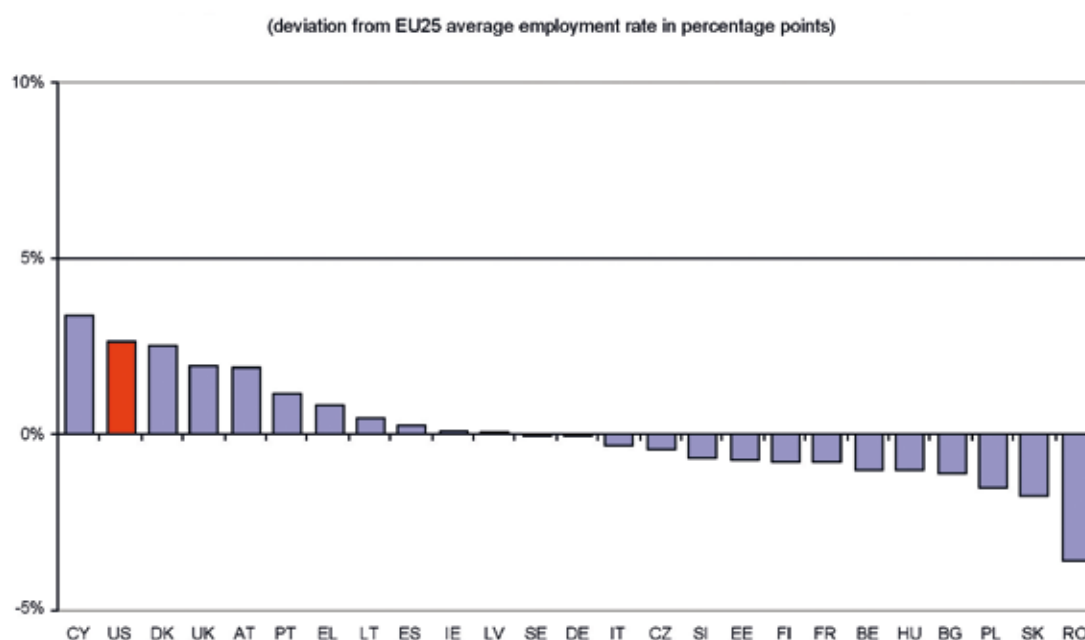
If we need to do better why is it worth arguing about structural improvements in the recent past? Essentially for the sake of the mutual policy and

learning process we call the European Employment Strategy. It would be a mistake to ignore the improvement in performance, notably as it would deprive European policy makers of a learning opportunity. Europe needs to understand the determinants behind recent employment trends and to learn from positive experience as well as to identify remaining obstacles for job creation.

This is exactly what the EU employment strategy initiated in Luxembourg in 1997 can achieve: focus attention of policy makers on challenges through agreeing common objectives; identifying the necessary structural reform to remove the obstacles for more rapid employment growth; and put in place a process that allows Member States to learn from each other.

While it is impossible to prove scientifically that the European policy process has contributed to the improvements in structural employment performance there is some evidence to suggest that this is the case. In addition to the moderate convergence in employment performance in the EU 15 one should consider the rather strong decline in long-term unemployment from around 5% in the

**Figure 9: Employment rates in wholesale and retail trade in the EU and the candidate countries, 2003**



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mid 1990s to around 3.3% in 2003. This has almost matched the overall decline in unemployment, while participation (employment plus unemployment divided by working age population) increased from 68 to almost 71% indicating a clear change in the behaviour of EU labour markets - from labour market adjustment through restricting labour supply to increased emphasis on activation and integration of the unemployed and some of the inactive.

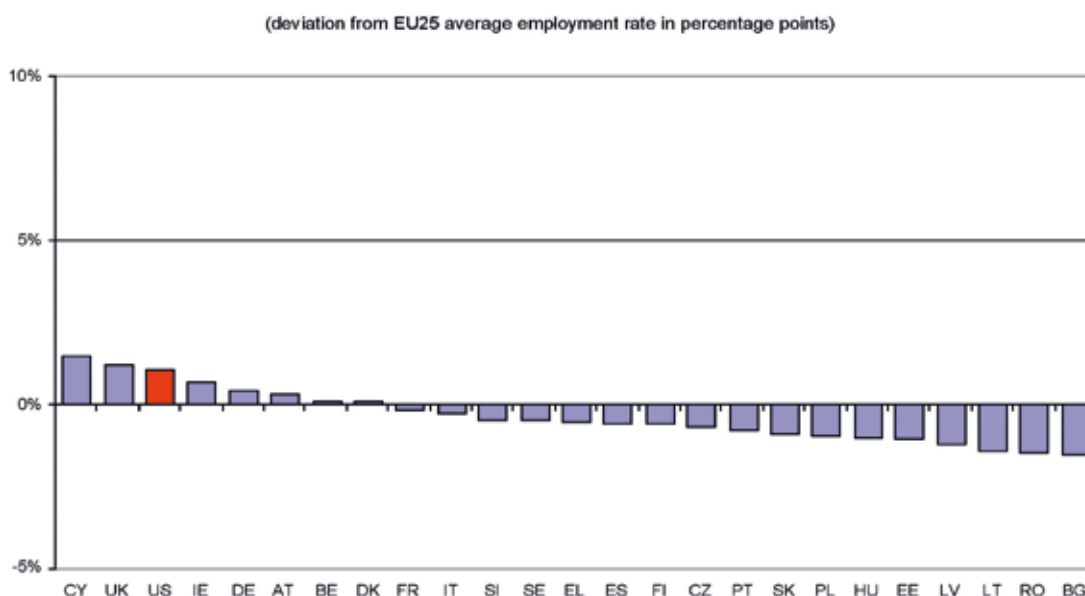
## What service jobs should Europe strive for?

The source for rising employment will be in service sector jobs in Europe, as everywhere else in the developed world. There is a substantial gap in employment between the EU and the US in services. This gap is often interpreted in the following manner: labour market regulation, high taxes and insufficient wage differentiation limit job creation in the European service sector - the job gap is notably in low productivity services. Figures 9 and 10 compare the share of the working age population employed in four major services sector in the EU

Member States and the US. It is confirmed that the US employs a lot more people in retail trade than all Member States but Cyprus, however, the picture is similar for financial intermediation where only the UK and Cyprus have higher shares than the US and financial services has a fairly different composition of skilled and unskilled jobs than retail trade. Moreover, the picture is surprisingly similar in classical "knowledge service" sectors such as education and health and social services where only the Nordic countries and the UK reach levels comparable the US. Compared to many, notably big, EU Member States, the job gap to the US is also in "knowledge" intensive services not just in typical "low productivity", "low wage" services.

A fairly detailed analysis published in chapter 3 of the Employment in Europe 2004 concludes that services such as financial intermediation, social services and, not surprisingly, education have skills levels well above the average. They are also not the sectors with the biggest incidence of low wages; neither in EU countries or in the US. In fact, countries where average earnings in certain sectors are below the average in the total economy do not

**Figure 10: Employment rates in financial intermediation in the EU and the candidate countries, 2003**



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necessarily show higher employment levels than those where remuneration is comparatively more favourable. The analysis concluded that relative wage structures by sector were fairly similar across the US and European countries and seem to explain little in terms of their respective employment performance. In some notably low wage sectors cross country comparison indicates that relatively higher wages in retail trade seem to go together with higher employment levels. As an example: relative wages in German hotels and restaurants are similar to levels in the US, nevertheless the share of employment in the sector is not even half that in the US.

While there is little doubt that more flexible labour markets help employment in most service sectors, other factors are important and high employment levels do not need to be in all cases based on polarised employment structures. High levels of female participation and conditions which allow women to fully participate in employment are decisive, and as highlighted by Prof. Pissarides, policies such as promoting equal opportunity and

care services as well as education and training have an important role in this respect.

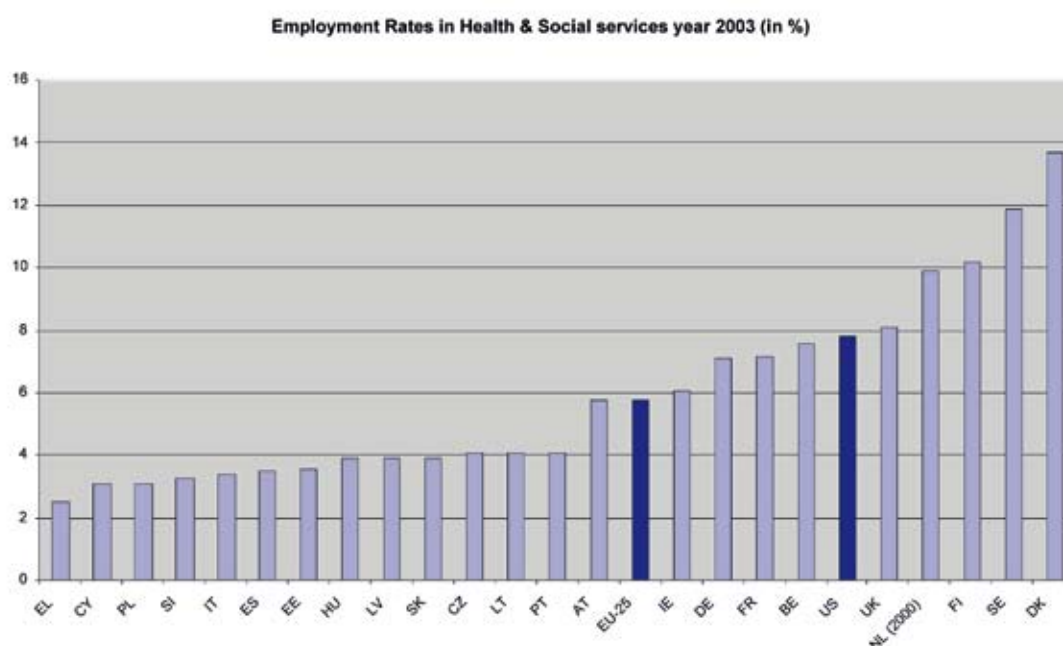
Indeed, is a polarised service sector with low-pay domestic services, retail trade and catering on the one hand and high-pay knowledge services on the other the only functioning model for high employment levels in the service sector? Empirical evidence in some EU countries and even in the US suggests that one could strive for different solutions. Two points come to mind.

First, people do not need to remain in low pay/ low productivity employment for ever. So even, if people enter the labour market in such jobs, training and career development help them to move on into higher valued jobs.

Secondly, how do our societies value crucially important services such as child care or old age care? Can modern societies and economies afford to consider such services at the margin of our labour markets?

Finally, is it not necessary to push the argument about equal opportunities one step further? Is it only about the commercialisation of house work

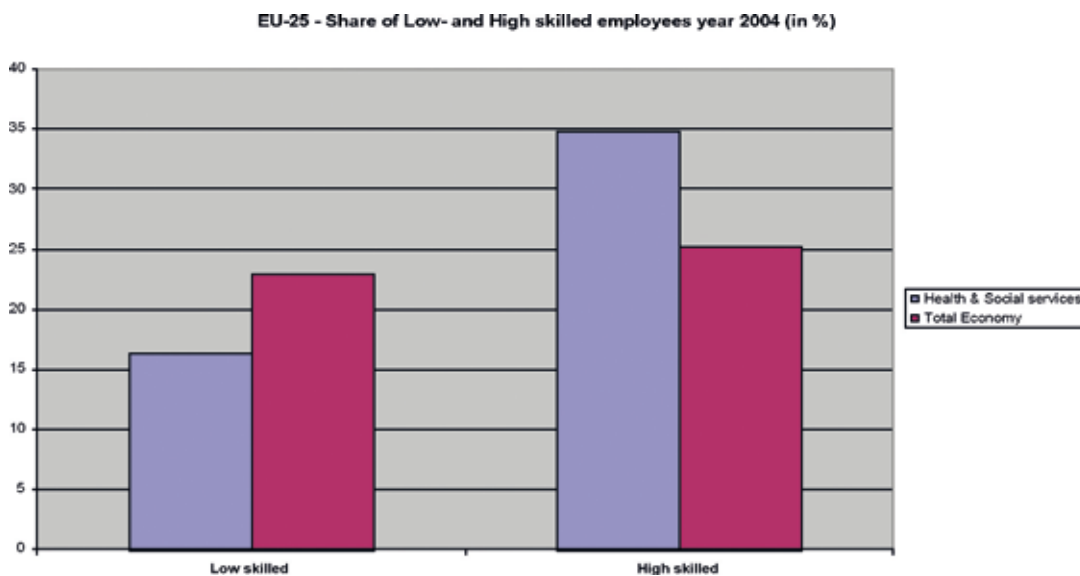
**Figure 11: Employment Rates in Health & Social services year 2003 (in percent)**



Source: Employment in Europe 2004

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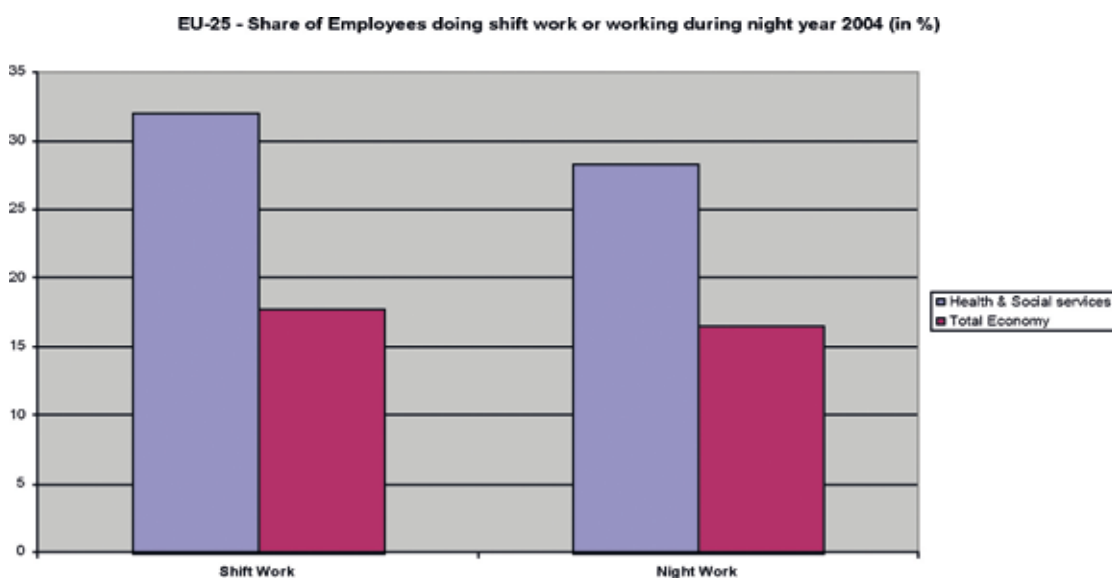
Figure 12: Social and Health Services and the Lisbon Strategy



Employment in this sector is characterised by high share of women (78 percent) and educated workers

Source: Labour Force Survey (LFS), Eurostat

Figure 13: Social and Health Services and the Lisbon Strategy



Source: Labour Force Survey (LFS), Eurostat

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and care or is not also about new forms of sharing responsibility for this work between women and men and within society at large? The latter would allow people of both sexes to concentrate equally on their professional career and help to improve quality and productivity in the rapidly growing services sectors.

Social and Health services are the sector where these considerations are particularly pertinent. Employment growth in these services has been strong in the EU and the US and roughly one employed person in ten works in this sector. While some European countries have higher employment levels in these services than the US, 20% of the total employment gap between the US and the EU results from these types of service sector employment (Figure 11). Many European countries have a huge employment potential in these sectors, notably in Central/Eastern and in Southern Europe and to a lesser extent in the continental European countries. 80% of those employed in these sectors are women and about 35% are highly skilled compared to 25% in the total economy – conversely the share of the low skilled is almost 10% points lower. Nevertheless earnings are below average and night and shift work is more common (figures 12 and 13).

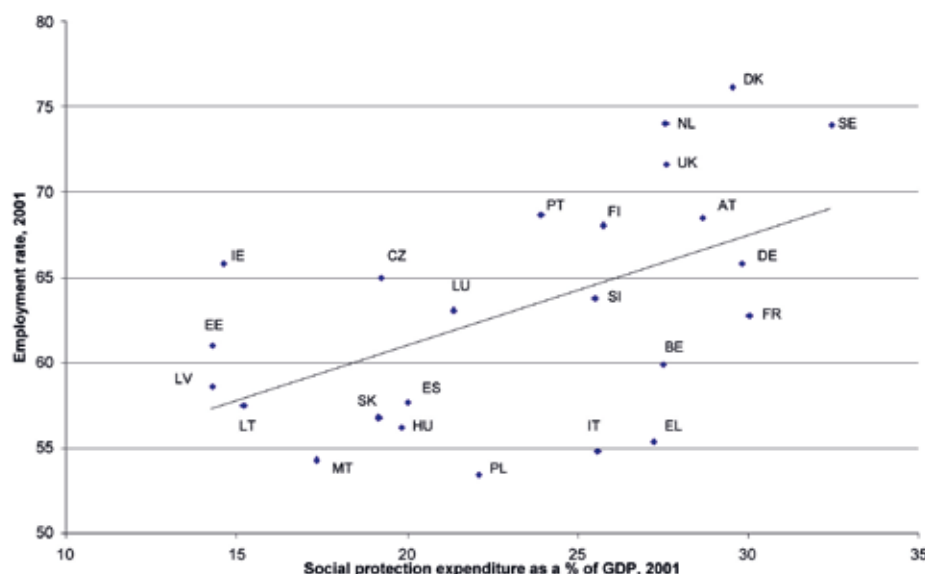
Not surprisingly this is a sector characterised

by partial labour shortages, cross country competition for skilled labour and instability of employment, signalling emerging pressures for change. More effective human resource development strategies offering security to employees coupled with flexible employment seem to be the way forward, rather than to hope that deregulated labour markets will solve all problems. Incidentally, it seems to me that a certain degree of multilateral coordination would be beneficial to promote international mobility while ensuring that all countries have a sufficient level of qualified labour supply for these essential services.

### Welfare Spending and job creation in services

Undoubtedly, expansion of services such as health and social services raises the question of financing. Prof. Pissarides spoke about the question of how rising incomes can translate into demand for services and that labour market institutions can contribute to or impede employment – both on the supply and the demand side. Clearly one needs to get labour supply incentives right – not only through ensuring that “work pays” but also that investment in training or one’s career development does. Such

**Figure 14: Social protection expenditure and employment rate**



Data for Cyprus are not available

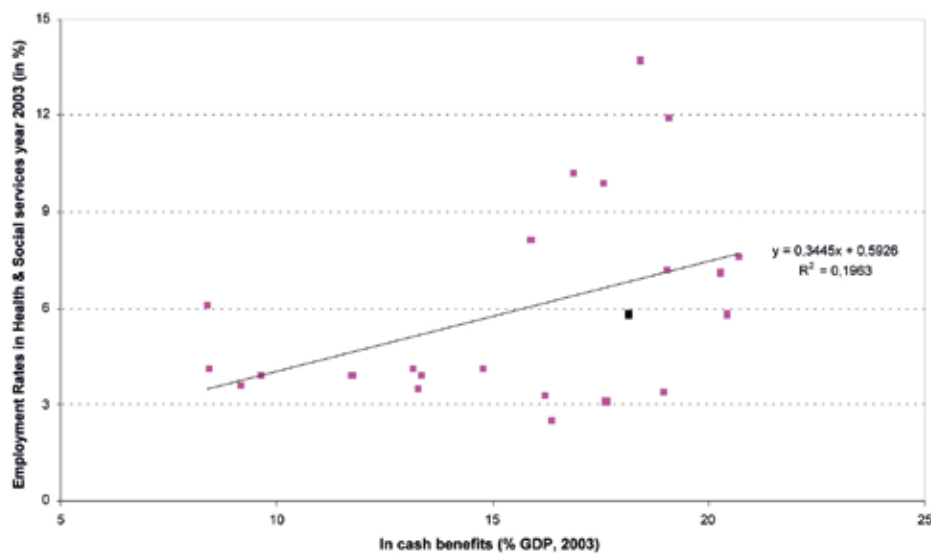
Source: Eurostat - New Cronos databank and ESSPROS.

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services need a certain degree of flexibility in labour market conditions and one can only agree that high taxes on labour may have a detrimental effect on labour demand in such labour-intensive

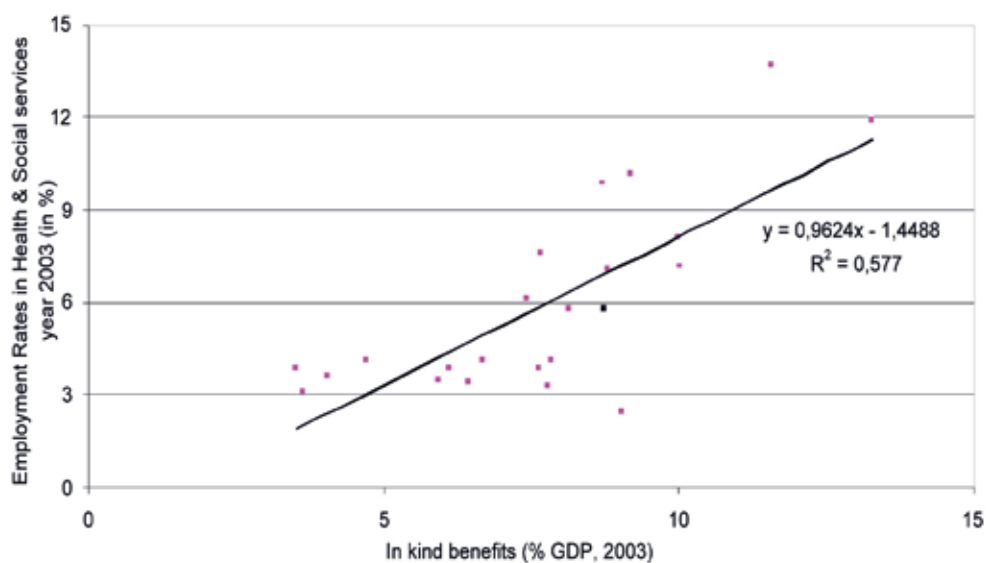
sectors. On the other hand such services need to be attractive to convince potential customers to buy them. This leads back to the issue of appropriate human resource development strategies and a

**Figure 15: cash benefits, employment in health/social services**



Source: Eurostat - New Cronos databank and ESSPROS.

**Figure 16: in kind benefits, employed in social/health services**



The lesson to be learned seems to be that if one wants to ensure that welfare spending translates into an increase in the provision of social services, and into related employment, one will need to earmark it in one way or another, in particular for specific services.

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reasonably motivated and secure workforce – the worst service will be provided by people who try to get out of the sector as rapidly as possible.

However, financing is not only a question of private demand but also of public resources which are scarce and do not rise in line with increasing demand resulting from structural change and demographic ageing. Two factors which tend to increase the need for services Welfare policies have an important role in this regard. Therefore, one should go beyond the incentive effects of welfare policies and also address how welfare systems could contribute to finance such services.

Welfare systems can provide two types of benefits for those in need of support – 'cash benefit' and 'in kind benefits', the latter can have the form of direct provision, direct financing of provision by private firms or non-profit providers or different forms of financing access to such services (subsidies to providers, including for example financial support to care givers, vouchers or conditional payments to those in need). While it would be interesting to compare different forms of such support, data are only available for cash benefits and the broad category of in-kind benefits. Results are nevertheless interesting.

First, on the impact of social protection expenditure on employment altogether – figure 14 suggests that in a cross country perspective no negative relation between levels of social protection expenditure and total employment can be detected if at all they are positively interlinked. Secondly, one wonders whether the link between social benefits and employment in social services should not be more marked as the groups which receive cash benefits are often those most in need of counselling, care services or health care (like the elderly, families with children, the unemployed or the sick and the disabled). Employment rates in social and health services do not show a stronger positive cross-country correlation than social protection expenditure in total and overall employment. Cash benefits (figure 15), as important as they are, do not contribute greatly to expansion of social services provision or job creation in these services. The picture changes if one looks at the in-kind benefits and social services (figure 16): cross country evidence suggests a stronger relation. The lesson

to be learned seems to be that if one wants to ensure that welfare spending translates into both an increase in the provision of social services and into higher employment, one will need to earmark it in one way or another, in particular for specific services provision.

## Sources:

1. EMPLOYMENT IN EUROPE REPORT 2004:  
Chapter 1.8: medium-term employment rate projections for the European Union (pp. 55-60)  
Chapter 5: Globalisation and Labour Markets: a European perspective (pp. 187-226)
2. EMPLOYMENT IN EUROPE REPORT 2005:  
Chapter 2: Taking stock of the European Employment Strategy (EES): the evidence behind improved performances of EU labour markets (pp. 73-135).



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## 2.3 John Martin, Organisation for Economic Cooperation and Development (OECD) “What works among labour market policies”<sup>1</sup>

**What works and for whom: A review of OECD countries' experiences with active labour market policies<sup>2</sup>**

John P. Martin and David Grubb<sup>3</sup>

### Summary

This paper first reviews trends since 1985 in public spending on labour market programmes, both active and passive. The second section reviews the main findings from recent evaluations of active labour market programmes. At first sight, evaluation findings are not very encouraging, although there are some success stories. Counselling and job-search appear to be particularly cost-effective active measures if they are combined with increased monitoring of job seekers and enforcement of work tests; significant impacts are often estimated for self-employment programmes which are appropriate for only a limited proportion of the unemployed, and hiring subsidies which suffer increasingly from dead-weight and substitution effects as they are expanded. At the same time, an evaluation focus on the postprogramme impacts of active measures tells only part of the story. The third section of the paper first examines interactions between active

and passive policies, including issues of benefit replacement rates and benefit eligibility conditions. It describes regular “interventions” in unemployment spells by the public employment service (PES) and the motivation effects which may arise when referrals to labour market programmes are made, citing some recent evidence on the effectiveness of these “activation” measures. The importance of good management of the PES is highlighted, with a discussion of some recent attempts at improving its efficiency through the introduction of performance measurement and quasi-competitive mechanisms. The paper concludes that, although active labour market policies are not a magic bullet, significant impacts on aggregate labour market outcomes can arise when appropriate strategies are adopted.

### Introduction

High and persistent unemployment has been a major blot on the economic and social record of most OECD countries since the early 1970s: the OECD average standardised unemployment rate rose from an estimated three percent in 1973 to a peak of eight percent in 1993 before falling back to 6.4 percent in 2000. In response to growing political concerns about the seemingly inexorable rise in unemployment, various policy blueprints were developed in the 1990s to improve labour market performance on a durable basis. Prime examples include the OECD Jobs Strategy launched in 1994 and the EU Employment Guidelines which were launched in 1997 following the Amsterdam summit.

These policy blueprints assign an important role to active labour market policies. But this emphasis begs the obvious question: what is the potential contribution which active labour market policies can make as part of a strategy to combat high and persistent unemployment?

In order to answer this question, it is vital to know *what works* among active policies and for *whom*. The OECD Secretariat has been working intensively on these questions in recent years and this paper summarises the main results of our work to date.<sup>4</sup>

The structure of the paper is as follows. Section 1 provides some factual background on pu-

1 Source: Swedish Economic Policy Review 8 (2001) 9-56. With many thanks for the generous permission for the reprint to “The Economic Council”, Publisher of Swedish Economic Policy Review.

2 This paper is an updated and extended version of “What works among active labour market policies: evidence from OECD countries experiences by John P. Martin which was published in OECD Economic Studies, n°30, 2000. We are grateful to Maria Pazos and Steven Tobin for statistical assistance and to Aline Renert for secretarial assistance. The views expressed in this paper are our own and cannot be held to represent those of the OECD or its Member Governments.

3 John P. Martin and David Grubb are, respectively, director and principal administrator in the OECD’s Directorate for Education, Employment, Labour and Social Affairs.

4 This work is presented in OECD (1996a, 2001a).

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Public spending on labour market policies in OECD countries over the period 1985-2000. The bulk of the paper summarises the main results of on-going OECD research into the effectiveness of active labour market policies. This review mainly exploits two sources: (i) the recent literature on the evaluation of active labour market programme (Section 2); and (ii) in-depth country reviews and analytical studies which the OECD has conducted over the past decade on the interactions between active and passive labour market policies and the role of the public employment service (Section 3). The final section draws some conclusions.

## Recent trends in public spending on labour market programmes

Public spending on labour market programmes absorbs significant shares of national resources in many OECD countries. For analytical and policy purposes, the OECD splits this spending into so-called “active” and “passive” measures. The former comprise a wide range of policies aimed at improving the access of the unemployed to the labour market and jobs, job-related skills and the functioning of the labour market while the latter relate to spending on income transfers, namely unemployment benefits and early retirement pensions (see Box 1).

### Box 1: The OECD data base on labour market programmes

Public expenditure on labour market programmes in the OECD data base is defined to include all public outlays, or outlay equivalents for relevant purposes, both public sector consumption and transfers to individuals and enterprises. No distinction is made between central, local government and quasi-public sources of finance, such as social insurance funded by compulsory contributions. The emphasis is on labour market programmes, as opposed to general employment or macroeconomic policies, and so the data base includes only expenditure targeted on particular labour market groups. For example, reductions of taxes and social security contributions are included only when they are made in respect of particular labour mar-

ket groups. Payroll-tax reductions for lower-paid workers are considered general employment policies and are not included.

The data base covers five main categories of “active labour market programmes” (ALMPs) as follows:

- *Public employment services and administration* includes the activities of job placement, counselling and vocational guidance, administering unemployment benefits, and referring job-seekers to available slots on labour market programmes.
- *Labour market training* is divided into two categories: (a) spending on vocational and remedial training for unemployed adults; and (b) training for employed adults for labour market reasons.
- *Youth measures* cover only special programmes for youth in transition from school to work. They do not cover young people’s participation in programmes which are open to adults as well. They include: (a) training and employment programmes targeted to the young unemployed; and (b) apprenticeship training, which is mainly for school leavers, not the unemployed.
- *Subsidised employment* covers targeted measures to provide employment for the unemployed and other priority groups (excluding youth and the disabled). It is divided into three categories:
  - (a) hiring subsidies, i.e. subsidies paid to private-sector employers to encourage them to hire unemployed workers;
  - (b) assistance to unemployed persons who wish to start their own business;
  - and (c) direct job creation for the unemployed in the public or nonprofit sectors.
- *Measures for the disabled* include only special programmes for the disabled.

The two categories are: (a) vocational rehabilitation training and related measures to make the disabled more employable; and (b) sheltered work programmes which directly employ disabled people.

While the data base mainly provides annual time-series on public spending on all these separate labour market programmes from 1985 onwards, it also includes data on the numbers who participate on the programmes. Participation is

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generally measured in terms of the inflows into the programmes.

The data base also includes two categories of “passive” spending on labour market programmes:

- *Unemployment benefits* which cover all cash benefits paid to the unemployed, e.g. unemployment insurance and assistance;
- Early retirement pensions paid for labour market reasons (disability benefits are excluded).

While the data base is very useful for comparing trends in public spending on labour market programmes across OECD countries, some caveats about its coverage should be noted. First, it only covers public spending on labour market policies. For example, private sector spending on apprenticeship and training which is very substantial in countries such as Austria, Denmark, Germany and Switzerland, is not included, nor is training organised along industrial lines and financed by special payroll taxes. Second, since one of the criteria behind the selection of programmes for inclusion in the data base is that they be targeted, the data exclude general tax exemptions, work-time reduction measures, etc. Third, spending on labour market policies by sub-national levels of government is not always fully captured in the data. Finally, the data on participant numbers relate to annual inflows to slots on various labour market programmes. They do not tell us anything about the average length of time which a participant spends on the programme nor do they provide any information on repeat spells on programmes.

The OECD is co-operating with Eurostat in an effort to extend the range of information available on public spending on ALMPs and participants on programmes, and to improve its comparability. For further details, see Eurostat (2001).

The OECD has been collecting comparable data on public spending on labour market measures since 1985. Table 1 shows that the typical OECD country spent just over two percent of its GDP on active and passive labour market measures in 2000. There is also a wide variation across countries in the share of public spending on labour market measures, ranging in 2000 from a low of under 0.5 percent of GDP in Mexico and the US to a high of 4.5 percent in Denmark. As expected, Sweden

figures consistently over time in the group of countries with above-average spending.

Passive spending typically accounts for one half to two thirds of total spending. In 2000, the average OECD country spent 0.8 percent of GDP on active measures, up slightly on the level of 1985 but down compared with the spending effort in 1993. Denmark, Ireland and the Netherlands made the largest active spending efforts in 2000, at over 1.5 percent of GDP, with Belgium, France and Sweden close behind. The lowest active spending efforts were in Mexico, the US and the Czech Republic which only spent 0.2 percent or less.

## Labour market spending and the cycle

The fact that both total labour market spending and active spending peaked as a percent of OECD GDP, on average, in 1993, the year which also saw the highest OECD average unemployment rate over the period 1985-2000, is no coincidence. Figure 1 plots the relationship between active and passive spending and the unemployment rate for both the OECD area (Panel A) and the Nordic countries (Panel B). This shows that both passive and active spending are positively correlated with the unemployment rate. However, the slope of the passive line is greater than that of the active line. This is not surprising. Unemployment benefits are entitlements which tend to fluctuate closely with movements in unemployment. Active policies are more discretionary and typically take some time to design and implement on the ground.

There is evidence of a downward shift in the relationship between passive spending and the unemployment rate during the period of the recent economic upswing in the OECD area. This is particularly noticeable in the Nordic countries and it may reflect a shift in the policy stance towards greater “activation” and a tightening of the eligibility rules for benefit receipt in this period (see Section 3).

## Has there been a shift from passive to active measures?

In recent years, it has been a common theme in political debate on remedies to tackle the unemployment problem that Governments should

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**Table 2: Spending on labour market programmes, 1985-2000**

	Total spending (as percent of GDP)					Active spending (as percent of GDP)					Active spending (as percent of total spending on LMPs)				
	1985	1989	1993	2000		1985	1989	1993	2000		1985	1989	1993	2000	
Kanada	2.49	2.07	2.60	1.46	0.64	0.51	0.66	0.45	0.45	25.9	24.5	25.3	30.6		
Mexiko	0.01	0.01	0.01	0.04	0.01	0.01	0.01	0.04	0.04	100.0	100.0	100.0	100.0		
US	0.79	0.62	0.79	0.38	0.25	0.23	0.21	0.15	0.15	32.1	36.8	26.1	39.1		
Nordamerika <sup>a,b</sup>	1.64	1.34	1.70	0.92	0.45	0.37	0.43	0.30	0.30	29.0	30.6	25.7	34.9		
Japan	0.50	0.39	0.38	0.86	0.17	0.16	0.09	0.31	0.31	33.9	41.1	22.8	35.8		
Korea	..	..	0.06	0.55	..	..	0.06	0.46	0.46	..	..	100.0	83.5		
Asien <sup>b</sup>	..	..	0.22	0.70	..	..	0.07	0.38	0.38	..	..	61.4	59.6		
Danemark	5.38	5.49	7.08	4.51	1.14	1.13	1.74	1.54	21.2	20.6	24.6	34.3			
Finnland	2.22	2.11	6.57	3.30	0.90	0.97	1.69	1.08	40.7	46.0	25.8	32.8			
Norwegen	1.09	1.83	2.64	1.16	0.61	0.81	1.15	0.77	55.7	44.0	43.7	66.8			
Schweden	3.00	2.22	5.67	2.72	2.12	1.57	2.94	1.38	70.8	70.9	51.8	50.9			
Nordische Länder <sup>a</sup>	2.92	2.91	5.49	2.92	1.19	1.12	1.88	1.20	47.1	45.4	36.5	46.2			
Griechenland	0.52	0.79	0.71	0.83	0.17	0.38	0.30	0.36	32.7	47.5	43.0	43.1			
Italien	..	..	2.51	..	..	..	1.36	..	..	..	..	54.2	..		
Portugal	0.69	0.71	1.73	1.66	0.33	0.48	0.83	0.82	47.3	66.9	48.2	49.1			
Spanien	3.10	2.98	3.80	2.22	0.33	0.85	0.50	0.88	10.7	28.5	13.0	39.5			
Südeuropa <sup>a,b</sup>	1.44	1.49	2.08	1.57	0.28	0.57	0.54	0.68	30.2	47.7	34.7	43.9			
Tschech. Republik	..	..	0.30	0.52	..	..	0.16	0.22	..	..	..	54.3	42.9		
Ungarn	..	..	2.76	0.87	..	..	0.65	0.39	..	..	..	23.6	45.3		
Polen	..	..	2.45	2.25	..	..	0.58	0.54	..	..	..	23.7	24.0		
Vorstehende Länder <sup>b</sup>	..	..	1.84	1.21	..	..	0.47	0.39	..	..	..	33.9	37.4		
Österreich	1.20	1.20	1.73	1.56	0.27	0.27	0.32	0.49	22.6	22.6	18.5	31.4			
Belgien	4.68	3.91	4.24	3.67	1.31	1.26	1.24	1.26	28.0	32.2	29.2	34.3			
Frankreich	3.03	2.60	3.32	3.20	0.66	0.73	1.25	1.33	21.9	28.2	37.6	41.4			
Deutschland	2.22	2.26	4.10	3.13	0.80	1.03	1.58	1.23	36.1	45.6	38.6	39.5			
Irland	4.85	4.01	4.24	3.22	1.46	1.36	1.43	1.53	30.2	33.9	33.7	47.5			
Luxemburg	1.41	.90	.83	0.89	0.50	0.28	0.18	0.26	35.3	31.1	21.4	29.6			
Niederlande	4.61	3.87	4.30	3.65	1.25	1.31	1.51	1.57	27.2	34.0	35.0	43.1			
Schweiz	0.46	0.34	1.99	1.05	0.19	0.21	0.38	0.47	42.0	62.0	19.1	45.4			
Verein. Königreich	2.92	1.56	2.18	0.81	0.77	0.68	0.58	0.32	26.2	43.9	26.4	4.1			
Mittel- & Westeuropa <sup>b</sup>	2.89	2.30	2.85	2.25	0.80	0.76	0.86	0.90	29.2	36.0	27.6	39.1			
OECD-Europa <sup>a,b</sup>	2.59	2.30	3.45	2.35	0.80	0.83	1.10	0.96	34.3	41.1	31.8	41.8			
Australien	1.67	1.04	2.51	1.40	0.41	0.24	0.71	0.45	24.7	23.3	28.4	31.9			
Neuseeland	1.54	2.66	2.45	2.00	0.90	0.93	0.80	0.52	58.6	35.0	32.8	26.1			
Ozeanien <sup>b</sup>	1.60	1.85	2.48	1.70	0.66	0.59	0.76	0.48	41.6	29.1	3.6	29.0			
EU <sup>a,b</sup>	2.89	2.49	3.57	2.48	0.86	0.87	1.12	0.99	31.9	38.9	31.4	39.8			
OECD <sup>a,b</sup>	2.31	2.06	2.99	2.03	0.72	0.72	0.93	0.80	34.4	38.6	30.3	39.6			

Notes: a The averages are calculated including only those countries for which data are available for all of the years shown, and some missing data have been estimated by the Secretariat. b Unweighted averages. Data not available

Source: OECD data base on Labour Market Programmes

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shift the balance of public spending on labour market policies towards active labour market measures. Expansion and enhancement of the effectiveness of active labour market policies is one of the ten policy guidelines of the OECD Jobs Strategy, and the same principle is included in the EU Employment Guidelines.

Have countries managed to switch resources into active measures in line with this policy guideline? Table 1 reveals a small increase in spending on active programmes over time: the OECD (EU) average active spending effort rose from 0.7 (almost 0.9) percent of GDP in 1985 to 0.8 (1.0) percent in 2000. But the active share in spending has moved mainly in line with the cycle, dropping to a trough in the recession year of 1993 and only recently regaining the 1989 peak level.

One possible reason for the limited success in switching resources into active measures over the past decade, despite the strong political rhetoric in favour of such a switch, may be related to doubts about the effectiveness of much of this spending. As the next section makes clear, the track record of many active programmes is patchy in terms of

achieving their stated objectives. This has led many policymakers to be wary of authorising large spending increases on new or existing programmes.<sup>5</sup>

## What works and for whom

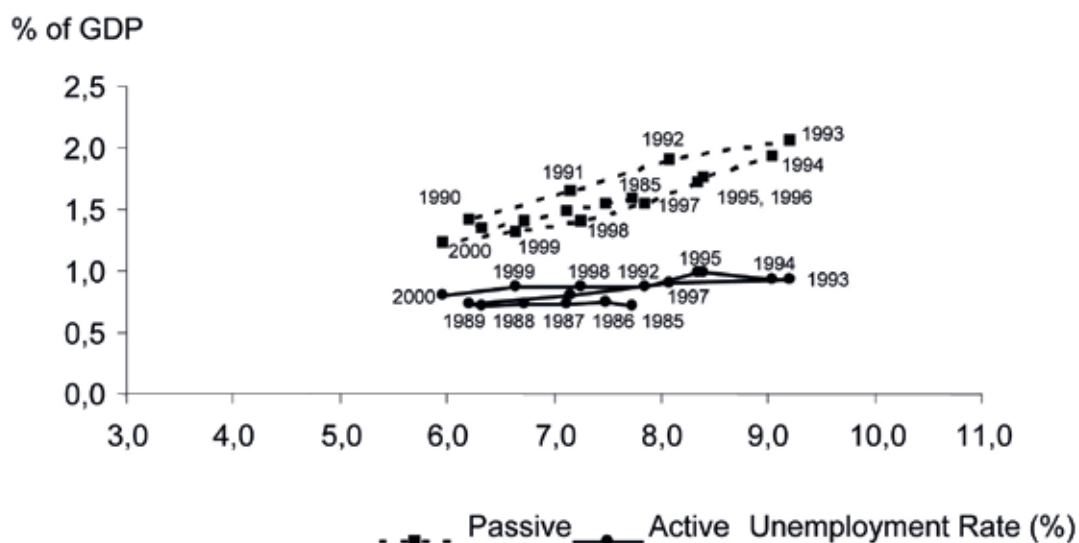
This section highlights a number of findings from the vast and growing literature on evaluating the effects of individual active measures.

There are already several good surveys of this literature, most notably by Heckman et al. (1999). Because of this, our review does not go into exhaustive detail on the individual evaluations. Instead, it seeks to highlight what works and what does not and for whom among the unemployed. It also seeks to highlight some key features in the design of the programmes themselves or the cha-

5 When the national evaluation of the Job Training Partnership Act (JTPA) revealed that it had failed to provide earnings gains to disadvantaged youths, the US Congress eliminated almost all JTPA funding. However, the political process is not necessarily symmetric in the sense of rewarding successful active measures. Denny et al. (2000) highlight the fact that a number of successful active labour market policies in Ireland were either eliminated or run down in scale in the second half of the 1990s whereas some unsuccessful programmes were expanded.

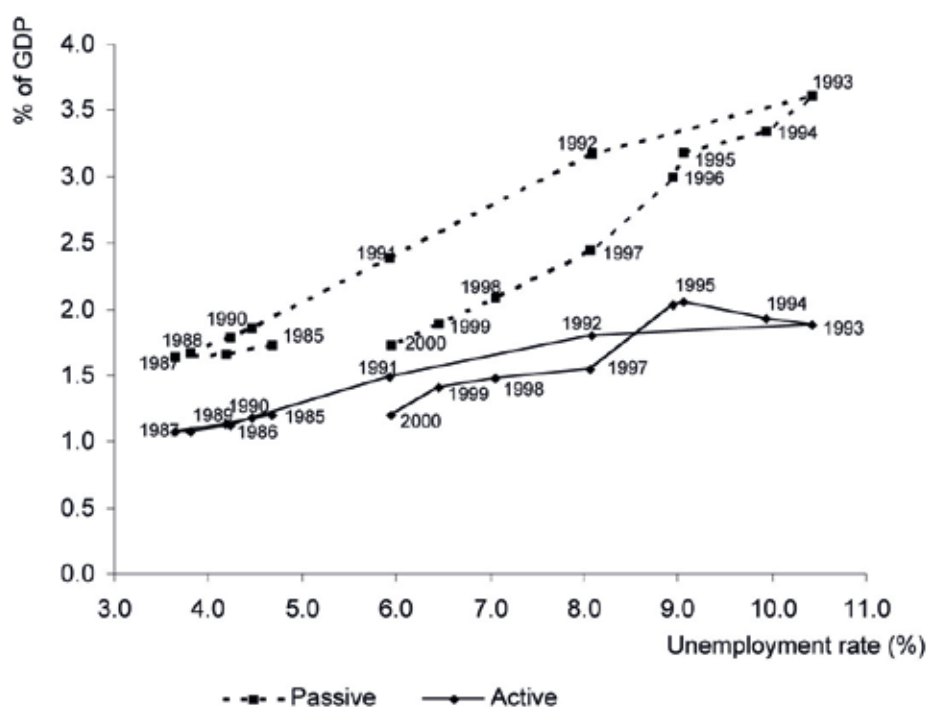
**Figure 17: Active/passive spending and unemployment rates**

OECD average



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## Nordic Countries



Note: The charts have been drawn on the same scale to facilitate comparisons. Not all OECD countries are included in the figures and regions shown, and some missing data have been estimated by the Secretariat.

Source: OECD data base on Labour Market Programmes

characteristics of the target group which appear to be particularly relevant for success or failure of the programme in question.

### The literature on evaluation of individual programmes

There is a large literature which seeks to evaluate the outcomes of individual programmes. These evaluations can be divided into two main types. The first type seeks to measure the impact of programme participation on individuals' employment and earnings after they have left the programme, judging the outcomes against the experiences of a benchmark or control group of similar individuals who did not participate in the programme. This type of evaluation makes sense for those active

programmes which attempt to make participants more productive and competitive in the open labour market, e.g. training and job-search assistance.

The second type of evaluation attempts to measure the net effects of programmes on aggregate employment and unemployment by estimating "dead-weight", "substitution" and "displacement" effects. These evaluations are mostly relevant for subsidised employment programmes. To the extent that subsidised employment programmes have the explicit objective of increasing the number of jobs in the economy at large, evaluations must determine whether the subsidised jobs would have been created anyway in the absence of the subsidy (so-called dead-weight effects). They also seek to quantify whether improved employment prospects for the target group come at the expense of wor-



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sened employment prospects for other workers (so-called substitution effects). If dead-weight and substitution effects are evaluated only for firms which use the subsidy, losses of unsubsidised jobs elsewhere in the economy (so-called displacement effects) need to be accounted for separately in order to estimate the net employment effect.

## Caveats to bear in mind when assessing the literature on programme evaluation

Before summarising the main findings from the recent evaluation literature, it is important to stress some caveats concerning the reliability and generality of the conclusions that can be drawn from this literature.

*First*, much of the evaluation literature relates to the US and Canada where there is a long-standing tradition of evaluating labour market programmes. Indeed, in both countries, there is effectively a mandatory requirement on the public authorities to evaluate their programmes. Few European countries have carried out rigorous evaluations until recently. Happily, this is changing, as tight fiscal constraints make it imperative to get better value for public spending on active labour market policies. As a result, some European countries (we would single out Belgium, Germany, Ireland, the Nordic countries, Switzerland and the UK in this regard) and Australia are beginning to undertake rigorous evaluations of their labour market programmes.<sup>6</sup> However, in other countries, the most common method of “evaluation” still consists of simply monitoring the labour market status and earnings of participants for a brief period following their spell on a programme. While this sort of exercise provides useful information, it cannot answer the vital question of whether the programme in question “worked” or not for participants.

*Second*, the evaluator’s task is greatly complicated by the fact that there is almost never a *stable* set of active programmes to evaluate. Countries

are continuously chopping and changing the mix of programmes. This leads in practice to increasing overlap and a proliferation of programmes which are costly to administer.<sup>7</sup> Such programme “innovation” complicates the task of the evaluator greatly.

*Third*, there is very little evidence on the *long-run* effects of active programmes. The vast majority of rigorous evaluations only provide evidence on short-run outcomes, covering at best one to two years after the person has participated in the programme.<sup>8</sup>

This may well be too short a period for a full assessment of the private and social returns to public investment in many active measures.

*Fourth*, “outcomes”, in the evaluation literature, are invariably expressed in terms of programme impacts on future earnings and/or reemployment prospects of participants, and this stress is reflected in this paper.<sup>9</sup> There is little evidence available on potential social benefits which could flow from programme participation such as reduced crime, less drug abuse or better health.

*Fifth*, there is an issue about the scale of programmes, even for those which appear to work. Many programmes, which have been evaluated rigorously, tend to be small-scale programmes – sometimes called “demonstration” or “pilot” programmes. Even if such programmes “work” in terms of producing statistically significant outcomes for participants, it is unclear from the existing literature how cost-effective they would be if they

6 There is, however, one noticeable difference between the North American and European/Australian evaluations. Many of the former are based on experimental methods whereas all but a few of the European/Australian evaluations are based on quasi-experimental methods.

7 OECD (1999b) points out that in 1995 there were 163 federal employment and training programmes for adults and out-of-school youths in the US, administered by 15 federal agencies, compared with 125 programmes in 1991. These totals did not include the very large number of similar programmes at state level.

8 The relative employment rate of a treatment group usually declines during programme participation and starts to increase after completion of the programme. As a result, a programme impact may be negative but on an improving trend at the end of an observation period of one or two years – a pattern found in some Swiss evaluations by Gerfin and Lechner (2001). Grubb (1995, 1999) and Stanley et al. (1998) review some U.S. evaluations that follow individuals for even longer periods, up to six years after their participation on a programme. Grubb (1999) argues that these studies show that any benefits from programme participation tend to evaporate after four or five years. A similar finding is reported in Hotz et al. (2000).

9 Estimates of programme impact can vary with the definition of the treatment group, which may be all individuals referred to the programme, all individuals who started, or all individuals who completed (excluding drop-outs).

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were greatly extended in terms of scale of participation or geographic coverage. There is also the related problem of significant heterogeneity in outcomes across different geographic locations or sites even if, on average, the demonstration appears to work.

*Sixth*, many evaluations are undertaken by public sector agencies. While there are good reasons for this, it does give rise to concerns about independence of findings. Therefore, where evaluations are undertaken by public sector agencies, it is important to check whether there has been any *external* validation of the evaluation results in question.

*Seventh*, while the evaluation literature tells us quite a lot about *what* works and for *which* groups, it is not very instructive in answering other equally important and related questions, such as why do certain programmes work for some groups and not for others (see below), and in what circumstances?

Finally, the existing literature on programme evaluation makes only a partial contribution to an assessment of the effectiveness of active labour market policies as a whole. This is because:

- The evaluation literature typically focuses on specific programmes.

Regular job-search assistance, registration and matching of unemployed workers with vacancies, and monitoring of eligibility for unemployment benefit are all important active measures which are usually ignored in the evaluation literature.

- In many countries, during a prolonged spell of unemployment, workers face a general obligation to participate in programmes. For example, Mutual Obligation in Australia requires the young unemployed to participate in one or more of 15 different activities and programmes. The motivational impact of such obligations is typically not captured in evaluations of individual programmes.
- It is not clear how we should draw inferences about the aggregate effects of active programmes from the body of micro-economic evidence concerning the effectiveness of individual programmes. Some evidence concerning these different forms of active labour market policies and channels for their possible impacts is discussed in Section 3 below.

## Findings from the evaluation literature

The OECD keeps the evaluation literature under continuous review: for recent surveys, see OECD (1993c), Fay (1996) and Martin (2000). What do these reviews tell us about what works and what does not and for whom? Table 2 summarises the main lessons.<sup>10</sup>

## Public training programmes

Training programmes tend to be among the most expensive active measures. Hence, it is not surprising that training usually accounts for the largest share of spending on active measures: on average, OECD countries devoted 23 percent of their total public spending on active measures to training programmes in 2000, a fraction that has not varied greatly over the past 15 years (see Figure 2). But evaluations of public training programmes in OECD countries suggest a mixed track record. Some programmes in Canada, Ireland, Sweden and the US have yielded low or even negative rates of return for participants when the estimated programme effects on earnings or employment are compared with the cost of achieving those effects.<sup>11</sup> However, the picture is not completely black: some public training programmes do work. Recent comprehensive reviews of public training programmes for disadvantaged groups in the US by Friedlander et al. (1997), Heckman et al. (1999) and Stanley et al. (1998) highlight quite a number of successful programmes in terms of earnings gains and positive rates of return for participants. It is noticeable from these surveys that the most consistently positive results were recorded for adult women. The findings were less optimistic with regard to adult men: some programmes gave positive results, others not (hence, the question mark in Table

10 Special employment measures for the disabled are not covered here since the OECD has not reviewed the recent evaluation literature in this field. Measures for the disabled accounted, on average, for 17 percent of total public spending on ALMPs in 2000 (see Figure 2 below).

11 See Forslund and Krueger (1994) and Carling and Richardson (2001) for a review of the Swedish evaluation evidence on training programmes; Friedlander et al. (1997), Heckman et al. (1999), Stanley et al. (1998) and Grubb (1995) for reviews of the US literature; Park et al. (1996) for a review of some Canadian programmes and Denny et al. (2000) for a review of some Irish programmes.



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2). The most dismal picture emerged with respect to out-of-school youths: almost no training programme worked for them. Two further findings are noteworthy. First, most of the gains took the form of improved employment opportunities rather than

higher hourly earnings. Second, even for those groups for whom participation in the programmes yielded a positive rate of return, the estimated annual earnings gains were typically not large enough to lift most families out of poverty.

**Table 3: Lessons from the evaluation literature**

Programme	Appears to help	Appears not to help	General observations on effectiveness
Formal classroom training	Women re-entrants	Prime-age men and older workers with low initial education	Important that courses have strong labour market relevance, or signal "high" quality to employers. Should lead to a qualification that is recognised and valued by employers. Keep programmes relatively small in scale.
On-the-job training	Women re-entrants; single mothers	Prime-age men (?)	Must directly meet labour market needs. Hence, need to establish strong links with local employers, but this increases the risk of displacement.
Job-search assistance (job clubs, individual counselling, etc.)  Of which: re-employment bonuses	Most unemployed but in particular, women and sole parents  Most adult unemployed		Must be combined with increased monitoring of the job-search behaviour of the unemployed and enforcement of work tests.  Requires careful monitoring and controls on both recipients and their former employers.
Special youth measures (training, employment subsidies, direct job creation measures)		Disadvantaged youths	Effective programmes need to combine an appropriate and integrated mix of education, occupational skills, work-based learning and supportive services to young people and their families.  <i>Early and sustained</i> interventions are likely to be most effective.  Need to deal with inappropriate attitudes to work on the part of youths. Adult mentors can help.
Subsidies to employment Of which: Aid to unemployed starting enterprises	Long-term unemployed; women re-entrants  Men (below 40, relatively better educated)		Requires careful targeting and adequate controls to maximise net employment gains, but there is a trade-off with employer take-up.  Only works for a small subset of the population.
Direct job creation		Most adult and youth unemployed	Typically provides few long-run benefits and principle of additionality usually implies low marginal-product jobs.

Source: The above table draws heavily on the evaluation results presented in Denny et al. (2000), DOL (1995), Carling and Richardson (2001), Fay (1996), Friedlander et al. (1997), Grubb (1995, 1999), Heckman et al. (1999), HRDC (1997), Larsson (2000), Lerman (1997), OECD (1993c) and Stanley et al. (1998).

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As noted above, the available evaluation literature can tell us whether training programmes work for particular disadvantaged groups or not. However, it does not provide satisfactory answers as to why they appear to work for some target groups (e.g. adult women) and not for others. Until we have answers to this question, it is going to be extremely difficult to design cost-effective public training programmes.

## Job-search assistance

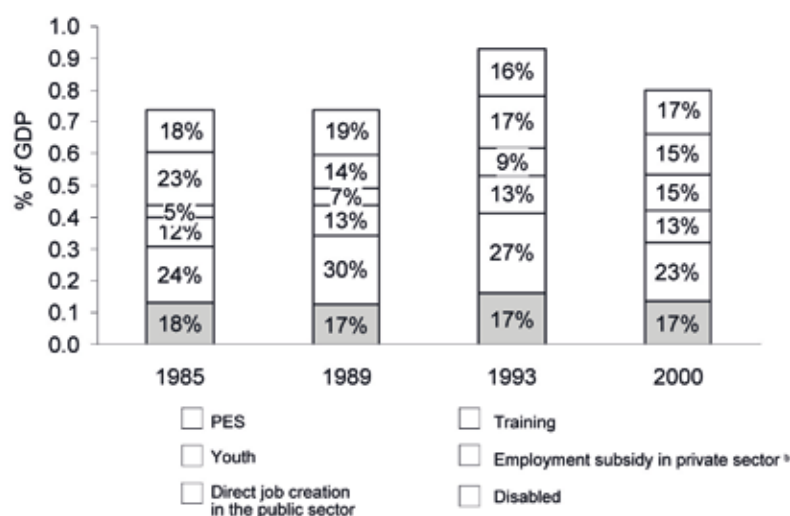
Unfortunately, it is not possible in the OECD data base at the moment to separate out spending on job-search assistance from the administrative costs of running the public employment service (PES): in 2000, the average OECD country devoted 17 percent of active spending to PES administration, a proportion which has been very stable over the period 1985-2000. Job-search assistance comprises many different types of services, for example initial interviews at the PES offices, in-depth counselling at some stage during an unemployment spell, re-employment bonuses, job clubs, etc. Such services may also be combined with increased monitoring and enforcement of the job-

search requirements for receipt of unemployment benefits. Job-search assistance is usually the least costly active labour market programme. The good news is that evaluations of social experiments from several countries (Canada, Sweden, the UK and the US) show positive outcomes for this form of active measure.<sup>12</sup> One experimental study for the Netherlands (Van den Berg and Van der Klaauw, 2001) found no significant impact: according to the authors' theoretical jobsearch model, this lack of impact arose because monitoring only served to induce a shift from informal to formal job search, leading to no net increase in job-search activity. However it seems that investment in active placement efforts and raising the motivation of the unemployed, as well as taking steps to encourage and monitor their jobsearch behaviour, usually pay dividends in terms of getting the unemployed back into work faster.<sup>13</sup> While the optimal combination

<sup>12</sup> See Meyer (1995) for a review of the US evidence; HRDC (1997) for a review of the Canadian evidence; Dolton and O'Niell (1996) for U.K. evidence; the Swedish evidence is summarised in Björklund and Régner (1996).

<sup>13</sup> However, Canadian evidence, summarised in HRDC (1997), suggests that any earnings gains from job-search assistance are likely to be transitory.

**Figure 18: Composition of active spending in the OECD area, 1985-2000**



Notes: a Unweighted averages. b Includes support to the unemployed for starting an enterprise.

Source: OECD database on Labour Market Programmes.

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of additional job-placement services and increased monitoring of job seekers and enforcement of work tests is unclear, the evidence suggests that both are required to produce benefits to unemployment insurance claimants and society.

One particularly interesting form of job-search assistance is reemployment bonuses, i.e. cash payments to unemployment insurance recipients who find a job quickly and keep it for a specified length of time. Such a scheme exists in Japan and Korea and has been experimented with in several US States. The US evaluations show that the bonus payments did reduce the average duration of unemployment benefit receipt significantly. Hence, this form of incentive to the unemployed to find a job quickly is worthy of consideration as part of an arsenal of job-search assistance measures. However, such bonuses can give rise to negative effects too. Their existence may have an effect on the size of the group claiming the bonus. In particular, they may induce workers with a high probability of finding a new job quickly to arrange with their employers to be laid off so as to collect the bonus. In order to minimise such abuse, Japan has several safeguards in place, monitoring the behaviour of both the bonus claimant and his or her former employer.

## Special youth measures

On average, OECD countries devoted 13 percent of spending on active policies to special youth measures in 2000, a proportion that has varied little over the period since 1985. One of the most disappointing conclusions from the evaluation literature is that almost all evaluations show that special measures are not effective for disadvantaged youths. This holds not only for public training programmes (see above), but also for targeted wage subsidy measures and direct public sector job creation schemes which have been particularly popular in many European countries. For example, after reviewing the extensive U.S. literature, Heckman et al. (1999) conclude:

“... we believe that neither the experimental or non-experimental literatures provide much evidence that employment and training programs improve US youths’ labour market prospects” (p. 2068).

A few pages later, having surveyed the Europe-

an evaluations on youth measures, they draw the equally depressing conclusion that there is:

“... no consistent indication whether these interventions are more or less effective for youth, nor whether more disadvantaged youth benefit more or less from these programs” (p. 2078).

It is also worth adding that a recent review of two major youth labour market programmes in Sweden by Larsson (2000) comes to similar negative conclusions about their effectiveness.

Among the large number of negative evaluation results, there are a few hopeful signs. Job Corps in the US did yield statistically significant earnings gains for disadvantaged youths. However, it had to rely on savings from reduced criminal activity among the target group to produce a net social benefit, given that it is a high-cost programme.<sup>14</sup> In addition, within national demonstrations such as JOBSTART in the US, it is possible to identify specific sites where the programme appeared to work for disadvantaged youths. One such example of a site that appeared to deliver large gains is the Center for Employment Training (CET) in San José, California; it was the only one of the 13 JOBSTART sites which delivered statistically significant earnings gains for youths. However, we do not know precisely what factors distinguished the CET site from the other sites or how feasible it would be to replicate their positive results elsewhere.

Some recent European studies also claim to have identified some successful programmes. For example, Denny et al. (2000) highlight the fact that what they call “market-oriented programmes” (essentially employer wage subsidies) produced positive results for youth in Ireland. Van Reenan (2001) suggests that the U. K. New Deal for Young People (launched in January 1998) resulted in a significant increase in outflows to employment among young males, with most of this effect coming from the employer wage subsidy and enhanced job search. AM (2000) also provides suggestive evidence that recent youth measures have contributed to the steep fall in

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14 The evaluation results supporting this positive assessment of Job Corps were based on non-experimental methods and were done almost 20 years ago. A rigorous nation-wide evaluation of Job Corps is now underway to try to settle the issue of whether it works or not.

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Danish youth unemployment in the second half of the 1990s.

It is not clear, unfortunately, whether these few success stories can be explained by differences in the degree of disadvantage among the young people in the different schemes. It does seem clear, however, that many European programmes typically deal with a much less disadvantaged group of youths than many of the US programmes surveyed by Heckman et al. (1999). But then one is faced with the difficulty that this does not seem to explain the negative findings for Swedish youth measures reported by Larsson (2000).

Faced with this poor track record of special youth measures, what can policy makers do given the strong political pressures in favour of helping the young unemployed? The literature does provide a little guidance. Grubb (1999) has reviewed the evidence on the few successful education and training programmes for disadvantaged youths in the US and distilled from it the following five precepts for success:

- effective programmes have a close link to the local labour market and target jobs with relatively high earnings, strong employment growth and good opportunities for advancement;
- they contain an appropriate mix of academic education, occupational skills and on-the-job training, ideally in an integrated manner;
- they provide youths with pathways to further education so that they can continue to develop their skills and competencies;
- they provide a range of supporting services, tailored to the needs of the young people and their families; and
- they monitor their results and use this information to improve the quality of the programme.

In addition to these precepts, the evidence from Canadian and US evaluations suggests that the biggest pay-offs for disadvantaged youths come from early and sustained interventions. This involves not only intensive efforts to boost their performance in primary and secondary schooling and reduce drop-out rates; it also reaches back to early childhood including the pre-school period. The limited empirical evidence that is available suggests that early childhood interventions of high

quality can have lasting effects on the employment and earnings prospects of disadvantaged children, especially if they are sustained over time and not limited to one-shot interventions.<sup>15</sup> It is also important to target support not only at the youngsters themselves but also at their families and local communities. It cannot be overemphasised that if young people leave the schooling system without qualifications and a good grounding in the 3Rs, it is well-nigh impossible for labour market programmes to overcome these handicaps later on.

Finally, several authors, e.g. Lerman (1997), highlight the importance of poor attitudes towards work among disadvantaged youths as a major factor in explaining the dismal record of special youth measures.

It is not easy for many programmes to influence attitudes in ways that improve the jobs and earnings prospects of disadvantaged youths. But mentoring programmes, by providing for both on-going contacts with an adult over an extended period of time and a way of monitoring the behaviour of the young people themselves, can help overcome negative attitudes to work.

## Subsidies to private-sector employment

Employment subsidies (including those to unemployed persons starting enterprises) accounted for almost 15 percent of total spending on active measures in the typical OECD country in 2000, compared with just over five percent in 1985. Subsidies to private-sector jobs may have a number of objectives other than creating additional jobs. They may seek to enhance effective labour supply by helping individuals to keep in contact with the world of work, thereby maintaining their motivation and skills.<sup>16</sup> For equity reasons they may also be intended to provide the long-term unemployed with jobs, even if this happens largely at the expense of the short-term unemployed. These other

<sup>15</sup> See Currie (2001) and Heckman and Lochner (2000) for good reviews of the effects of early childhood education programmes.

<sup>16</sup> See Richardson (1998) for evidence, using a panel of Australian youths, that participation in subsidised jobs improved their employability.

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goals of wage-subsidy schemes may still be important even if the net employment gains of these programmes are very small or zero. The impact of hiring subsidies paid to private employers can be estimated by equating the subsidy period with programme participation and assessing participant outcomes in terms of later entry to unsubsidised employment, possibly with the same employer. In several OECD countries, evaluations have found that these programmes have a greater impact than public training programmes or direct job creation measures.<sup>17</sup> At the same time, most evaluations which focus on firm behaviour show that subsidies to private-sector employment have both large dead-weight and substitution effects. As a result, most such schemes yield small net employment gains, particularly in the short term when aggregate demand and vacancies are fixed. For instance, evaluations of wage subsidies in Australia, Belgium, Ireland and the Netherlands have suggested combined dead-weight and substitution effects amounting to around 90 percent, implying that for every 100 jobs subsidised by these schemes only ten were net gains in employment.

The evaluation evidence also suggests it may be possible to raise the size of net employment gains associated with private-sector wage subsidies to 20-30 percent or more via tight targeting of the measures to particular groups among the unemployed and close monitoring of employer behaviour in order to curb abuses. However, there is a difficult trade-off for policy-makers here: the evidence also suggests that the more controls are multiplied in order to curb abuse and maximise the net employment gains from wage subsidies, the less willing are firms to participate in such programmes and employer take-up drops off sharply, defeating the ultimate goal of the exercise. In addition, the more tightly the programme is tied to characteristics of “disadvantage”, the greater the risk of so-called “stigma” which may discourage the unemployed from availing of such schemes or

convey a negative signal to potential employers concerning the expected productivity and motivation of the individual job-seeker in question. One specific form of wage subsidy that appears to be successful for a small group of unemployed individuals is aid to starting a small business - such aid accounted for just over two percent of total active spending in 2000. Controlled experiments in the US suggest that such schemes result in employment gains for men, primarily between the ages of 30 and 40, who have relatively high levels of education. Evidence from less rigorous evaluations of such schemes in other countries such as Australia, Ireland, Norway and the UK tends to confirm longer-term survivability, but only for some of the enterprises started up in this manner.

## Direct job creation in the public sector

Spending on direct public sector job creation accounts for relatively similar amounts to public spending on subsidies to private-sector jobs in many countries: on average, the typical OECD country devoted over 15 percent of its spending on active measures to public-sector job creation measures in 2000.

There is a long history of countries investing significant resource in this particular active measure. As a result, there are many evaluations of this measure covering a wide range of countries. The vast bulk of these studies converge in terms of a conclusion on outcomes: this measure has been of little success in helping unemployed people get permanent jobs in the open labour market. As a result, there has been a marked trend away from this type of intervention: it accounted for almost 23 percent of average OECD spending on active measures in 1985 and 17.4 percent in 1993. This is an encouraging trend since it suggests that policy-makers are not impervious to the messages from the evaluation literature on what works and for whom. However, OECD countries continue to spend large amounts on such programmes and the policy debate about the utility of this intervention is still alive. Temporary employment programmes in the public sector can be used as a work test for unemployment benefit claimants and as a means of helping the most disadvantaged unemployed maintain contact with the labour market,

<sup>17</sup> See Stromback and Dockery (2000) and DEWRSB (2001b) for a comparative evaluation of the Jobstart hiring subsidy in Australia; O Leary (1998) for the Intervention Works programme in Poland; Carling and Richardson (2001) for subsidised employment in Sweden; and Gerfin and Lechner (2001) for hiring subsidies, paid to workers who accept a low-paid job, in Switzerland.

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particularly in a recession when aggregate demand is depressed and vacancies are scarce. But since most jobs provided through direct job creation schemes typically have a low marginal product, they should be short in duration and not become a disguised form of heavily subsidised permanent employment.

## Assessment

In sum, our review of the evaluation literature highlights the following six principles which should guide the selection of active policies in order to maximise their effectiveness:

First, rely as much as possible on in-depth counselling, job-finding incentives (e.g. re-employment bonuses) and job-search assistance programmes. But it is vital to ensure that such measures are combined with increased monitoring of the job-search activity of the unemployed and enforcement of the work test.

Second, keep public training programmes small in scale and well targeted to the specific needs of both job seekers and local employers. Build in as much on-the-job content to training programmes as possible.

Third, early interventions, reaching back to pre-school, can pay dividends for disadvantaged youths, but they must be sustained. This should include steps to reduce early school-leaving targeted on at-risk students combined with policies to ensure that they leave the schooling system equipped with basic skills and competencies that are recognised and valued by employers. It is also important to improve poor attitudes to work on the part of such young people and adult mentors can help in this regard.

Fourth, subsidies to private-sector employment can yield significant net employment gains and help to maintain workers' attachment to the labour force. However, employment subsidies should be of short duration, targeted and closely monitored.

Fifth, use subsidised business start-ups for the minority among the unemployed who have entrepreneurial skills and the motivation to survive in a competitive environment.

Finally, minimise the use of direct job creation schemes in the public sector. Where such

measures are used, they should be of short duration and targeted to the most disadvantaged.

## Interactions between active and passive policies

OECD research also suggests that it is vital to focus on the interactions between active and passive labour market policies if one seeks to enhance the effectiveness of active labour market policies. This research draws heavily on reviews of the public employment service (PES) and labour market policies in 18 OECD countries (Australia, Austria, Belgium, Denmark, Finland, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Norway, Spain, Sweden, Switzerland, the UK and the US).<sup>18</sup> Why is this an important topic? Unemployment and related welfare benefits provide income support to the unemployed while they are searching for jobs. It is well-known that such benefits can have significant effects on work incentives for the unemployed and on the wage-setting behaviour of workers and employers. Active labour market policies aim to help the unemployed get back into work and raise their future earnings prospects by providing them with a range of employment services. But they also provide income support to the unemployed while they participate in an active programme and, as will be seen below, such participation can affect future entitlements to unemployment benefits, thereby influencing the behaviour of labour market actors (Calmfors, 1994). For these reasons, it is important to pay attention to the interactions between active measures and unemployment benefit systems.

## Net replacement rates in OECD countries

An obvious starting point to analysing these interactions is the relative generosity of income support to the unemployed via unemployment benefits or the compensation paid while they participate on an active programme. Unfortunately, we do not have data on the latter, only on the former. But it is likely that both forms of income support are highly correlated. Indeed, it seems to be the case in

<sup>18</sup> See OECD (1993a, 1993b, 1996b, 1996c, 1996d, 1997, 1998, 1999b, 2001a, 2001b).



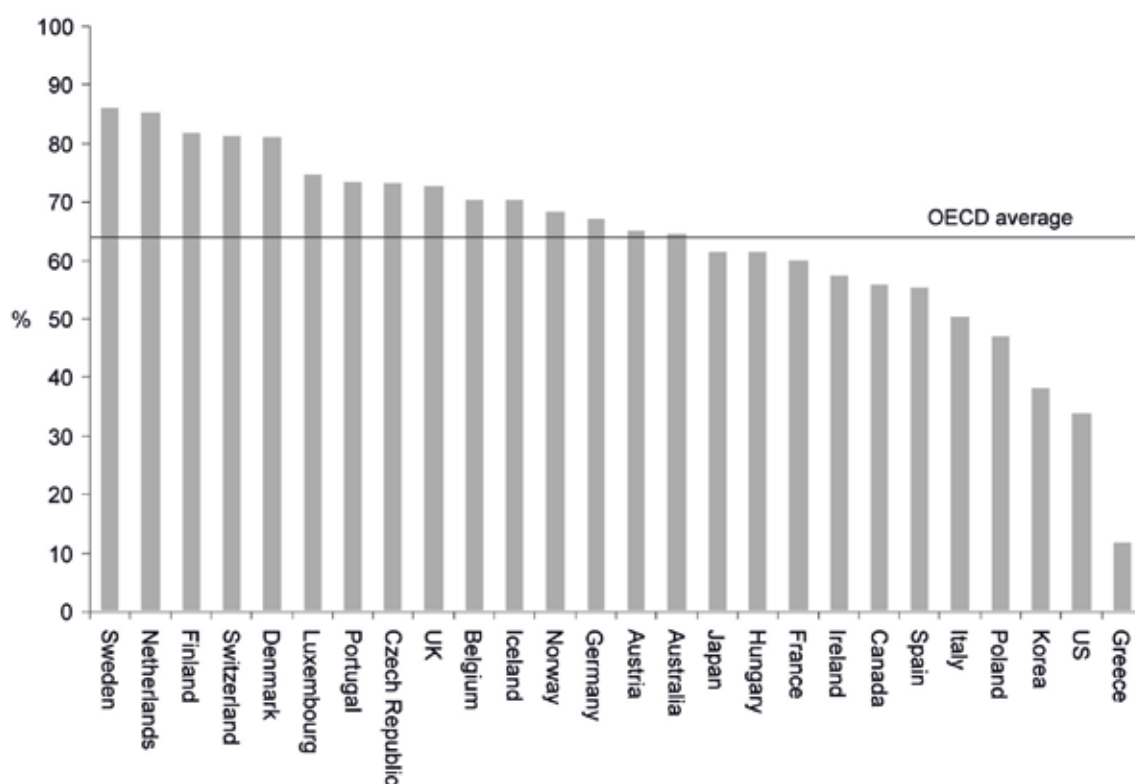
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many countries that participants on some active measures are paid unemployment benefits, sometimes with a small top-up. Hence, trends in the generosity of unemployment benefit systems are likely to be mirrored closely in the average compensation paid to programme participants. The standard indicator of the generosity of an unemployment benefit system is the so-called “replacement rate”, i.e. the

proportion of expected income from work which is replaced by unemployment and related welfare benefits. The OECD has devoted much effort in recent years to developing measures of net (i.e. after-tax) replacement rates for the purposes of international comparisons.

Figure 3 presents 1997 data on the OECD summary measure of net replacement rates. The

**Figure 19: The OECD summary measure of net replacement rates, 1997 (percentage of expected earnings in work)**



Notes: a Countries are ranked from left to right in descending order of the summary measure. b The OECD summary measure has been constructed as the average of net replacement rates, over 60 months, for i) four family types: Single, married couple, couple with two children and lone parent with two children. ii) Two earnings levels: Average production worker (APW) and 2/3 of APW level.

For all countries except France, we assume that unemployment benefits stay at the initial level for the legal duration, as set out in OECD (1999a, Table 2.2). After this period, the person would have SA benefits. Net replacement rates in Table 3.2 (for UI) and 3.5 (for SA) in OECD (1999a) have been weighted accordingly.

Figures for France have been obtained by running the programme of the OECD tax-benefit models.

The information applies to a 40-year worker with 22 years of employment record, previously earning an APW salary or 2/3 of this level. Children are considered to have three and six years of age and not to be in child care. We assume that the spouse is not working and does not have unemployment benefits. Housing costs are assumed to be 20 percent of gross APW earnings.

Source: OECD data base on taxation and benefit entitlements.



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measure includes unemployment insurance and related welfare benefits (e.g. social assistance, family benefits, housing benefits, employment-conditional benefits and lone-parent benefits). The summary measure is an average (unweighted) of separate net replacement rates covering four different household types and two alternative earnings possibilities; the calculations also incorporate the changing time profile of unemployment insurance (UI) and social assistance (SA) benefits over a 5-year duration of an unemployment spell. These data show that net replacement rates once social assistance benefits, housing benefits and the effect of the tax system are taken into account. While we do not have time-series data on net replacement rates, the available evidence, summarised in Martin (2000), suggests that they have tended to drift upwards in many OECD countries over the past three decades.

In sum, net replacement rates, whether provided through unemployment and related welfare benefit systems or active programmes, are sufficiently large to have potentially significant effects on work incentives and on wage-setting behaviour. This, in turn, has led to attempts in recent years to curb the so-called “unemployment trap”.

## Benefit administration and activation measures

### Benefit eligibility

The most direct step to curb the unemployment trap is to cut replacement rates. However, given the political difficulties in reducing benefit entitlements, the preferred approach to curbing the unemployment trap in the majority of OECD countries has been to make only marginal cuts in the generosity of benefit entitlements, but to tighten up on eligibility conditions for receipt of benefits and to develop “activation” strategies for the unemployed.

Important eligibility criteria in relation to job-seeker behaviour include the obligation to accept suitable work and referrals to available slots on ALMPs, requirements to undertake and report acts of independent job search, and requirements to cooperate with the PES. Benefit eligibility criteria are enforced in several ways: the PES may stop benefit

just for the current payment period (e.g. when the person failed to sign on or attend an interview at the employment office), stop or reduce benefit for a defined period into the future (e.g. when a sanction is imposed for refusal of a suitable job), or determine that a person is not eligible or is no longer eligible for benefit at all (e.g. when the person is found to be unavailable for work due to study or care for a sick relative).

Benefit legislation is often fairly strict, in principle. For example, several OECD countries have a requirement on even well-qualified unemployed people to accept most legal jobs available from the first day of unemployment, even though systematic application of this requirement could be counter-productive. Changes to make legislation more operationally relevant - for example, defining in more detail under what circumstances unemployed people must accept jobs with relatively unfavourable conditions - may facilitate implementation and be more effective than changes which only increase the formal strictness of legislation.

Situations where enterprises find it difficult to fill certain vacancies even though the jobs are suitable for unemployed people within commuting distance, or where people fail to participate on ALMPs after referral or soon drop out, are often not followed up systematically.

A general policy commitment to ensuring the effective implementation of benefit eligibility criteria - which may need high-level political support - is important.

### Interventions in the unemployment spell

As a general principle, benefit eligibility criteria require unemployed people to participate in actions which will improve their chances of re-entering work. This means that there should be no clear distinction between measures which aim to achieve re-entry to work and those which enforce benefit eligibility criteria. Hence, the PES function of implementing benefit eligibility criteria needs to be closely associated with the function of placement.

Although self-motivated unemployed individuals can search effectively, applying for jobs,

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requesting counselling and applying for relevant training and related opportunities on their own initiative, obligations to participate in assistance measures are needed if motivation is weakened by benefit disincentives or for those unemployed people who, without assistance, use ineffective job-search strategies. Examples of such obligations on unemployed people include: to report their independent job-search efforts; attend intensive interviews; apply for vacant jobs proposed by the employment counsellor; negotiate an individual action plan; and participate in labour market programmes. Because eligibility requirements are involved, these interventions tend typically to be implemented directly by PES staff. An OECD questionnaire in 1999 (OECD, 2001a) attempted to document the extent to which these “intervention” strategies are used in different countries. According to the findings, only six OECD countries require unemployed people to report their job-search initiatives regularly, as part of basic claim continuation procedures (typically fortnightly or monthly). Nine others review job search less systematically, often as one topic within general intensive interviews.

Employment counsellors conduct intensive interviews with unemployed people for the equivalent of roughly 30 minutes every two months in four or five OECD countries, but only once a year or less often, in some others. Direct referrals of unemployed people to vacant jobs, according to incomplete Secretariat estimates, average about three to six per person unemployed per year in Austria, Norway, Sweden and Switzerland, one to two per year in five more OECD countries, and less than one per year in five others. In each case, the higher frequency of interventions could plausibly have a fairly large impact on the duration of unemployment spells - see Box 2 for some evidence which points in this direction.

## Box 2: The impact of regular interventions in the unemployment spell

The 1994 Maryland Unemployment Insurance Work Search Demonstration in the US (Benus et al., 1997) provided evidence on the impact of job-search requirements. A treatment which increased

the number of employer contacts required from two to four per week reduced the average duration of UI payments by 0.7 weeks. Informing claimants that reported contacts would be verified with the employer reduced average duration by 0.9 weeks, and dropping the requirement for reporting of contacts (although claimants were still told that they must search for work) increased average duration by 0.4 weeks. Summing these experimental impacts suggests that a strict reporting requirement can reduce average UI duration by about two weeks (17 per cent) compared with the alternative of no requirement. The British Restart experiment of 1989 provided evidence for a large impact from intensive interviews with the unemployed.<sup>19</sup> After 1989, the Employment Service conducted a number of experiments with the introduction of further interviews at selected local offices. In 1996, new benefit legislation, the Jobseekers' Allowance, defined jobseekers' obligations more clearly, and introduced “active signing” which involves a fortnightly interview of a few minutes' duration with all jobseekers. In comparable before-and-after surveys of the unemployed, conducted in 1995 and 1997, the proportion of the unemployed sample that left benefit for work prior to the first interview (about three months after sampling) had increased by about 40 percent (McKay et al., 1999).

For the Netherlands, Gorter and Kalb (1996) describe an experiment conducted in 1990. Employment counsellors interviewed all the participants in the experiment to talk about progress in finding a job, and the treatment consisted of spending more time on these interviews.

This additional interview time was used to provide additional referrals to vacant jobs, as well as general job-search assistance and in some cases advice about alternatives such as training, but the total cost of the treatment was equivalent to only about half a day's unemployment benefit. In an evaluation of the outcomes over a one-year period, this treatment increased the number of job applications by a statistically significant 31 percent,

<sup>19</sup> Dolton and O. Niell (1996, 1997) emphasise that Restart interviews provided advice about a range of services and options and led to a higher rate of entry not only into jobs but also into training, full-time education and other job-search assistance. This helps to account for the finding of a substantial long-run impact.

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although this increased the final rate of entry to work by only 11 percent, which was not statistically significant. Many other studies of job-search assistance, cited in Section 2, relate to special programmes such as job clubs and job-search training workshops of several days' duration, rather than to regular employment counselling.

There are few evaluations of the impact of referring unemployed workers to vacant jobs, as compared with leaving jobseekers to access vacancies on a self-service basis. In Australia, 52 percent of participants who had been allocated to the top-performing providers of the Job Search Training programme reported being sent to a job interview or speaking to an employer about a job, compared with 21 percent of job seekers from the bottom-performing providers, resulting in a full-time job for 32 percent and 17 percent of participants, respectively (DEWRSB, 2001a). An evaluation of Swiss employment offices found that those which achieved the best outcomes used referrals in a targeted way, with attention to hard-to-place jobseekers, and had a below-average rate of "referral errors", i.e. a lower rejection rate for job applications (OECD, 2001a).

If the flow of vacancies is high and unemployment is relatively low, a strategy of referring jobseekers to vacant jobs may be sufficient to "activate" the unemployed and prevent long-term dependency on benefits. This may have been a factor in the maintenance of low unemployment rates in many OECD countries through to the 1960s, and in countries such as Sweden and Switzerland into the 1980s. Later, with the emergence of much higher rates of unemployment accompanied by sharp cyclical falls in job vacancies, the introduction of additional forms of intervention such as interviews and job-search monitoring became essential if the overall intensity of PES interventions in the unemployment spell was to be maintained. In most countries, a number of years passed before such a strategy was developed.

Participation in labour market programmes, other than job-search programmes, is generally accompanied by a fall in job search, leading to a decline in the rate of entry into market work as compared to comparable non-participants - the

so-called "retention" effect. Continuing with some interventions in the unemployment spell - such as job-search monitoring and referral to job vacancies - during participation in ALMPs can partially offset this retention effect. Its aggregate impact can be reduced by not making referrals to ALMPs in the early months of unemployment when rates of job-finding for non-participants remain high.

## Action plans and referrals to labour market programmes

If unemployed people expect to be able to enter labour market programmes on a *voluntary* basis, expected utility in unemployment is increased and incentives to search for, and immediately take up, a market job are reduced. This will be particularly true if programme participation generates new entitlements to unemployment benefits. This is a potentially serious issue in many countries. For example, the benefit-renewal function of programme participation is clearly important for a significant proportion of programme participants in Sweden.<sup>20</sup> In other countries, when programme participation is voluntary, policy-makers have sometimes had to offer training allowances or wages for participants that are more generous than unemployment benefits, with a risk that programme participation is preferred to regular employment.

By contrast, when participation in labour market programmes is *compulsory*, jobseeker utility is lowered. In job-creation programmes, the wage or benefit paid, divided by the number of hours worked, is generally close to the minimum wage, and individuals who can earn more than this have a clear incentive to take unsubsidised work alternatives, if available. But some individuals, who are unable to find work at more than the minimum wage, may still prefer programme participation to market work because of greater predictability of the former's status.

Market work outcomes resulting from a participation requirement will be maximised when the

<sup>20</sup> Individuals entering a programme in their 14th month of unemployment (the month coinciding with benefit exhaustion in Sweden) have consistently among the worst outcomes in terms of employment, studies or de-registration (Sianesi, 2001).

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unemployed are warned of it in advance (this again implies that the participation obligation should not be applied very early in an unemployment spell) and given additional assistance with the search for market work. This is a reason for associating the management of referrals to ALMPs closely with the regular placement function of the PES.

Individual action plans are now often drawn up prior to offers which are made, following EU guidelines, to young people after six months unemployment and to adult workers after 12 months unemployment. The mix of counselling, job-search monitoring, referrals to vacancies, and individual assessment and compulsory referral to a labour market programme varies greatly. In some cases, large impacts from such action plans have been reported.<sup>21</sup> Several studies indicate that compulsory referral of jobseekers to a specific programme can have a “motivation” or “pre-programme” impact on rates of entry to employment before the start of participation in the programme which exceeds the post-programme impact on participants.<sup>22</sup> In Australia, about 10 percent of individuals referred to Job Search Training leave unemployment before commencement as a result. Hazard rates off unemployment, between the time of referral and the time of entry to the programme (perhaps six weeks later), are estimated to increase by about 60 percent (DEWRSB, 2001b). The Maryland experiments cited in Box 2 found that referrals to a four-day job-search training workshop (usually in the third to fifth week of the benefit claim) had an impact, largely through a 28 percent increase in the hazard rate out of UI in the two weeks preceding the date of the scheduled workshop. In Kentucky experiments, about 75 per-

cent of the impact of referrals to employment and training services, in terms of reducing the duration of benefit receipt, was found to result from a sharp increase in early exits from UI, which coincided with claimants finding out about their mandatory programme obligations rather than with the actual receipt of employment and training services (Black et al., 1999).

Several studies indicate that general programme participation obligations, in which the jobseeker has to choose from a menu of activities and programmes, have a considerable impact.<sup>23</sup> In Australia's Mutual Obligation programme, as from mid-1998 young people upon reaching six months in unemployment, if not already referred to a specific programme or eligible for a specialist programme such as literacy training, must relocate to an area with better job opportunities, or enter part-time work (minimum eight hours a week), voluntary work, or education and training. If they do none of these, they are referred to Work for the Dole, a job creation programme (12 to 15 hours per week for six months). Results from tracking of hazard rates for 23 and 24-year-olds, who were subject to the obligation in financial year 1998/99, and 25 and 26-year-olds, who were not, indicate that hazard rates off benefit increased by 50 to 60 percent between about the 23rd and 34th week of unemployment. This reduced the proportion of the cohort that entered long-term unemployment by about 20 to 25 percent (Richardson, 2000; OECD, 2001b). In Denmark, as from 1996, young people have been obliged to enter a measure after 26 weeks of unemployment. Increases in the hazard rate of young people into ordinary employment or education at the time this obligation was introduced peaked, at 50 percent, in the 24th to 28th week of unemployment. Danish adults in 1997 faced an obligation to participate in programmes after three years' unemployment. In 1998, this obligation came in after two years. In this case the hazard rates to employment or ordinary education of 30- to 49-year-olds increased, by 50 to 65 percent for people with

21 In Ireland, 78 percent of unemployment beneficiaries aged under 25 who were referred to the National Employment Action Plan after six months in unemployment left unemployment benefit (figures to end-December 1999). About 30 percent were placed in jobs or training by the PES and many of the others left even before being interviewed (Barrett et al., 2001). In the case of adults unemployed for 12 months aged 45-54, 36 percent left the register. The Irish action plan probably had a relatively large impact because of a relative absence of interventions at earlier stages in the unemployment spell.

22 The pre-programme spike in hazard rates in a sample of individuals who have been referred to a programme on a compulsory basis contrasts with the pre-programme fall in employment rates (the Ashenfelter dip, documented in Heckman et al., 1999, pp.1893-1897) which is observed (retrospectively) in samples of individuals who have started a programme on a voluntary basis.

23 Most studies identify only part of the impact of programme participation obligations on hazard rates. A general and longstanding requirement for participation, such as exists in Sweden, may have a large impact, but since no observations from a clearly counterfactual situation are available it is difficult to see how the impact can be estimated reliably.

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unemployment durations of one and half to three years (AM, 2000). In Switzerland, unemployment benefits for adults are conditional on participation in a programme after the 7th month of unemployment. Lalive et al. (2000) estimate that the impact of this obligation, which is not implemented rigidly, starts to come in one month before the formal deadline. As from one month after the deadline, the hazard to a job is increased by 31 percent for males and 19 percent for females.

## The overall impact of activation measures

Job-search reporting and regular interviews with the unemployed each seem to have impacts of the order of 15 to 30 percent on hazard rates out of unemployment, implying an equal proportional reduction in mean unemployment durations. Additional strategies of intervention in the unemployment spell by the PES, such as active matching to job vacancies and other measures to monitor benefit eligibility, may have similar impacts, although no precise evidence is available to confirm this. Assuming that impacts partially cumulate across different measures, a full programme of PES interventions in the unemployment spell might increase hazard rates by 30 to 50 percent or more through the unemployment spell. Where programme participation requirements apply, they appear to have a further impact on hazard rates.<sup>24</sup> By contrast, most evaluation findings suggest that the long-term impacts of training and job creation programmes on the employment rates of their participants average around 10 percentage points. Even in those countries where close to 100 percent of the long-term unemployed will participate in such programmes the aggregate of these post-programme impacts is likely to be small compared with that of a programme of regular interventions in the unemployment spell and programme participation requirements. Thus, statistical evaluations which only consider the post-programme impact

of long-term training and employment programmes are not necessarily focusing on the most effective components of active labour market policy. Given the evidence that activation measures can have a significant impact on the exit rate from unemployment to jobs, it seems reasonable to conclude that OECD countries would be well-advised to use them. However, this decision does need to pay heed to some unresolved issues and potential undesired side-effects:

*How sustainable are the impacts arising from activation strategies, such as PES interventions in the unemployment spell and programme participation obligations?*

Much research has focused on short-run impacts on hazard rates off unemployment benefit or into jobs whereas policy-makers are interested in the sustainability of such impacts. Richardson (2000) found no increase in subsequent rates of return to unemployment for the group of Australian unemployed that had left as a result of Mutual Obligation requirements. In the UK, although the New Deal for Young People has sharply reduced unemployment for its target group, unemployment for 18 to 25 year olds at durations below six months has fallen less than unemployment in general, suggesting that “churning” is a significant problem (EEC, 2001). On the other hand, Dolton and O’Niell (1997) found that the impact of the six-month Restart interview was sustained over the following five years for males.

*How does the impact of activation strategies vary between labour market groups?*

Findings reported in two major studies of the impact of activation measures (AM, 2000; McKay et al., 1999) suggest that proportional impacts on hazard rates do not vary systematically with the level of labour market disadvantage.<sup>25</sup> This implies, in the absence of other factors limiting the duration of unemployment spells, that a measure which halves mean unemployment duration for a relatively employable group will also halve mean unemployment duration for a relatively disadvantaged group

24 In Australia, young unemployed people are expected to report from two to four job applications per week in the first six months of unemployment, but their hazard rates nevertheless increase when Mutual Obligation requirements apply.

25 Black et al. (1999) report some evidence for an inverse-U relationship, where profiling services have their greatest impact for individuals with intermediate levels of employability, but little impact for those who are initially either highly employable or highly disadvantaged.



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and is equally cost-effective in both cases. A programme participation obligation may be cost-effective when applied to more-employable jobseekers because relatively few of them actually enter the costly programmes. Some studies have also found considerable differences in the impact of activation measures between men and women: this may reflect a greater tendency for women to respond by exiting the labour force (Dolton and O’Niell, 1997; Lalive d’Epinay and Zweimüller, 2000).

How do activation strategies affect re-employment earnings? In the Maryland UI job-search experiments, the relaxed treatment where the requirement of reporting job search contacts each week was dropped led to an increase of about three percent in average UI duration but also an increase of about four percent in annual earnings. In the UK evaluation of the Jobseekers’ Allowance, mean re-employment earnings (at constant prices) among those who rapidly re-entered work fell by 21 percent for males and three percent for females, between the pre-implementation and post-implementation surveys. There was a large fall in the proportion of re-entrants in the highest pay band. These findings suggest that potentially high-paid workers are relatively well able to respond to pressure to re-enter work more quickly, but at the cost of accepting lower pay.

These issues imply that activation strategies are not a panacea. Research and attention to detail, to maximise positive impacts and minimise negative ones remain very important.

## Improving the performance of the Public Employment Service

### Performance measurement

As unemployment remains high and many employers continue to fill their vacancies without recourse to the PES, the PES has often been seen as an inefficient public bureaucracy. This has led to suggestions of involving private employment agencies in the placement of the unemployed or bringing market forces or quasi-market mechanisms into the PES. A precondition for this is the development of comparative performance indicators or appropriate payment mechanisms. Performance

indicators are quite widely used nowadays within the PES, for two main reasons: to raise administrative efficiency, and to allow the decentralisation of PES management to the regional and local levels while maintaining basic policy and financing functions at the central level. Examples of quantitative performance indicators and targets include: the number or market share of vacancies notified, the speed with which vacancies are filled, the speed with which new benefit claims are processed, the share of groups with specific employment handicaps in total placements, the number of visits of PES staff to local employers, and the post-programme employment rate of ALMP participants. Additional qualitative targets may also be used, with assessment on a judgmental basis.

Placements by the PES, i.e. the flow of jobseekers into registered vacancies, are often regarded as the most important indicator of performance. However, it is not easy to record PES placements in an objective way. Figures for the Netherlands, for instance, show that the number of placements recorded by the PES is about three times the number of workers who declare they have found a job thanks to the PES (Dercksen and de Koning, 1996). Also, it can be difficult to measure placements achieved through self-service, since clients’ use of the facilities is often not registered. Some countries use data on new hires (e.g. from social security records) for tracking placements.

In any case, when employment offices provide general job-search monitoring and assistance, there is a good case for looking at all entries to work or exits from dependency on any benefit, rather than placements directly assisted by the PES.<sup>26</sup> Even if measurement difficulties are overcome, total PES placements (measured relative to another aggregate, e.g. total hirings or total unemployment) are not by themselves a fully adequate indicator of performance. They need to be complemented by indicators of both placements of disadvantaged target groups and the duration of placements. At the local level, the use of regression techniques to adjust

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<sup>26</sup> Exits from unemployment benefit alone are not a good measure of PES performance, since such an exit can be achieved by transferring a person from unemployment benefit to disability or early retirement benefits, with increased cost to the public purse and less chance that the person will re-enter work.

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gross data for differences in jobseeker characteristics and local labour market conditions is essential.

## Quasi-competitive mechanisms

### *The Australian experience*

Australia's Job Network, introduced in May 1998, currently has more than 200 organisations providing placement services from more than 2000 sites. Incentives and competition within the system are created partly by payment mechanisms and partly by performance assessments, which are used in allocating business in response to competitive tenders. The system is not competitive in the sense that providers leave the market because they are losing money, and other providers are free to enter wherever they see a profitable business opportunity. But it is competitive in the sense that multiple providers operate in the same local labour markets, particularly in large urban areas. It is also a unique experiment among OECD countries - see OECD (2001b) for a detailed description of Job Network and a preliminary evaluation.

The Job Network provides two services, Job Matching and Intensive Assistance, which carry out the traditional core functions of a public placement service. Job Matching providers are paid a fee for each placement of an unemployed jobseeker into a job that involves at least 15 hours of paid employment, with certain safeguards and additional payments for placements of long-term unemployed people that last at least 13 weeks. Jobseekers who are assessed as disadvantaged are, in addition, referred to Intensive Assistance services for about a year. Depending on the assessed level of disadvantage, referral to Intensive Assistance can occur at initial registration, after a year unemployed, or later. Intensive Assistance providers are paid a fee when an individual action plan has been negotiated and signed with the jobseeker, and another fee for placements into paid jobs that last 13 weeks, which is increased if the job lasts 26 weeks. In the second tender period, starting in 2001, the administration has also monitored the services which are provided to jobseekers on a continuous basis, and it may in principle apply sanctions to Intensive Assistance providers

or disqualify them from future business if these services fall short of contractual commitments.

Since the introduction of Job Network, the market share of placements by employment service providers, as a percentage of all hirings in the economy, has been maintained. The long-term share in beneficiary unemployment continued to increase until early 2000, but has fallen quite significantly through 2001. It is difficult to know how far these relatively stable aggregate outcomes should be attributed to the introduction of Job Network because other significant changes, including a sharp cut in total spending on ALMPs (concentrated on training and employment programmes for the long-term unemployed) and generally buoyant labour demand and falling unemployment, occurred over the same period.

In some respects, Intensive Assistance providers do not have important resources that would be needed to achieve a large impact via the placement function:

- Intensive Assistance is not integrated with the functions of benefit administration and referral to labour market programmes. Regular job-search monitoring, done by the benefit agency Centrelink, is dropped when jobseekers enter Intensive Assistance. In cases of jobseeker failure to report, Intensive Assistance providers must engage lengthy procedures before referring the case to the benefit agency. Intensive Assistance providers can, in principle, purchase training or other employment services for their clients, but Centrelink implements Mutual Obligation and, in practice, makes most referrals to labour market programmes.
- Although fees are paid for successful placements, the fee differential between placement and non-placement outcomes is often much smaller than the difference in unemployment benefit payments between these two cases. Training or activation measures can therefore generate net social benefit and budgetary savings, yet be unprofitable for service providers.

These issues may be inherently difficult to tackle. Some Job Network providers do not want to have more than minimal involvement in benefit administration. The government may wish to retain



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control over the functions of benefit administration and referrals to programmes, and it may be reluctant to set up payment systems with the structure and strong financial incentives that theoretical analysis suggests would be needed.<sup>27</sup> Despite these problems, Australian experience demonstrates that quasi-competitive mechanisms in providing employment services for the unemployed, with payments being made to providers for placements and even multiple providers operating in the same local labour markets, face no major operational problems. Also, the placement rates achieved by different Intensive Assistance providers, even in a given locality, have varied widely and in second tender round decisions of early 2000, the process of eliminating poorly-performing providers - which included Employment National, the successor organisation to the Commonwealth Employment Service - was projected to raise the average placement performance of Intensive Assistance providers by nearly 25 per cent.

## ***The Dutch and Swiss experiences***

The Netherlands and Switzerland are two other countries which now have quasi-competitive mechanisms in the management of the PES. In the Netherlands, benefit agencies receive block grants which they must spend on purchasing reintegration services for disadvantaged unemployed. Although benefit agencies have freedom to contract with different providers, mechanisms explicitly evaluating providers' performance against national or local benchmarks are at an early stage of development. Also, most of the cost of benefit payments made by municipalities is reimbursed to them by central government, so their incentives to reduce local unemployment may not be entirely unambiguous.

Switzerland has recently implemented a sophisticated system which measures the placement performance of local employment offices in terms of the average duration of job search for completed unemployment spells, the proportion of spells which finish in benefit exhaustion, and the proportion of de-registrations which are followed by a

re-registration, with regression adjustments for the characteristics of the jobseeker population and the local labour market (see OECD, 2001a, for further details and references). Cantons are responsible for the management of local employment offices, but the federal government pays the costs of administering employment services subject to a bonus/malus system which reflects the performance of the local employment offices managed by each canton. Cantons and other local authorities also bear the cost of any assistance benefits that are paid to benefit exhaustees. This system provides relatively clear incentives for local employment office management, and incentives for cantons to replace management in cases of persistent poor performance. Since also the functions of placement, benefit eligibility decisions (when related to placement work), and referral of jobseekers to programmes are integrated within local offices, a large impact on registered unemployment is possible, and unemployment has actually fallen to low levels.

In general, it seems that quasi-competitive mechanisms can provide efficiency gains, as compared with rigid bureaucratic organisations which lack clear measures of performance and effective mechanisms for replacing the management of inefficient employment offices. However, a well-managed public service may be able to capture many of the potential benefits.

## **Conclusions**

At first sight, evaluation findings on the impact of many active labour market programmes in terms of raising the future employment and earnings prospects of participants are not terribly encouraging, especially for disadvantaged youths. But there are some success stories: job-search assistance, wage subsidies in the private sector, and labour market training do work for some target groups, even if the impacts are not large.

At the same time, limits to the coverage of most of the evaluation literature, which has mainly studied the post-programme impacts of one-off programmes, are becoming clearer. Regular interventions in the unemployment spell, such as job-search monitoring, intensive interviews, and

27 Annex A in OECD (2001b) considers a theoretically optimal payment structure for employment service providers and how Intensive Assistance payments differ from this.

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referrals to vacant jobs, have only occasionally and at the margin (e.g. via the impact of *additional* job-search assistance) been evaluated experimentally. However, large impacts have been found in some evaluations of particular interventions and it is plausible that an effective set of policies of this kind could have a substantial impact. Recently-introduced “activation” strategies, under which many of the unemployed after a specific duration of their unemployment spell, are encouraged to intensify job search, with a later obligation to participate in various programmes, have shown evidence of a large pre-programme “motivation” impact on jobseekers. Using a concept of active labour market policy which incorporates these additional perspectives, larger impacts on transitions to employment appear to be envisageable for people receiving unemployment benefits. The PES plays a key role in implementing strategies of intervention in unemployment in most OECD countries and there have been many attempts in recent years to enhance its effectiveness. Performance indicators have promised as general management tools and are in any case vital for any strategy of decentralisation of the PES or introduction of quasi-market mechanisms. These tools have become more sophisticated in recent years. Indeed, they have developed to the point where quasi-market mechanisms within the PES or even competitive subcontracting of most or all employment service functions are realistic options. Future evaluations of active labour market policies need to look at a range of such strategies and the efficiency of different governance structures for the PES, so that OECD countries can learn from each other’s experiences.

Active labour market policies are not a magic bullet on their own to solve the unemployment problem. Activation policies which combine high-quality assistance with finding work with pressure on unemployed people to accept it can be effective, but more rapid returns to work sometimes come at the cost of accepting lower reemployment earnings. Active policies can be and have been temporarily overwhelmed by increases in the numbers of unemployed that are caused by distinct microeconomic or macroeconomic shocks. Aggregate demand matters too.

At the same time, fears that active labour market policies have little aggregate impact, because the estimated microeconomic impacts on target groups come only at the cost of displacing other workers, seem to us misplaced. Only in the short run is total employment fixed (if one person takes a vacancy, another cannot), so that displacement is complete. Over the medium run of a few years, aggregate employment plausibly does adjust to changes in effective labour supply, through both direct mechanisms (when vacancies attract many high quality applications, employers create more vacancies) and indirect mechanisms (unemployment reduces wage pressures, making business more profitable in an open economy or allowing non-inflationary expansion of aggregate demand in a closed economy). This suggests that insofar as active labour market policies increase effective labour supply, their displacement effects fade away over the medium term. Significant positive externalities can also arise as initial successes in reducing unemployment make it possible to devote more resources to assisting each person remaining unemployed, resulting in a further fall in unemployment. Declines in equilibrium (or structural) unemployment rates achieved by many OECD countries in the 1990s - thanks to a combination of macroeconomic and microeconomic reforms, including greater attention to the interactions between passive and active labour market policies - give some reasons for optimism.

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## 2.4 Karl Aiginger, Austrian Institute of Economic Research (WIFO), A, Commentary on the presentation by John P. Martin

### The active labour market policy framework: globalisation, enlargement, demographic ageing

My commentary is based on three sources:

1. Reports on Europe's competitive strength periodically prepared by WIFO for the European Commission (Competitiveness Reports of DG Enterprise).
2. Articles on successful strategies implemented by countries in the 1990s to ensure growth and jobs (Journal of Economic Studies, International Review of Applied Studies).
3. Evaluation studies on Austrian labour market policy. We have just heard from John P. Martin that, internationally, too few evaluations are carried out by external bodies. In Austria it was an external organisation that did the evaluation, i.e. WIFO (H. Lutz, H. Mahringer et al).

The labour market policy framework involves three trends: globalisation, demographic ageing and enlargement of the EU's economic area. With globalisation and enlargement of the European economic area new low-wage competitors come into play. Although the overall impact of globalisation and enlargement should be positive for growth and employment in the EU-15, they bring about dramatic changes in competitive and employment situations in the low-wage sector. Only retraining can create jobs for the "losers" of the adjustment process in high-wage countries.

The European economy suffers from weak growth. Despite this lacklustre growth, employment is (albeit only slightly) on the rise. Georg Fischer reported that primarily low-productivity segments enjoyed job growth. Nevertheless an employment strategy cannot and should not focus on creating low-wage jobs. On the contrary, a rich country must try to maintain and increase quality jobs. Only when this strategy



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fails to employ a rising labour supply, as is the case in Austria, should we turn to secondary strategies of raising jobs in low-productivity sectors.

The third framework component of employment strategies – demographic ageing – is a fact we cannot deny. The proportion of people aged 60+ is on the rise, while the proportion of young people is declining. This, however, does not mean that there will be excess labour demand soon. Europe still has almost 20 million jobless and some 10 million underemployed people. In Austria, for instance, labour supply increases by more than 1 percent a year. Population shrinkage has been postponed to 2014 for the time being. And there are others waiting at Europe's gates. Thus the main conclusion is that there will be no general labour shortage over the next years. There will be bottlenecks in certain skills and industry segments but there will not be any general scarcity of labour.

## Does labour supply create demand or do we need growth?

The question is what kind of role labour market policy can play in such a situation. John P. Martin has provided a survey of various labour market policies. He reported on policies that work and others that do not. This is important and valuable information. But without going into greater detail I would like to point out that the concentration on labour market policy alone could be inefficient and even dangerous. In a situation where we have an oversupply of labour and a great number of other people waiting in the wings to enter Europe's job market, labour market policies cannot work miracles single-handedly. The number of jobs will only rise if sought-after skills are acquired.<sup>28</sup>

I endorse Mr. Pissarides's opinion that job creation alone would not engender growth. I believe that it is primarily economic growth (more and better products) that will create jobs. This is an old argument: do we need economic growth to have more jobs, or do we need more labour to achieve growth? In the current situation of an oversupply of labour I think it is at least as important – or even more important –

to ensure economic growth rather than mobilising more workers to achieve such growth. A greater supply of skilled workers will promote growth; while a mere increase in labour supply will result in wage pressures and greater unemployment in the low-skill sector. A comprehensive strategy stepping up growth (e.g. innovation, infrastructure, macro-policies) is required to boost jobs, as has also been pointed out by previous speakers. What we need first and foremost is an economic policy that encourages growth as recommended by the Lisbon Strategy, and in support of this we need an active labour market policy. A combination of the two strands will promote growth. If our efforts revolve around labour market policy alone or around attempts at increasing the number of workers, the outcome will not be satisfactory, as shown by various other reports. An active growth strategy combines growth policies, macro-policies and active labour market policies.

## The lessons learned from Mr. Martin and from the Austrian evaluation

Having clarified the framework in which policies are situated, I would now like to address the lessons learned from John P. Martin's paper on active labour market policies. I have summarised the answers in eight points:

- Public training programmes appear to work sometimes, especially for women, less so for men and far from convincingly for unemployed youth.
- Counselling and assistance are cost-effective.
- Special measures for youth have to be based on early and sustained interventions. They should also address disadvantaged youth's poor attitudes to work and promote social skills.
- Subsidies may also have drawbacks. They create dead-weight losses and involve the danger of substitution effects. We cannot avoid such losses entirely.
- There is a need for programmes promoting business start-ups.
- Integration programmes work better for skilled workers.
- Direct job creation schemes in the public sector will not result in permanent jobs. They provide short-term rather than long-term advantages

<sup>28</sup> Notwithstanding a strategy of creating more jobs by wage cuts, which however entails demand losses and greater inequality.



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and should be targeted to the most disadvantaged groups of the population.

- Activation strategies are necessary. They should be geared to individual needs and include mutual obligations (“monitor and encourage”). This is particularly effective if the workers’ trust in labour market institutions is great.

For the most part the evaluation of Austrian labour market policy (Lutz, Mahringer, etc.) arrives at similar and a few supplementary conclusions:

- A strategy mix composed of training and activation is most effective.
- Activation measures alone are of little effect: they only have a positive effect on women of core working age.
- In general, wage subsidies should be limited to certain groups to avoid deadweight effects. Job creation programmes for the most disadvantaged groups among the unemployed are successful.
- Skills training measures should be of greater depth and, if possible, provide some sort of credential or certificate. We need specific programmes for each of the different groups of job-seekers.
- Tailor-made programmes are the most successful.

It is important to intervene early with appropriate integration planning and enhance motivation. Any deadweight effects should be avoided by responding to the needs of target groups and by providing fixed-term support primarily by means of wage subsidies and company-based measures.

## The unresolved problems of active labour market policy

There is the eternal conflict between short-term success and long-term impact. If policies are required to achieve success rapidly, the long-term effects will be less substantial. Measures should be geared to the needs of the individual to be optimally effective, but in such a case the success of a training scheme cannot be made visible (certified, verified). Subsidies should create permanent jobs and no merry-go-round effect, but they should only be granted for a limited period of time. The demand for personal services should be utilised for

employment purposes, but it should not create a low-wage sector. Individualised assistance, counselling and coaching generates little additional cost, but efficiency will depend on the impact of such measures on labour market integration, plus public employment services are requested to avoid cost explosions by all means possible. The unemployed should become active, but there should not be any strict, bureaucratic or degrading verification of their job-search efforts.

## Conclusions

I think we have been given a good overview of the entire range of active labour market policies and activation strategies. Let me also mention the flexicurity approach and the importance of transitional jobs which eventually help integrate people into full-time employment relationships (Bock-Schappelwein). There should be some flexibility but the kind of flexibility also involves security (e.g. insurance benefits for part-time contracts). Flexibility should be fair and balanced. For instance, the individual should have the right, at least in part, to determine when s/he wants to work more hours and when s/he wants to work fewer hours. Working more hours in summer could generate claims to longer educational leave periods in winter (or result in the issue of education vouchers).

We now have a more detailed picture of the measures that work and the measures that do not. However, we must not forget that active labour market policies must be supported by economic policies. The success of labour market measures will only be striking and visible if economic growth raises labour demand. To reintegrate 20 million unemployed people into the labour market, and to respond to the increase in labour supply (over the next ten years at least), we need an appropriate growth policy and efficient mechanisms to steer overall economic demand. Labour market policy has to be part of a whole package. John P. Martin said at the end of his presentation that he was guardedly optimistic about the impact of active labour market policies. I concur, but active labour market policies will only be effective if closely connected with growth and innovation policies.

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## 3.1 Tony Killeen, Minister of State for Labour Affairs, IRL, "Ireland's experience and prospects"

### Introduction

Ladies and Gentlemen, I am very pleased to be here today to talk about Ireland's experiences, prospects and challenges in these Times of Globalisation.

I would like to thank Minister Bartenstein and the Austrian Federal Ministry of Economics and Labour for organising this conference during its Presidency of the European Union. Conferences of this kind are very important, as they allow us to compare policies and experiences in policy development and implementation. In this way we come to a greater understanding about which types of policies are best for different circumstances.

I have listened with interest to the speakers today and I hope that I can convey to you some useful impressions of Ireland's experience of implementing labour market policies and what we see as the Challenges for Ireland in this Time of Globalisation.

### Ireland's economic success

As you know Ireland has experienced a lot of success in both economic and employment terms in recent years. We have GNP growth of 5 percent, employment growth of 5 percent and an unemployment rate below 5 percent. This good performance is expected to ease somewhat, but remain reasonably good, with GNP growth projected to average 3 percent in the five years to 2010.

Labour market policies in the widest sense have of course played a part in our recent success. I would particularly refer to the importance of:

- our investment in education and training
- our social partnership process
- our reasonably flexible labour force
- the demographic benefit of significant numbers of young people being available to participate in our economy
- Personal taxation levels.

However, non-labour market policies have also played a role. In this regard I would include:

- our success as a small, open economy in attracting foreign direct investment
- the measures we took to ensure a sound public finance position and
- the benefits of European Union membership, both in terms of using EU funds to upgrade our infrastructure and of being part of the large, single EU market.

In the context of our relative economic and employment success, our labour market policy stance is one which we have adapted to deal with different types of problems to those with which we were faced ten years ago.

In summary our labour market policy has three pillars.

### Increasing labour market participation of the marginalised

The first pillar is that of increasing the involvement of the marginalised in the labour force.

Since our employment growth is so robust, the focus of our public employment service is shifting away from those who are unemployed for short periods towards those who are long-term unemployed, and whose problems have meant that they still have not been able to participate in the labour market.

While our challenges may be those of success, we do still have challenges. We still have too many people who are long-term unemployed or are marginalised in some other way. We still have too many people who are young unemployed or who cannot participate in the labour market because of a disability or of other problem.

We therefore still need to provide assistance to these people so that they can effectively participate in the labour market.

That is why we are currently looking closely at the recommendations of a number of recent reviews to establish what improvements we can make. For example, a recent review of our activation process for the unemployed concluded that:

- the process was a useful one and
- that it should be extended to those over 18 years as soon as they become unemployed

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(rather than wait six months as at present), as well as being extended to those over 55 years, lone parents, those with disabilities and

- that the adequacy of supports for people who were non-progression ready needed to be reviewed.

Our National Economic and Social Forum has also published a report on 'Creating a More Inclusive Labour Market' and it recommended that we:

- invest more in training young low-skilled workers and make use of personal development plans
- explore the use of client profiling and
- review the impact of secondary benefits as an obstacle to labour market participation.

Finally, a recent cross-departmental expenditure review on supports for the long-term unemployed recommended that we:

- increase the funding for education and training programmes and increase the training component of active labour market programmes
- increase the incentives for the unemployed to do training by increasing training allowances
- extend the period of free medical service entitlement after taking up employment.

As I said, we are looking closely at these various recommendations with the aim of assisting the marginalised to participate in the labour force. I know that many of these recommendations arise from findings in recent studies by both the OECD and the EU Commission and I would like to thank them for their work in this area which has provided a useful input to policy-making.

## Upskilling those in Employment

The second pillar of our labour market policy stance is that of increasing the skills levels of those in employment. We have launched a "One Step Up" initiative, the aim of which is to encourage all of those in employment to move One Step Up in terms of their skills and qualifications. This initiative is being implemented in the context of our over-all policy on Lifelong Learning. It is focussing on lower skilled workers in SMEs, in particular, as that is where the most need lies.

As we look forward, policy in this area must recognise that we will be looking at an employment

market in which there is going to be greater demand for those with higher skills and qualifications. We are also going to have an employment market where services of all kinds will be more important than now and where traditional manufacturing and construction will be much less significant than now. This means that we must be proactive in providing training for workers so that they can re-skill to continue their participation in this new, changed labour market.

## Maximising labour market supply

The third pillar of our labour market policy is that of ensuring that we maximise our labour supply and fill any short-term skills gaps.

This means in particular that we remove obstacles to labour market participation by women, older workers and part-time workers. The Government has recently launched a major initiative to respond to issues in the child care area and we are looking closely at the recent OECD study on older workers in Ireland.

We are also maximising the potential for European Economic Area nationals to fill our skills deficits. We opened our labour market to nationals of the EU-10 from the date of Accession in May 2004. Ireland is therefore now part of a labour market of 200 million workers who have free access to our relatively small labour market of two million. It is estimated that over already 120,000 EU-10 citizens have come to work in Ireland at some stage - for different lengths of time - since Accession in May 2004.

So far this has had no significant negative impact on unemployment or wages.

We also do have some skills shortages which cannot be sourced other than through workers from outside the European Economic Area and that is why we are developing a strategic skills-based immigration policy, with a new residence-based green card-type permit.

## Conclusion

So I will conclude today by summarising that today I described how Ireland's labour market policies are pursued through the three pillars of:

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- increasing labour market participation of the marginalised
- upskilling those in employment, and
- maximising labour market supply and filling short-term skills gaps.

I hope you have gained some benefit from hearing about our experience.

For my part, I know I have found today's session very useful so far and I look forward to participating in the rest of the conference. Thank you very much.

## 3.2 Panel Discussion

The facilitator, **Waltraud Langer, Austria's public-service broadcaster ORF**, opens the discussion with a question following on Christopher Pissarides's paper. She wants to know whether nowadays there is too much talk about the knowledge-based society and too little about the potential of job creation in the low-productivity sector.

**Martin Bartenstein, Federal Minister of Economics and Labour (A)**, believes that for many years the European Commission has presented a very one-sided picture of a knowledge-based society and the jobs to be created there. In his opinion, the EU is now moving in a better direction, as attempts are being made to create jobs across all sectors: not only in the knowledge-based segments of society but also in other sectors including the low-income sector. A number of Member States is making great efforts, for instance, through the development of combined wage models. It is important to have complementary rather than either/or strategies.

**Antonis Kastrissianakis, European Commission**, agrees with Minister Bartenstein regarding a more balanced approach. He also supports Karl Aiginger's position, who said earlier that it was not only a matter for employment policy to bring more people into the working process and extend working hours but also a matter of strengthening productivity and the quality of work. And this, in Director Kastrissianakis's opinion, still leads us towards a knowledge-based society. Most jobs that have been newly created in Europe originated in knowledge areas and in the knowledge industry. It appears that this dimension will continue to be crucial for Europe's competitiveness. At the same time, it is also important to have more people move into the labour market to increase the employment rate.

**Christopher Pissarides, London School of Economics (LSE), UK**, states that the creation of jobs in the knowledge society is, of course, important. Nothing can be said against it; however, he wanted to make clear that Europe can create jobs in the knowledge sectors without political support. These jobs are highly productive and they are not

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the ones that require support by the state. The companies can achieve this themselves, and there has been a lot of job creation in these sectors. The assistance of the government is important for the bottom end of the job market where Europe has failed to create enough jobs and unemployment is high.

**Tony Killeen, Minister of State for Labour Affairs, IRL**, once again reminds of several of the facts that Christopher Pissarides and Antonis Kas-trissianakis and others have pointed out. There is a large gap in the service sector between the USA and European countries. It is important not to forget that the service sector is a very heterogeneous sector, where there are both highly paid jobs and low wage jobs. In the future, however, growth will create jobs in all areas, albeit to a differing degree in each country. Tony Killeen would like to come back to the point that Minister Bartenstein made in his opening statement. The new Services Directive must be viewed as an important, albeit not sufficient, step in the liberalisation of conditions in the service sector, in order to create jobs in the larger European market. He believes that there is no doubt that a greater dynamic and increased competition must be created in the European service sector in order to fill the employment gap. One can be of the opinion that the Services Directive goes too far or not far enough, but Tony Killeen believes that the objective must be to continue to break down existing barriers. If Europe succeeds in this, then we will have launched a dynamic process that will bring us closer to our goal. One could say that the recent vote received support from a significant majority of Members of Parliament and he believes that this is an important step forward.

In **Minister Bartenstein's** opinion Europe has missed quite a number of opportunities to create service sector jobs. Statistics show that earnings increases have taken place and continue to be possible in the service sector.

The Kok Report, which was mentioned by various speakers, shows that there has not been any growth in Europe's transport services in the past ten years. In fact, these services have even declined. Wim Kok and the 13 experts, whose help he had enlisted to draft his report, concurred in this assessment.

Minister Bartenstein asks the expert panellists a number of questions. Austria has a problem, which may also be present in other countries, namely an increasing share of young people whose training and skills are insufficient for them to have any chance of landing a job. Some of these young people are immigrants, have language problems, 7.5 percent of the Austrian population have third-country backgrounds, and they have more problems than other groups.

His second question refers to the low-income sector and the necessity of avoiding greater tax burdens or new taxes. Austria has roughly five million taxpayers; 2.55 million of them do not pay any income tax but value-added tax. All taxpayers, however, pay social insurance contributions. Would it be useful to go a step further and think about reducing social insurance contributions for low-wage earners?

It has been said that growth and an optimised labour market policy are necessary for fighting unemployment. The experts of Austria's public employment service believe that the best labour market policy can only achieve one percent difference in terms of reducing unemployment. The question addressed to the expert panellists is whether they think this figure to be realistic.

**John Martin, Organisation for Economic Co-operation and Development (OECD)**, states that, regarding the question of young people who leave the school system with a low level of knowledge and/or drop-out early, this is a problem group in most OECD countries. In countries that have a strong immigrant population, it often emerges that the second and even the third generation youths are overrepresented in this group of poor school performers, and there is a large amount of evidence from OECD studies and also from the PISA study, that this is the case. One of the lessons that can be learned from the literature in this field is the necessity to intervene at an early stage with these young people and their families and sustain these interventions over time. It is not cost-effective to try to assist them at age 18 or 19. One will not be able to have much of an impact then. One needs to intervene much earlier, in fact, prior to school age and to work with the families and municipalities where these people live. Language skills are a problem,



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as is the knowledge of the culture and customs of a country. This also requires work with the families and one needs to invest time and effort in order to achieve success. However, if one intervenes early, it can be a very worthwhile social investment.

John Martin thinks - in order to make low-paid work financially attractive, certain measures are required and that is an issue in many European countries. Minister Bartenstein made a suggestion in this respect, namely, either to reduce the social security contributions for the low-wage earners or to reduce the employer social insurance contributions. This approach has been relatively successful in some European countries. For example, in France for over ten years, policy has concentrated on cutting employer social insurance contributions for low-wage earners. However, very complicated problems arise in implementing such a complex strategy in a cost-effective way. John Martin addresses Minister Bartenstein regarding the fact that several of these programmes cost the taxpayer a significant amount of money and that then the question arises of how high the minimum wage should be set. If a country has a high minimum wage, then it must increase the government aid in order to lower labour costs for minimum-wage workers in order to encourage employers to hire them. And if an unemployed person cannot see that he or she can actually earn more in a job than they get in welfare benefits, they will not be encouraged to look for work. For this calculation, one needs to look at the entire range of means-tested benefits, both in cash and in-kind. There are other benefits in the fields of housing, health, transport, etc. which can also play a part in determining whether taking up a job is financially beneficial or not for an unemployed person.

**Christopher Pissarides** wants to pick up on the last point that has been mentioned. A poor labour market policy can cause significant damage with respect to unemployment. For example, in Spain at the beginning of the 1980's, there was a 20 percent unemployment rate. A good labour policy would have been more effective in holding unemployment down, Prof. Pissarides argues. Another reason why labour market policy can help is that there is a lot of hidden unemployment. A good policy targeted to the unemployed may increase employment also by bringing into employment workers who are out-

side the labour force. The unemployment rate often does not reflect what is really taking place in the labour market, namely it may not include all those who are looking for a job, but not finding one.

To social security and to social security contributions and taxation Prof. Pissarides states that these are important policy instruments that can help job creation, primarily in the low-income segment. Low-income jobs should not be taxed to encourage firms to create more of them.

Prof. Pissarides wants to mention one last point, which is that one speaks of unemployment as it was something bad. It is, of course, bad in the sense that there is a loss of production. However, no efficient labour market can manage without a certain level of unemployment. Four or five percent in today's globalised world appears to be the minimum required for an efficient operation of the labour market. It may be more. If for the sake of argument, Prof. Pissarides argues, a country now has an employment rate of 70 percent and an unemployment rate of 5 percent, then he thinks that in this country one really does not need an active labour market policy unless one has a substantial number of long-term unemployed. Then, Prof. Pissarides thinks one must approach this in a targeted manner, spend resources on policies that are directed to reducing long-term unemployment.

**Facilitator Waltraud Langer** comments that in Spain labour market policy was not the only factor that helped reduce unemployment. The Euro, too, appears to have had an unbelievably high indirect impact on the reduction of unemployment.

She addresses a final question to Antonis Kastrissianakis, who said that Lisbon had not achieved much. Would the individual countries have carried out all those past policies without the Lisbon Strategy?

**Antonis Kastrissianakis, European Commission**, believes that his question has actually been answered by Georg Fischer. He thinks one cannot say that the political changes that have taken place in Europe would have taken place anyway, regardless of the Lisbon Strategy; nor can one say that everything that has happened is due to Lisbon. Several elements, however, have not yet been addressed at this conference, such as the shift of emphasis from unemployment rate to employment

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rate. This is due to the employment strategy adopted in the late 1990s. At this point in time policy-makers started to focus more on the employment rate and less on the unemployment rate.

With regard to policy measures, there was also a certain paradigm shift, as addressed by John Martin. Originally, people talked of active labour market policy, individual service, activation and lifelong learning. Nowadays, we are talking of life cycle approach and flexicurity. Those are elements that already existed at national policy levels, but which have now become mainstream policies owing to EU-level intervention.

### 3.3 General Discussion

The **facilitator, Waltraud Langer, Austria's public-service broadcaster ORF**, opens the discussion and invites the audience to ask questions.

**Josef Bauernberger, Federal Ministry of Social Security, Generations and Consumer Protection, A**, has three questions for Christopher Pissarides, who said in his paper that growth was not due to job creation but that growth might lead to job creation. His question now is which are the forces that may result in economic growth. In addition, he wants to know who is supposed to finance the new jobs in the education or health sectors, etc. Should funding be provided by the state budget or by local or regional budgets. Josef Bauernberger believes that this would contradict the Maastricht criteria that call for a balanced budget at all levels of administration.

His third question refers to the proposal of creating more low-income jobs. The problem here is that a working life spent in low-income jobs will be followed by retirement on minimum pensions, which concerns women in particular. How can one bring this in agreement with the Lisbon Strategy of fighting poverty and providing an appropriate retirement income for all? In Mr. Bauernberger's eyes the Lisbon process suffers from this contradiction between economic and social targets.

**Christopher Pissarides, London School of Economics (LSE), UK**, wants to answer this quickly with the question, where growth comes from. Growth in Europe, Prof. Pissarides thinks, is more likely to come from entrepreneurial initiative and from companies that are in a position to adapt quickly to new technologies, new trade patterns and new market structures. He does not believe that growth in Europe will come primarily from the field of research and development. He believes that R&D is somewhat overvalued in the Lisbon strategy. R&D is important because it brings new technology but in the majority of Europe one is still learning from others and one still needs to implement known techniques to prosper. Europe is still lagging somewhat behind the USA in this respect. And catching up in the field of the knowledge economy will certainly be a driver for economic growth, Prof. Pissarides thinks.

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Regarding additional job creation, Prof. Pissarides explains, there is a large potential in the education and training sector and in healthcare. He believes that jobs in these sectors can – and probably will – be created through the private sector. He does not think one needs a large budget requirement from central government. An economy that creates high-productivity jobs automatically creates demand for services that can be provided by less-well qualified people. Prof. Pissarides has mentioned the example of the personal trainer in the United States. These are the sports trainers who come to a home or work at a gym and exercise with you. They are not very highly qualified yet they are paid large hourly fees. How can people afford this? Well, because after the boom in Silicon Valley and in finance, they happen to earn high wages. A small high-wage sector can support many other service jobs. Of course, in Europe, many of these services are currently provided by the state, e.g., in healthcare, but as society becomes wealthier there will be additional demands for services from the private sector, Prof. Pissarides explains.

And regarding the topic of the link between low wages and pensions provision, he agrees on this. There must be a transfer of benefit towards low-wage workers, for example, through zero-rate taxes or through zero-rate social security contributions.

**Gerhard Huemer, European Association of Craft, Small and Medium-Sized Enterprises UEAPME**, refers to Objective 4 of the last but one programming period [of the European Social Fund] aimed at keeping employed people employable. This issue is missing from the last programming period and also from the current policy debate. He asks the experts whether they believe that it suffices to work with lifelong learning and similar concepts. Or shouldn't the social partners and governments rather get together and think about creating fewer problems for public employment services by creating fewer workers threatened by economic change?

**John Martin, Organisation for Economic Cooperation and Development (OECD)** begins his statement, saying that if there is a term which upsets him, it is "lifelong learning". He says that it sounds so nice and friendly that nobody can be

against it. But he sees the problem that one simply does not know how to ensure that everyone has access to lifelong learning. Employers are very inventive when it comes to deciding who should enjoy the benefits of training investment.

John Martin thinks that this is a perfect example of what he has called the "Matthew Principle". According to the well-known quote from St. Matthew's Gospel: "To them that hath shall be given". Investing in those workers who already have high educational attainment and skills is the preferred choice for most employers compared with investing in employees with relatively low qualifications. And the trick, which John Martin is afraid that no one has discovered yet, would be to ensure that the training investments are distributed more evenly across the workforce and that these investments in training and advanced training are not only limited to the first 10-20 years of their career. Once one is over 40, no employer in Europe is actually very motivated to invest much in their future by way of further training. If lifelong learning is to be really successful, significantly more must be invested during this period of time in the middle of working life. If older workers are to remain in working life for longer, they need such further training and that is certainly a key challenge for all OECD countries for the next 15-20 years.

John Martin sums up that it is not sufficient to repeat this mantra about lifelong learning again and again. Instead he thinks that we must ask ourselves how we can implement it effectively and what role employers and the social partners can play in achieving this.

**Tony Killeen** admits that he also is not entirely happy with lifelong learning as a concept. Often, one knows in advance that there are problems in a particular industry, or in a company and that there is a threat of unemployment. Even if one says that 5percent un-employment is acceptable, as in Ireland and Austria, there are still regions or industries where entire industrial sectors are at risk. In the northern part of Ireland, it is the textile industry, where 4.000 people will soon be unemployed. The challenge here is to provide these people with appropriate skills and increased qualifications, so that they can find employment in other industries. Tony Killeen points out that, after all, social

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security benefits only last for about 15 months. In fact this can actually act as a hindrance for people who would like to improve their skills. While they are in receipt social security benefits, they tend to remain outside the cycle of employment, and training and re-entry becomes more difficult. It is a fact that if one knows that there are problems in particular industries, that there are problems in companies, then it is obvious that one is dealing with people who are employable and who are proving this on a daily basis. Addressing this problem does not appear impossible to him. This is data, this is information that is already available. One needs to take action as early as possible when problems of possible closure emerge. Everywhere in Ireland, Tony Killeen says, where the administration has intervened, considerable success was made, even with people at his or John Martins age, people who were industrial workers for all of their working life, and yet went on to become entrepreneurs, for example, in the service sector. A 5 percent unemployment may be acceptable - yes, that is somewhat problematic, however, different circumstances exist in individual regions of countries.

Finally on this point, with regard to retraining or increasing the skills and qualifications of people in such a situation, Tony Killeen believes that these people are extremely motivated, because they know that their jobs are at risk.

**Gabor Keppen, Trade Union, H**, asks with reference to the Services Directive whether it would not be expedient to first harmonise labour legislation and ensure workplace security and discuss the Services Directive after that.

**Peter Auer, International Labour Organisation (ILO)**, refers to the statement that there is a substantial employment gap between the United States and Europe, especially in retail and wholesale trade. His question is why there are not more employees in these sectors. Is it because wages are too high or because they are too low? Are vacancies in these sectors not filled because pay is too low? If so, is there a need for support in the form of combined wages or other forms of wage subsidies? Or is there a need for longer shop opening hours, greater working time flexibility and the like?

Peter Auer has second thoughts and believes that one could also think about alternatives. He asks the expert panellists whether they are convinced that there is real labour demand in these sectors, that there actually are unfilled vacancies? He believes that there might be other reasons, which in his eyes are much better suited to explain why this gap exists: Americans are better consumers. Apparently, they have virtually unlimited access to credits, they incur debts, consume like hell. Germany, at least, is different. In fact, all of Europe is different, which may also be due to the finance system in general. This is not only a matter of labour markets, although they may be one of many reasons, but also a matter of lending markets, of financial services, of access to money and management of money. All this requires further analysis. There is a lack of demand for products. Probably, one has to stimulate demand to achieve a better employment outcome provided Europeans really want a US-type situation.

**Lena Westerlund, Swedish Trade Union Confederation (LO), SE**, was slightly confused in view of the statements regarding women in this area. It was said that there are tasks for which women are better suited, and that this opens up new opportunities for women. She believes that the issue is about that there is a reserve of workers existing in Europe, consisting of men and women, and that one needs to look at them rationally and create incentives for women in order to attract them to working life. Women are already increasingly willing to enter the labour market and to a larger extent choose not to have children if they are faced with the choice between a job and children.

In light of the demographic challenge facing Europe, the social system must be adapted, so that women can have children and work. That implies creating parental insurance schemes and provide publicly subsidized high-quality childcare. Lena Westerlund thinks that these aspects are the most important concerning women and labour supply.

She also has a question that was not addressed here. John Martin said that one needs to consider the marginal effects in the entire social security system, i.e. the tax and the benefit systems. One point that was not addressed, but which is very interesting, is that in several countries in Europe there is

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joint taxation of married couples. Lena Westerlund wants to know if John Martin believes that a change in this area could improve the participation of women in the labour market. In Sweden, the taxation system was already reformed in the 1970's so that individual taxation of income was introduced.

**Minister Bartenstein** refers to the question raised by the representative of the Hungarian trade unions, who addressed the issue of job security. Nowadays people are talking of an individual's employability and capability to work rather than workplace security. Nobody can guarantee full workplace security. However, one can offer each person the opportunity to improve employability. This, Minister Bartenstein thinks, should be the new approach for European policy-makers. Regarding the harmonisation of labour law he is doubtful whether Member States actually want this.

**Antonis Kastrissianakis, European Commission**, agrees to what Minister Bartenstein said about the Services Directive.

With respect to the harmonisation of labour legislation he states that the EU has no responsibility here. It can only guarantee the same starting conditions with respect to job security and with respect to the mobility of workers in Europe. There is a Framework Directive in this respect at European level and a number of directives on this.

Regarding the question of women and their employment, Antonis Kastrissianakis agrees that there is a need for more childcare facilities. The Commission has asked the Member States to assume obligations in this respect and announce quantifiable targets to ensure wider service delivery. This would foster women's employment but would also help with early intervention strategies targeted on children who, otherwise, would have certain deficits and poor labour market prospects.

He goes on to comment on what Professor Pissarides said, namely that a country like Austria with an unemployment rate of 5 percent would not need any active labour policies. He certainly cannot agree to such a statement. Denmark spends huge sums, i.e. 4 percent of its GDP on active labour market policies, and has one of the lowest unemployment rates in Europe. What has Denmark succeeded in doing? A very fast transfer

from unemployment to new employment. People in Denmark are only unemployed for a very short period of time. And this is, of course, associated with active labour market policies, activation programmes, but also with this country's flexicurity approach. Europe should emulate this example.

**Christopher Pissarides, London School of Economics (LSE), UK**, says what he meant by policy and long-term unemployment. There is no need to be concerned about short-term unemployment if one has a 4 or 5 percent rate, because it is normal in a modern labour market to have this rate, Prof. Pissarides says. However, long-term unemployment is the greater problem because the long-term unemployed lose their skills and become disenfranchised.

He also responds to another point. It is correct that the Americans spend more in the shops, but that could also be boosted in Europe with longer shop opening times, for example. This has taken place in Great Britain after shop opening times were liberalised. And many new jobs were created through this. One must first break down the barriers to economic activity and then worry about other forms of government help, Prof. Pissarides points out.

With respect to employment for women, Prof. Pissarides meant that there are jobs that women could take on. However, childcare facilities are not the miracle weapon. An example from Italy: Italy has very low employment levels for women, and yet one of the lowest birth rates in Europe. The reason that they have no children and do not work is not the absence of childcare facilities. A Survey done a couple of years ago, Prof. Pissarides thinks by the De Benedetti Foundation, in order to find out whether more Italian women would work if there were more child-care facilities. The response was mainly negative – the extended family, mainly the grand mothers were preferred for looking after children. A second comment on childcare: If one asks which country in the OECD has the most childcare facilities, the answer will be that it is the USA. Yet, there are no government-run childcare facilities. The private sector can create good childcare facilities if it is not impeded by policy. In Britain the Treasury is prepared to pay for childcare facilities but only in poor targeted areas,



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otherwise the facilities become subsidies for rich middle class parents, on which a government may not want to spend money.

**Tony Killeen, Minister of State for Labour Affairs, IRL**, would also like to say something about the Services Directive. Opinions are, of course, very divided. Ireland has set significant liberalisation measures which have already proven themselves. It is true we were also not always successful in removing barriers and harmonising labour legislation. This Directive may be a starting point; however, I accept that having the same system in all European countries is certainly going to be very difficult. However, a strengthening of labour legislation is one way forward but of course, the question of resources is a central issue. In Ireland we made changes in the taxation system - some years ago. And these measures were highly controversial. These changes needed to be made, but we do not yet know their full effects on women working. Several measures came into effect around the same time. However, I can not yet report fully on their impact:

**John Martin, Organisation for Economic Co-operation and Development (OECD)**, adds two more comments to the discussion. Firstly, he reports on an observation concerning Peter Auer's comment about the differences in consumer behaviour accounting for the difference in retail employment between the U.S. and Europe. Some of the main factors which account for the difference in employment and productivity in retail and wholesale between the USA and Europe are well known. Wal-Mart is a large part of the answer. The McKinsey institute showed that one of the main reasons for the differing productivity and employment in this sector is Wal-Mart. That is an American innovation. Why has it not happened in many countries in Europe?

John Martin thinks that it has nothing to do with the spending mentality of U.S. consumers, as suggested by Peter Auer. Rather, it is due mainly to the regulations restricting the setting up of larger, spacious supermarkets in European countries. This is the case in France, for example, where there is legislation preventing the opening of large-scale retail outlets in cities and towns. There are many limitations concerning opening times and the dis-

counting of prices. All of this is aimed at protecting the so-called small shopkeeper and that is why one must first look more closely at several of the obstacles in the current market, before dealing with other issues.

Regarding the matter of joint taxation of married couples versus individual taxation and its effect on employment for women, that is a very relevant question. However, there are major differences across countries in this area. In some countries, it is possible to decide in favour of individual taxation. There are other countries where they are more likely to opt for joint taxation. And that raises many questions, not only in respect of availability of workers, but also with respect to gender equality and the distribution of economic power and resources within a household.

After all, the question of whether there is growth in household income is also connected with who works how much in a family and how much they earn and that is a very complex question, as Minister Killeen has already said. When this issue of joint vs. individual taxation was concretely addressed in Ireland several years ago, there was a great outcry regarding the suggested changes. The issues being addressed are not only of an economic nature, but they go far beyond that. However, it is possible to design a system that, at least in theory, maximises the incentive for women or men who live in a household with an existing wage earner to work themselves. But whether this would work in all circumstances is a highly complex question and John Martin doubts, at least, that one could really find a consistent vote for it across all countries.



# WORKSHOPS

## 4.1 Workshop I: Successful management models of public employment services (PES)

### 4.1.1 Doris Landauer, Federal Ministry of Economics and Labour, A

I would like to welcome you very cordially to Workshop I of this conference entitled “successful management models of public employment services”. My name is Doris Landauer, I work for the Federal Ministry of Economics and Labour and have been involved in labour market policy and public employment services for 30 years.

At today’s workshop we are going to hear about three examples of successful management models. The workshop is intended to provide ideas, news and tell us about the kind of framework needed to successfully implement solutions. I also invite you to raise questions after the presentations.

Public employment services basically always focus on one key issue: place workers in jobs and find jobs for these workers. Matching job-seekers and vacancies is the only objective. The resources used for this purpose are similar all over the world, as far as I know. Public employment services focus on information, counselling, placement and in some organisations also on supporting such placement by appropriate measures. Service delivery should of course be highly efficient and cost-effective to be considered successful.

At the beginning you will hear about the employment service (Arbeitsmarktservice) in Austria - the host country. The Chairman of its Board, Mr. Herbert Buchinger, will give you a brief overview of the Austrian solution. Ms. Alison Durbin will inform us about the kind of model chosen for Australia. By the way, in the 1970s and 1980s, we in Austria copied the Australian type of career information centres and implemented them in Austria. The third speaker will be Mr. Pedersen from Denmark. He will primarily talk about the

flexicurity model used in Denmark.

I will then ask you to participate in the discussion and also second-guess the framework that is necessary for these solutions to work properly.



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## 4.1.2 Herbert Buchinger, Austrian public employment service (AMS), A

Good morning, Ladies and Gentlemen. My name is Herbert Buchinger. I am the one who is called “Director General” at international levels, i.e. Director General of Austria’s public employment service. I have been at the helm of this organisation since 1994. I am thus one of the longest serving director generals of public employment services in the European Union. I tell you this because in all those years, during which I have entertained friendly relations with my counterparts in other European countries, I have learned that questions of organisation in the narrower sense are basically of secondary importance and have no decisive influence on the performance of a public employment service. Let me illustrate this with an anecdote. It was in late 1995, I had been hardly more than a year in my position, when the Director General of the French public employment service, Michel Bernard, visited us for an exchange of views. We talked about our experiences, about how we had organised counselling for our corporate clients, and Michel told me that they had just completed a major organisation reform. Up until then they had had separate services for job-seekers and for employers, now they had combined these two services and this worked well. The combined system had been in place for two years, and he was able to prove its success with a number of indicators, whereupon I started to laugh, because in the past five years we had done the opposite, i.e. we had separated a formerly combined service delivery. And we, too, had fared well. I showed him the indicators with which we had measured our success. So the most important thing is not to have the best organisation or management model but to check it regularly and apply changes to release creative potential.

So don’t ask me about the best kind of model. It probably does not exist. In my capacity as Director General of a public employment service I had the opportunity to learn about the most different forms of organisation and their associated success rates in Europe, unfortunately mostly in Europe and hardly ever overseas.

So organisation is not the most important aspect, but still there are a number of factors I might identify from my experience with public employment services which are conducive to successful work for the labour market. One of the key factors appears to be how public employment services succeed in overcoming resignation among their employees and job-seeking clients in periods of high unemployment. This is only possible through orientation towards the dynamics of labour markets. I will leave it at that and return to this item later.

Another major success factor appears to be how public employment services succeed in bidding farewell to the old monopoly attitude towards job broking and go over to networking with other actors and service providers on the labour market. And the third decisive factor, in my eyes, is to what extent politics give public employment services the kind of leeway needed for proper management. Public employment services need room for manoeuvre to focus on their objectives, at least in the medium term. In the long term, it will not be possible, I am afraid, but in the medium term it is well possible to set targets, create stable priorities and thus introduce proper controlling mechanisms to fine-tune measures to client needs and aspirations, but also to caseworkers’ needs and aspirations. This is where public employment services should be able to act independently of politics. Many public employment services, and Austria’s is no exception, frequently claim that one success factor is how much the social partners can be involved in labour market policy design and implementation. This need not be wrong per se, but there is something else behind this request, at least in Austria. Involving the social partners is successful - and the picture might be quite different in another country -, because the social partners also help give the Austrian public employment service some leeway vis-à-vis politics to ensure medium-term target setting and orientation.

As I already mentioned, one of the most important success factors is to overcome resignation. We did so by focusing our organisation, our employees and increasingly also our clientele on labour market dynamics.

In simplified terms, this works as follows: if we are fixated on the bottom line of labour market de-

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velopment, we will not have much room for manoeuvre. A caseworker who arrives in the morning, starts the computer and sees that s/he has nine job-seekers for one vacancy will hardly be able to do much.

However, if you take a more differentiated view and bear in mind what happens within the unemployment register, i.e. if you have a look not only at the stock of unemployed at any given point in time but at the dynamics, you will see the inflows and outflows within certain periods of time, such as, let us say, within one year or one month. This will change our picture. All of a sudden, our caseworker will see 2.5 inflows into unemployment versus one new vacancy notified. This is a much better ratio than the 9:1 mentioned above. And if, in addition, I bear in mind that the public employment service has no monopoly on placement any more, i.e. that only some 28 percent, or roughly one fourth, of available job openings are notified to the employment service during any given year - no more and no less - and if I project this percentage of notification onto the entire labour market dynamics, I will arrive at the conclusion that there is a very balanced situation on our labour market regarding its dynamics or the number of terminated and newly established employment relationships. This in turn will provide entirely other points of departure for intervention and for securing individual job-seekers' chances than the ones presented by any current stock of unemployed people. In reality most countries have a rather balanced labour market, although there is a certain oversupply of labour.

In Austria, labour market dynamics are such that in the course of any given year some 3.6 million people work in employment relationships. This provides an average workforce of 3.3 million people, while every year some 1.5 million insurable employment relationships are terminated and newly established. This figure only includes properly insurable employment relationships and not marginal part-time jobs or self-employment.

And this is what we are confronted with, what is reflected in the public debate. In around 500,000 cases workers become unemployed, whereas 1 million times the termination and re-establishment of employment relationships will

work without any episode of unemployment coming in between.

We have drawn very specific strategic conclusions from our observations and our concentration on labour market dynamics. The first consequence was a clear prioritisation of the use of labour market tools. People's own initiative takes priority over placement, over activation, over recruitment subsidies (i.e. wage subsidies for the take-up of work), over training subsidies and over subsidies to project-based job schemes (i.e. the employment service trying to create jobs). Benefit receipt is the very last item on this list of priorities.

Second, this focus on labour market dynamics also results in a fundamentally sceptical attitude towards so-called structural improvement policies: skills training "on stock", or labour market policy designed to replace action in other policy fields. This does not mean that Austria's public employment service is inactive in this area. However, we only become active if commissioned to do so by the government, and if the government assumes full responsibility for the efficiency and effectiveness of these measures. They will not come within the remit of our management responsibilities.

In organisational terms, we have adjusted our work to labour market dynamics in a way I will now describe. Work in our offices is subdivided into two business units: there is the "service for employers" on the one hand, which will use active outreach to canvass for vacancies and find suitable workers for employers. On the other hand, there is our "service for job-seekers" where our officers try to find suitable vacancies for job-seekers. Our service for job-seekers, which in quantitative terms is the larger unit, has three zones that respond to the specific needs of different clients:

There is the information zone for our "chance clients", as we tend to call them. It provides vocational information, administrative support and helps deal with requests in a one-stop-shop environment, i.e. people may collect some brochure, obtain information, etc. - without being registered as a client. Then there is the service zone for registered job-seekers, which focuses on jobs and money, on encouraging people to take the initiative, on simple placement and benefit claims processing. And finally there is the counselling zone,



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which provides intensive placement support, intensive assistance and intervention.

Well, how does Austria's public employment service fare after ten years of organisation development? We have introduced a quality management system. It is a well-matched system of management methods modelled after the standards of the European Foundation for Quality Management (EFQM). We regularly participate in the Austrian and thus also the European quality competition. Under the EFQM's points-based assessment system, we are currently given 400-450 of 1,000 possible points. Just to give you an idea what this means: Europe's best organisations reach 700-800 points. So there is still some gap to be narrowed. We also measure our business results, our clients' and employees' satisfaction. We have controlling systems to ensure that the results measured generate appropriate measures, and that the measures taken are controlled for their success. This means that we have largely closed all loops and can control the use of our resources depending on the measurement outcomes.

We participate in benchmarking with other public employment services. The last such benchmarking project within the European Union involved six employment services, which compared their performance with the help of twelve indicators. Austria's employment service led in seven out of twelve indicators and ranked second in two other indicators. These indicators measure performance, such as a public employment services' share in the job market, the proportion of unemployed finding a job, speed of job take-up and speed of placement. But also other factors are assessed, such as corporate clients' and job-seekers' satisfaction with the employment service.

Regarding our business results, I may say that for many years Austria's public employment service has largely attained (i.e. almost a 100 percent of) the targets agreed with its owner, the Austrian government. It is thus a kind of success story, an example for the successful development of a public employment service, and we are looking forward to reports from other countries. I am particularly happy that we will also hear news from overseas, from Australia. We are quite abreast of developments taking place in the organisations

of our European partners. Australia is a bit farther away. However, we know that Australia introduced a number of interesting reforms some years ago, and we are highly interested in how they fare with a public employment service that no longer provides any services itself but limits itself to controlling labour market policies.

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## 4.1.3 Discussion

**Ms. Koutourussi, Ministry of Labour and Social Affairs, CY**, wants to know more about the role of the social partners in the work of Austria's employment service.

**Herbert Buchinger, Austrian public employment service (AMS)**, replies that the social partners, which represent the interests of employers and employees, play a key role within the employment service. Their involvement extends across all levels of the three-tiered organisation. At central government level there is, as in many other countries, a tripartite administrative board composed of one third government representatives, one third employers' representatives and one third workers' representatives.

At regional level, which in Austria would be the federal provinces, there is another such joint body for each province composed of the provincial employment service manager and his/her deputy, two employers' representatives and two workers' representatives. At local levels, i.e. at the level of individual employment offices, the service has an advisory board that also has decision-making powers and is composed of the local office manager, his/her deputy and again two employers' representatives and two workers' representatives.

In addition, Herbert Buchinger explains that the employment service also relies on the services of external business consultants who assist in organisation development. These external consultants often wonder how an organisation with more than 500 owner representatives and 4,500 employees can actually work. But, surprisingly, it does work, Mr. Buchinger concludes.

**John Martin, Organisation for Economic Cooperation and Development (OECD)**, also has a question for Herbert Buchinger. What is the relationship between private and public employment agencies in Austria? One could have gained the impression from Buchingers presentation that the public employment service has an almost exclusive monopoly over the employment services market in Austria. However, it would surprise John Martin if this is really the case, and he wants to know what Buchingers position is on this. Is there cooperation or competition between the public

and private sectors in the employment services market in Austria and, if there is, has that improved the efficiency of the public employment services or not?

**Herbert Buchinger, Austrian public employment service (AMS)**, replies that in Austria's private sector one has to distinguish between private employment agencies and temporary work agencies. Six temporary work agencies are among the public employment service's largest corporate clients. In quantitative terms, they are even the employment service's major strategic partners for the job market. There are also a number of private employment agencies, but they do not play a significant role in the Austrian labour market. Nevertheless, the public employment service also cooperates with them occasionally. Any employer and any agent of an employer, i.e. placement service or temporary work agency, have access to the public employment service's information system. They may not only enter vacancies and get workers from the public employment service for further screening, but they may also get in touch with apparently suitable job-seekers directly. The only condition is that they provide a concrete job description to the public employment service for being given access to pre-selected data records of suitable job-seekers. This is the only condition to prevent such agencies from simply retrieving addresses and poaching business.

**Nada Kerovec, Croatian public employment service**, wants to know whether the Austrian employment service does some outsourcing and mentions the example of the IT sector.

**Herbert Buchinger, Austrian public employment service (AMS)**, explains that, as far as he knows, Austria's public employment service has one of the highest outsourcing ratios.

The entire IT network is operated by a third party and not by the employment service. Moreover, the employment service has never run any training establishments of its own, except those for in-house training of its own staff. So skills training and upskilling of job-seekers is outsourced and bought from existing non-profit but increasingly also for-profit providers in the training market.

In addition, a great many specialised counselling services for groups with special needs are



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bought on the market. This refers to the long-term unemployed, special assistance for women who opt for non-traditional careers, such as crafts and technology, or social counselling for special groups.

Placement and counselling are provided by the public employment service, but only in terms of standard services. Any special services are outsourced to private providers.

## **4.1.4 Alison Durbin, Department of Employment and Workplace Relations, AUS – "Creating and managing an employment services market - the Australian experience"**

### **Introduction**

Significant changes in employment and industrial relations policies, during a sustained period of strong economic growth, have allowed Australia to achieve substantial gains in employment over the last decade.

In December 2005, the employment rate for the working age population was at its highest level on record (72.5 per cent). Furthermore, the working age participation rate also reached a record high (76.4 per cent).

Australia has focused on increasing participation in the workforce: a 'work first' policy approach to welfare aims to give everyone who has the capacity to work, including part-time, the opportunity to do so. Improving job seekers' access to employment services and employment, through the creation and management of a strong employment services market, is part of that approach.

### **Background Growth in employment**

The unemployment rate at 5.1 percent in December 2005, in seasonally adjusted terms, was close to 30-year lows. Employment growth over the last twelve months has been particularly solid, increasing by 211,000 or 2.1 percent, to 10,033,000 million workers employed in December 2005, its second highest level on record.

The employment rate for persons aged 15 to 64 years (relative to working age population) has increased from 68.6 percent in December 1990 to 72.5 percent in December 2005. The rise has not been consistent, however, with a fall during and after the recession of the early 1990s followed by a recovery and resurgence from the mid-1990s onwards.

Australia's participation rate for persons aged 15 to 64 years increased from 74.5 percent in December 1990 to 76.4 percent in December 2005, its highest level on record. Although Australia's



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participation rate in 2003 (the latest internationally comparable data available) for working age persons aged 15 to 64 (73.6 percent) stood above the OECD average, it was considerably lower than that of other countries with similar labour market characteristics, such as the United States (75.8 percent), the United Kingdom (76.6 percent), New Zealand (76.1 percent) and Canada (78.1 percent).

## Policy Responses

Apart from macroeconomic policy changes aimed at reducing cyclical volatility in labour demand, a three-pronged policy response has increased employment over the past decade: a more effective and efficient employment service; reducing reliance on income support (welfare to work policies); and promoting labour market flexibility. This paper focuses on the first of these: the creation and management of an employment services market in Australia.

## Creating the employment services market

Until 1998 a Government agency, the Commonwealth Employment Service (CES), provided Australia's public employment services, consisting of job brokerage services supplemented by various labour market programmes. In 1998, the Government began to shift from provider to purchaser of employment services, dismantling the CES and diverting funds from the labour market programmes to create Job Network - an out-sourced public employment service.

Centrelink, established in 1997 as a first-stop shop, incorporating the income support facilities of the Department of Social Security and the job seeker registration, assessment and referral functions of the CES, became the gateway for job seekers to access Job Network.

A Government-owned employment agency, Employment National, was also established. It competed for business on the same basis as other potential providers. It successfully won a large share of business when Job Network was first put to tender in 1997. However, its market share was reduced in 2000 and Employment National was

wound up in June 2003 with all employment services subsequently being delivered by non-Commonwealth Government organisations.

The service delivery model, and creation of an employment services market, therefore evolved over a relatively short period. It continues to evolve as improvements are introduced in response to performance monitoring and formal evaluations.

Three internal evaluations highlighted the need for a more flexible model which allowed for a continuum of servicing and kept the job seeker engaged and active under Job Network. Two external evaluations, by the OECD and the Australian Productivity Commission, supported these findings and were used to refine the third contract.

## Evolution of the market

Job Network 1 was implemented in May 1998. Until February 2000 it provided a national network of 310 community, private and government organisations, at 1479 sites across Australia, contracted by the Government to assist unemployed people, particularly the long-term unemployed, to find jobs. Centrelink provided the gateway for job seekers to access Job Network.

Under Job Network 1, contracted providers delivered employment services through:

- Job Matching - labour exchange services provided on a fee-for-outcome basis;
- Job Search Training - practical help to improve a job seeker's chances of getting a job, based on an agreed job search skills plan. Signing the plan, and achieving a Job Matching outcome, both attracted payment; and
- Intensive Assistance - individually tailored assistance to enable long-term unemployed or disadvantaged job seekers to become job-ready. Two-thirds of the potential fee for each job seeker was dependent on placement and retention in unsubsidised employment.

The implementation of Job Network 1 achieved considerable progress towards developing a competitive market for employment services. A key objective of future contract rounds was to lift the performance of the market by retaining good performers from the first contract and supplementing



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those with new market entrants that had the potential to perform well as employment services providers.

Almost 200 Job Network organisations were contracted to deliver services from 2,010 sites under Job Network 2 (February 2000 to June 2003). While the services provided under Job Network 1 continued under Job Network 2, significant changes were made to improve Job Network services. These included:

- ‘Star ratings’, a weighted measure of provider performance relative to other Job Network providers, were introduced to lift performance;
- the geographic coverage of Job Network was improved;
- Job Network members were given greater flexibility in the way they operated; and
- Intensive Assistance providers were allowed to bid to specialise (deliver service to specific client groups only).

Job Network 3 implemented a new service model for employment services - the Active Participation Model (APM). Job Network 3 runs from July 2003 to June 2006.

A network of 108 Job Network members and 400 licensed Job Placement Organisations now deliver Job Network, Job Placement and other related employment services to job seekers in over 2,700 sites across Australia. The model ensures that job seekers are actively engaged in job search from the onset of unemployment and that they understand what assistance they can expect to receive from their Job Network member.

A fixed price fee structure provides greater incentives to providers to help more disadvantaged clients, while at the same time reducing the risk of the investment decision on expenditure for the ‘hardest-to-place’ job seekers. This includes a service fee (for ongoing support and contact with job seekers), job placement fees and Intensive Support outcome fees. Outcome fees apply from when the client begins to receive Intensive Support after three months of unemployment, and increase with the duration of unemployment and level of disadvantage.

The APM simplifies access for job seekers and streamlines delivery of employment services. Centrelink, the gateway to Job Network services, continues to determine eligibility for income support

and uses the Job Seeker Classification Instrument (JSCI) to refer job seekers to appropriate services, including for example, to literacy and numeracy programmes, or disability services.

On referral to Job Network from Centrelink, job seekers enter a continuum of assistance under Job Search Support arrangements: a single Job Network provider supports the job seeker, and must maintain regular contact with them, throughout their period of unemployment. The fee structure reflects the regular contacts. The point at which the job seeker enters the continuum is determined by an assessment of their potential to become long term unemployed. The JSCI identifies job seekers who are highly disadvantaged and takes into account factors such as recency of employment, language and literacy skills, educational attainment, stability of residence and disability. Highly disadvantaged job seekers move immediately into customised assistance.

When a job seeker first attends a Job Network member, they receive job search advice and an online resume under Job Search Support. The details in the resume are matched to jobs in a jobs data base, called Australian Job Search. Job seekers can be notified of these matches through email, SMS or an interactive IVR.

Job seekers who are not highly disadvantaged, but unemployed for more than three months, receive Intensive Support: continuous and individually tailored employment assistance that is of graduated intensity and usually begins with job search training.

Intensive Support ensures the best use of all available resources by allowing Job Network members to draw on locally available complementary programmes. Job seekers meet regularly with their Job Network provider to monitor their job search progress.

Eligible job seekers are also required to participate in Mutual Obligation activities for six out of every twelve months on income support. This includes participation in Work for the Dole and other community work. Where possible, projects are aligned with the work experience needs of the job seeker.

After twelve months (and again after 24 months) job seekers engage in Intensive Support customised assistance. For a six month period, job seekers work one-on-one with their Job Network provider to address their individual barriers to employment and

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tailor their job search efforts. Intervention is tightly targeted with fortnightly meetings and work preparation activities such as vocational training, subsidised employment, career counselling, or language, literacy and numeracy training.

The Job Seeker Account, a critical element of the APM, provides a quarantined pool of funds that can be used to help the job seeker secure ongoing employment. It is designed to help job seekers overcome their barriers to employment through addressing their individual needs. Service providers may use the funds towards a wide range of interventions, for example, work related training or licensing, clothing and equipment, transport and fares, professional services and employer incentives.

## Job Network Performance

The effectiveness and efficiency of Job Network has improved over the three contract periods.

The performance of Job Network is closely monitored and a range of strategies ensure continuous improvements in outcome levels. These strategies include:

- Paying for outcomes - payments to Job Network members are heavily weighted to payments for the successful placement and retention of job seekers into jobs. 60percent of Job Network members' revenue is paid for outcomes.
- Star Ratings - a relative measure that rates providers from one to five stars based on their performance against key indicators. This material is published and identifies the best - and worst - providers, based on outcomes achieved for jobseekers.
- Contract Management Framework - ensures a consistent approach to service delivery and contractual compliance.
- Capacity to adjust business levels during the contract - every six months, a formal assessment of each provider's performance is undertaken, with business being reallocated from poorer performing organisations to high performers.
- Contract extensions based on performance - for the last two contract periods, high performing Job Network members have been offered a contract extension based on their per-

formance. Those operating at a published level (generally around three stars) do not need to retender for existing business.

One measure of improved performance is the increase in the number of paid outcomes under Intensive Assistance (which targeted the most disadvantaged). Over time, outcomes from Intensive Assistance have risen, with a marked increase following the introduction of Star Ratings. Our data shows that improvements in outcomes are driven by programme operational factors rather than changing economic conditions, as the changes occur too quickly to relate to changing economic conditions.

Another measure of improved performance for the most disadvantaged is the increase in job placements going to long-term (unemployed more than one year) jobseekers. In 1996 about 16 percent of placements went to this group. In 2004 it had risen to 27 percent, and had risen further, to 42 percent, in 2005.

Data on net impacts (the effect that the job network intervention had) for Intensive Assistance is only currently available for Job Network 1 and 2. The data shows that net impacts improved over time, from 2.2 percentage points in April 2001 to 4.0 percentage points in November 2002. Also, there is evidence that the net impacts were better than average for the more disadvantaged groups. For example, compared to an average of 4.0 percentage points, jobseekers with disabilities had a net impact from Job Network assistance of 8.1 percentage points and indigenous jobseekers a net impact of 5.6 percentage points.

Cost per employment outcome provides a measure of programme efficiency over time. It is calculated as the total cost of labour market programmes divided by the total number of outcomes associated with those labour market programmes.

After peaking in 1995-96 at around \$16,000, the cost per employment outcome has fallen to around \$3,500 currently. The introduction of the Job Network saw the cost per employment outcome fall to between \$4,000 and \$6,000, while a further drop was seen with the introduction of the Active Participation Model. This strong performance is both the result of substantially higher outcome levels and lower unit costs.



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## Conclusion

Job Network is well positioned to respond to future policy challenges. In May 2005, the Government announced further measures to increase the workforce participation of people with disabilities, parents, the very long-term unemployed, and mature-age people on income support.

The new measures that come into effect in July 2006 include a combination of changes to income support arrangements, participation requirements and improved employment services.

Parents, mature aged job seekers, people with disabilities and very long term unemployed people will have access to improved services within Job Network.

There will be a new service called "Employment Preparation" within Job Network to provide tailored services to eligible parents, carers and mature age job seekers. The services may include a combination of basic skills, short vocational training courses and help with raising self esteem. People with no recent workforce experience will receive assistance under Employment Preparation service as soon as they start participating at Job Network, while other job seekers can access this service after they have been in Job Network for three months without finding a job.

Very long term job seekers making a genuine effort to find work may be eligible for a new wage subsidy option called Wage Assist, which will be available through Job Network. There will also be full time Work for the Dole activities for people who have not made a sufficiently genuine effort to seek work.

These changes will continue to build the success of Job Network and its role in helping to lift workforce participation and getting highly disadvantaged job seekers into work, at a relatively modest cost.

## 4.1.5 Discussion

**Peter Grundner, *prove Unternehmensberatung, A***, is specialised in public tenders for social and employment services. He asks Alison Durbin whether the Australian government grants a regional monopoly for the suppliers of the Australian system, or whether these service providers have to compete against each other. How is it ensured that they also provide services in areas that are not interesting in economic terms? His second question relates to the number of people employed in contract management. And finally he wants to know whether, within the Australian system, it is the providers that develop innovations, or whether this is a task performed by the central government unit.

**Alison Durbin, *Department of Employment and Workplace Relations, AUS***, says that she will begin with the last question, regarding the innovations. These are the result of a joint effort. In Australia there are more than 100 organisations that offer services. There are organisations that follow different models. However, the performance is generally quite similar, whether the organisation is private or community, the results are comparable. So, the innovations arise to the extent that the providers attempt to improve their own service to obtain more stars. These programmes have existed in Australia for ten years; however, they are continuing to develop further. The providers and the department meet very frequently, exchange ideas and orientate themselves towards identifying good practice. However, more could be done regarding cooperation and exchange. The department is trying to promote this by financing best practice studies and offering financing for particular studies. And this information is then published. In doing so, the administration is trying to find out which model works best. There is, of course, not one single model that holds all the answers to what works best in all areas.

With regard to the number of people involved in contract management, the Department has a central office in the capital city, and around 19 regional offices throughout Australia. Australia is a huge continent and it would be unthinkable to have only one contract manager or one contract manager at each branch office. Australia has a continent-wide

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organisation that manages providers on a decentralised basis and a division of duties between the individual branch offices. There is one person responsible for the national organisation and the central office has contacts within the regional offices, which do the day-to-day work with the provider. All of this is done on the basis of very close communication. In total, there are around 500 people who are involved in contract management. They also look at programmes other than Job Network.

There have been cases where the standard Job Network model has not attracted the interest of tenders or where the department has chosen not to accept the bids it receives. Where this occurs, especially where Australia may have a large indigenous population, the services are customised as much as possible and may run separate tenders with alternative fees structures. With these arrangements in place, there is coverage right across Australia.

J, has three brief questions for Alison. First question: What happens with the long-term unemployed in this system? Those that cannot find work after 18 months. Do they remain with the same provider or are they allocated to a different one? Do they restart the entire cycle from the beginning?

Second question of John Martin, regarding the outcome payment: The OECD and Australia have conducted many discussions regarding the optimal payment mix. In the OECD's opinion, payment after an employment outcome of three or six months is perhaps not ideal - it might be better to pay for longer-lasting employment outcomes, say of one to two years or more. John Martin asks for Alison Durbin's view on this?

John Martin's final question concerns the guarantees for the volume of clients directed to individual providers. He thinks that there have been complaints that the volume of clients directed to job network providers was not as large as they had been led to expect because labour demand was so buoyant and this put the financial viability of many providers in doubt. Has this proved to be a real problem or not?

**Alison Durbin, Department of Employment and Workplace Relations, AUS,** refers to the first question about completing the entire cycle

and after the 2nd round of intensive support customised assistance, (under which the provider has contact with the job seeker every 14 days). If the job seeker has then still not found any work, then they continue to have contact with the provider every two months. They commit to carrying out community work for six months out of every twelve; however they continue to be supported financially through income support. The same provider can continue to support the job seeker through the Job Seeker Account and has strong financial and performance incentives to place them into employment.

Looking after these long-term unemployed with new measures announced in the 2005-2006 Budget - these include additional wage subsidy places and also additional compliance measures for those job seekers who have avoided work in the past.

With regard to the payment for longer-term unemployed, one must of course ensure that the incentives for providers are sufficient to promote sustainability; but it must also be considered how reasonable it is for a provider to continue working with a job seeker who has been in a job for longer than 26 weeks. After this point, most people remain in employment and there is a decreased return to the Government. Some employers also do not want to keep dealing with the provider.

The administration does not guarantee the providers a certain level of business or transactions. They are contracted on the basis of business share. If the provider has 20 percent of business share, they receive two job seekers out of every ten unemployed people in an area. The job seekers' choice has a strong role. The providers bear the risk around how many job seekers will actually get referred to them.

**Bernd Buchheit, Federal Ministry of Labour and Social Affairs, D,** has several questions. The first refers to the inflow of job seekers into Job Network through Centrelink. What are the criteria used by Centrelink to refer a job seeker to individual providers? Or may the job seeker choose the provider? What are the criteria for such referral? Bernd Buchheit assumes that not all job seekers in Australia find a new job via Job Network.





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What is Job Network's share in the overall job market? And how high is the share of job seekers who find a job without the help of Job Network? Another question concerns the Star Rating system. This kind of assessment might even threaten a provider's viability. Who performs this rating? Does the government use specialists, and what happens if a provider does not agree with the rating? May providers turn to some arbitration panel to have ratings reviewed?

**Alison Durbin, Department of Employment and Workplace Relations, AUS**, says that Centrelink decides whether a job seeker should be referred to Job Network. This is done on the basis of entitlement to social benefits. This is precisely structured, depending on the length of unemployment of the individual job seeker. People on disability, parenting allowance or other social benefits can also volunteer for assistance. The services that have been mentioned are not available to all unemployed, but rather, only to those that really need government assistance and receive this by way of state social benefits. There are, of course, also services that are offered for those who are not entitled to benefits; however that is a generally placement activity. Things, such as advisory services, training measures, possibility of gaining work experience are generally only available to people who are already recipients of social benefits or aged less than 20. However, all job seekers that fit into this criteria have access to all services at Job Network. It is demand-oriented. If someone becomes unemployed and is entitled to receive benefits, then he is allocated to Job Network. The provider they go to depends on their choice and the business share of the local providers.

It is therefore difficult to say how many unemployed find jobs without Job Network, as all unemployed that are entitled to receive social benefits are processed through Network. Therefore, those that are not entitled to benefits are not recorded by the system.

Then, regarding these Star Ratings. This assessment was devised in cooperation with several universities in Australia and the administration has had the entire system independently quality assured by a series of agencies. It is mostly

the case that 5-star organisations have no problem with their rating. And organisations that only receive one star, naturally often ask about the methodology. This also involves the entire regression analysis that Alison Durbin has already explained, the algorithm that is used here is very complex. And it is sometimes difficult for the organisations to understand how these ratings have been arrived at. The department tries to provide a lot of information, but there are of course often queries by organisations at particular locations that feel they have been treated differently from all others, so that the system does not apply to them. However, in the contract it is precisely specified what both sides need to do if a dispute arises.

**Bernd Marin, European Centre, A**, thinks that this has been a very interesting presentation and asks the question of how long successful job placement takes on average. How long does unemployment last on average? This is one of the most important performance indicators that has not been mentioned. In the European context, one knows that for instance Austria's public employment service is twice as fast as the German employment service and almost three times as fast as the French employment service. The duration of unemployment, or rather the period needed for successful placement, is a very important indicator, and Mr. Marin wonders why this indicator has not been included.

**Alison Durbin, Department of Employment and Workplace Relations, AUS** answers that for the performance indicators they measure the time between the time of referral to a provider and successful placement. That is one of the factors that flow into the Star Rating. The faster this placement takes place, the better. This is balanced by the outcome payment arrangements, where by the longer someone is unemployed, the more the provider will then receive for the placement. That is a complex mix as the star rating also have higher waitings for placing long term unemployed people. However, that is included and you can also read about it in my documentation.

**Trude Hausegger, Prospect business consultants, A**, wants to know from Alison Durbin



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whether the cost incurred per placement case also includes the cost for contract management.

**Alison Durbin, Department of Employment and Workplace Relations, AUS,** answers that this is not the case. They primarily pay if a provider places a job seeker in a job where they remain for 13/16 weeks. With these payments, the provider must also cover their administration costs, personnel costs and similar, i.e. we pay no administration costs to our providers. And that is why this result-oriented method of payment is also so important. There are some upfront service fees, but these are smaller in overall terms than the outcome payments.

**Peter Reiter, Tyrol Economic Chamber, A,** asks about suitability criteria and reasonableness. Is it possible for a job seeker to refuse a job offer without risking any sanctions? And if so, which?

**Alison Durbin, Department of Employment and Workplace Relations, AUS,** says that she has not yet addressed this in the presentation, namely, that the decision about whether a job seeker has fulfilled the stipulations of social benefit requirements is made by Centrelink, not the provider. Centrelink decides whether someone has complied with the law as a job seeker or not. This means then, that the job seeker and the provider work together. There is an agreement that precisely states what the job search must look like. If the job seeker does not comply with these stipulations, e.g. does not look for work or appear at job interviews, then the provider will send Centrelink a notification about this so-called breach. Then the job seeker will be contacted by Centrelink. They will ask what happened. If that is not successful or if no good reason is given for this breach, then Centrelink decides whether social benefits will be reduced or not. Regarding the applicability and reasonability, that is already defined in the legislation. In Australia, we say that a job is reasonable for example, as long as it does not involve illegal activities, must not involve nudity and is located within Australia.

**Marius Wilk, Austrian public employment service (AMS),** asks about the number of people working for Centrelink, and whether job seekers,

no matter which provider they are assigned to, have to commit themselves to actively seek a job after three months and do community work after six months, and whether it is correct that people who are not eligible for unemployment benefits will only be entitled to a comparatively small active job search programme.

**Alison Durbin, Department of Employment and Workplace Relations, AUS,** answers that Centrelink, as a one stop shop, i.e. as the first point of contact that then also provides referrals and then checks the compliance with stipulations, is relatively large. There are around 25,000 throughout Australia. However, it not only concerns itself with unemployed people but also with the pension system and benefits for families, etc. It is, therefore, a one stop shop for the social services of the government.

After three months, the person, who is already in the Job Network, is obligated to carry out a job search, training. For three weeks, the people must actually attend. It is a very concentrated, short-term programme, which shows that people can really be very strongly tied to these providers. It has also been understood correctly that after six months people are referred to a work for the dole programme if they are not actively participating in another activity. Those who are not entitled to unemployment benefits or other disability benefits, or similar really only receive access to a small portion of these services. However, also young people, under the age of 20, do not need to have entitlement. Young people that are unemployed have immediate access to the entire Job Network.



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## 4.1.6 Jesper Hartvig Pedersen, Arbejdsdirektoratet, DK "Flexicurity-System and the Public Employment Service"

### Traditions, experiences and challenges for the Danish model and Danish labour market and social policies

Denmark has had a development with a strong and continuous decline in unemployment and increased employment without problems with the balance of payments or inflation.

This is - in theory - often regarded as a contradiction. But in practical terms the concept of flexicurity works on the basis of a "golden triangle" (see illustration graph I):

- Flexible labour market: low employment protection, high job and worker mobility, rapid structural change
- Income security: unemployment benefits
- High degree of employment security in practice: active labour market policy, educational policy

### Flexicurity equals flexibility and security

Flexicurity has become the term used to describe, among other things, the special Danish mix of flexibility in the labour market combined with social security and an active labour market policy with rights and obligations for the unemployed. The actual word is a contraction of flexibility and security.

In a way, the Danish type of flexicurity works as a kind of unwritten "contract" - or historical compromise - between the state, the employers and the wage earners. Without the approval of all three parties, flexicurity does not work.

One part of the understanding consists of flexible rules for hiring and dismissal. Flexible rules make it easy for the employers to dismiss employees during periods of recession and to hire new employees when things are improving again.

The other part of the "contract" consists of security for the wage earners. This security consists of a guarantee that you get a legally specified pay-

ment regardless of your spouse's income, if you become unemployed with a specific maximum benefit. And a guarantee that you will be picked up by an effective labour market system that offers guidance, a job or an education.

Seen from the employers' view: they have a flexible labour force, and from the wage earners' view: they have a safety net, consisting of an unemployment benefit system and an active employment policy. And to a large extent, it is financed by the state!

In Denmark, approximately half a million wage earners or nearly one fifth of the workforce are struck by unemployment each year. The vast majority quickly finds a new job, while a small remaining group of people will be unemployed for a longer period of time.

### Long historical tradition - compromises and adjustments

The flexible Danish labour market is strongly rooted in history. The employers' right to freely hire and fire the employees dates all the way back to the September Settlement of 1899. The unemployment benefit system has also existed for almost one hundred years.

However, it should be mentioned that, as an opposing trend, the Danish Employers and Salaried Employees Act of 1938 resulted in legally specified terms of notice, among other things.

And by now, a number of collective labour agreements for workers have resulted in conditions similar to the ones for salaried employees. But in spite of this, Denmark is still internationally considered to be characterised by very flexible rules for hiring and firing. The area of the "contract" is particularly the manual labour market, in other words, significant parts of the area dominated by The Danish Confederation of Trade Unions (LO) and The Confederation of Danish Employers (DA).

In 1969, government, employees and employers agreed on improvements in the area of unemployment insurance while establishing requirements for availability and mobility. Only the active employment policy, which really took shape during the nineties, is of a more recent date.

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The Danish flexicurity is also widely accepted politically, even though adjustments are obviously being discussed continuously. The government as well as large parts of the opposition recognise the advantages of the way the labour market is organised.

The political acceptance of no legislation on job security, wages and work conditions requires and creates conditions for strong organisations in the labour market. As long as the social partners - the workers' and the employers' organisations - are in agreement, a balanced situation will be the best guarantee for a peaceful and productive labour market with no exploitation. Otherwise, the area would quickly be legislated in all directions, which could result in less flexibility. Therefore, it is also a significant precondition that the organisations can maintain wide support and legitimacy.

The historical roots combined with wide political approval create the legitimacy that makes the

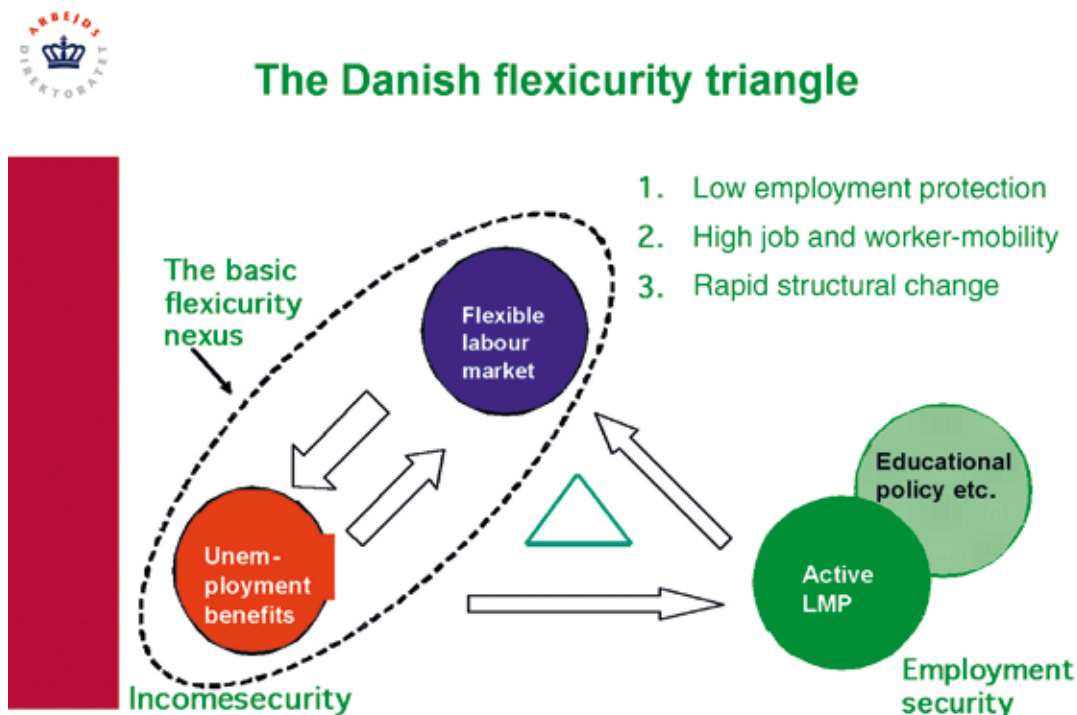
system work in spite of the seeming contradiction between the liberal rules for dismissal and the strong social safety net.

Conversely, it could be considered a problem that the partners can very easily agree on the fact that the state should basically pay, which creates more pressure on the taxes.

Thus the third leg of this "golden triangle" - the active labour market and social policy has to play its own role as well. This has involved - and still does involve - the participation of a number of actors: the state, regional and local government representatives, social partners etc. The active labour market and social policy try to motivate the unemployed to seek and accept jobs on the one hand, while on the other seeking to upgrade the qualifications of those of the unemployed who are unable to find their own way back into the labour market.

The Public Employment Service has been modernised together with contracting out parts of its

**Figure 20: The Danish flexicurity triangle**





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functions to so-called “other (i.e. private) actors”, which has led to the lifting of a number of previous restrictions as to the duration of measures, the scope, target groups, average prices and types of activities allowed.

Together with a near-complete reorganisation of the local administrative structures from 1st of January 2007, the coordination of the labour market policy run by the state and the local authorities will be further intensified and the intention of shifting from a two-tier system to a one-tier employment system will be tried out as a pilot project.

## The challenges

Even though the flexicurity model has contributed to the fact that the companies have dared to create and thus ensured jobs and a healthy Danish economy, there is no guarantee that it will continue to do so in the future.

Especially the Scandinavian countries are characterised by a fine-meshed, tax-financed social safety net combined with a liberal market economy. And in many countries it is being discussed whether, and how, it will be possible to maintain our welfare systems in the light of the fact that the people in the workforce are going to be older and fewer in the future.

The challenges of globalisation cast its shadow everywhere. Denmark has also had to get used to newspaper headlines telling of Danish jobs being moved to Eastern Europe or the Far East. This development is not over and there is no doubt that our labour market is going to be under more and more pressure in the years to come.

Therefore, we must not let ourselves be lulled by the fact that we are doing well compared to other countries for a while. It would be a mistake to think that our organisation of the labour market is the best or the only right one under any conditions. Our model is not infallible. And the interest from other countries in our model does not necessarily mean that they wish to copy us. But it does mean that they wish to learn something new and improve and develop their labour markets.

Therefore, it is particularly important that we do not stop our development and are overtaken on

the inside. Only by improving, adjusting and developing our model we can do well in the international competition. More than ever, high employment in Denmark depends on the companies' opportunities to adjust and adapt their production. In that connection, a continuously flexible labour market is the key to a continued success.

## Annex

### Researchers' assessment of flexicurity

In connection with a conference on flexicurity in June 2005, the Danish Ministry of Employment asked a number of researchers to take a position on the following questions:

- How does the Danish flexicurity model work?
- What are the effects of flexicurity?
- What are the advantages and disadvantages of flexicurity?
- And finally, how is flexicurity challenged by globalisation?

### The flexible Danish labour market - a review from CARMA, Aalborg University

The researchers from CARMA emphasize that the positive international attention towards the Danish flexicurity model is fully understandable. The Danish labour market is characterised by a high degree of flexibility. Furthermore, CARMA also states that the Danish combination of high mobility between jobs, low job security, high rates of unemployment benefits, a well-developed active labour market policy and a well-developed education/supplementary training system result in a unique Danish version of flexicurity.

The success is not due to a deliberate plan, but very much due to the historical roots of the model. Here, the main message is that strict restrictions with regard to the employers' possibility of firing and hiring are not the only feasible way to create security for the individual in the labour market. On the contrary, a dynamic and mobile labour market can be combined with financial and social security.

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With regard to the challenge from globalisation, nothing indicates that the labour market is not capable of handling the challenge, according to CARMA. The researchers refer to the outsourcing of jobs in the textile industry as an example of the fact that the labour market has been capable of major reorganisation processes. However, they state that it is necessary to aim at giving unemployed as well as employed further qualifications to avoid structural unemployment.

However, CARMA questions the active employment policy's ability to create job security for unemployed and employed. The question is if changes in the content of the employment policy, such as new activation tools and lower benefits, would have consequences for flexicurity?

For example, does it affect the flexibility and does the workforce become less qualified if the education effort directed towards the labour market is given lower priority? And how does it affect the interaction between the active effort for different unemployed and the companies that the municipalities take over some of the employment effort?

**Flexicurity and the Danish labour market - a review with focus on the collective labour agreement system, FAOS, University of Copenhagen**

FAOS points out that flexicurity covers much more than just low job protection and high income security. The main message is that the collective labour agreement system has played an important part in the development of flexicurity in Denmark. First of all, the collective labour agreement system has created flexibility through agreements about wages, work hours and supplementary training. Second of all, it has created security in the shape of pensions and social chapters in the collective labour agreements.

However, FAOS emphasizes that flexicurity is not only a result of collective labour agreements. The state co-financing of the unemployment benefits and the active labour market policy have also contributed actively to the development of flexicurity.

According to FAOS, the low job protection combined with high income security benefits large groups in the labour market. But there are still groups that the model has not been able to reach so far. Here, attention can be called to immigrants,

who comprise a special group that flexicurity has not been able to help with employment.

Matters such as the significance of decentralising the agreement competency in the collective labour agreement system and the significance of the increased EU regulation also play a part with regard to the Danish flexicurity.

**Flexibility and security - deliberations about Danish labour market policy. Associate Professor Karsten Albæk, Institute of Economics, University of Copenhagen**

Karsten Albæk points to clear advantages of a flexible labour market. He emphasises that the costs of the companies are increased through increased protection of the employees. However, the higher cost will result in the companies being reluctant to hire new employees.

Karsten Albæk calls attention to the fact that high staff turnover is a strength for the Danish labour market, which means that it is quicker for unemployed to find jobs again. For example, he refers to a comparison between Denmark and Belgium, which shows that employees that are dismissed in Belgium are struck by unemployment much more often than in Denmark. And that unemployed in Belgium are also unemployed for longer periods than in Denmark. As opposed to Denmark, Belgium has a very high degree of job protection in the labour market.

According to Karsten Albæk, one of the disadvantages of the high staff turnover is that it limits the companies' interest in investing in employee training. The lacking interest is connected with the fact that 50percent of all new employees have disappeared from the companies after three years. This is unfortunate, as education is of significance to the productivity of the workforce and thus the financial growth, he states. However, the problem is partially solved by the state co-financing supplementary training.

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## 4.1.7 Discussion

**Lena Westerlund, Swedish Trade Union Confederation (LO), SE,** wants to find out more about the analysis of flexicurity, particularly about the strengths and weaknesses of the system in times of growing unemployment. She also gathered from the presentation, that the system may not work as well if the duration of unemployment becomes longer for individuals, for example during a prolonged recession.

**Jesper Hartvig Pedersen, Arbejdsdirektoratet, DK,** says that the Danish experience with active labour market policy since the mid-1990's has shown that the shifts in economic activity are related to the fact that the long-term unemployment did not increase more than short-term unemployment. And the politicians felt that the Swedish traditions with labour market policy should be continued with the goal of having the unemployed return to the working process as quickly as possible. In the dynamic and open economy of Denmark, around 250,000 jobs are cut each year, however 260.000 - 280.000 are created per year. He thinks that one really needs an active labour market policy and several of the recommendations by John Martin and the OECD and the Commission must be taken into consideration, as one must implement funding economically. It is not that the model does not work at all during times of a weaker economic cycle, one just needs to know that the politicians may gain the impression that the entire system will become too expensive over the long term, in view of the increased spending for health-care, etc. However, one can not imagine any situation whereby Denmark would deviate from this policy. At least not in the short term, as the results are simply too convincing.

**Bernd Marin, European Centre, A,** wants to know what "very short" unemployment spells are supposed to mean. Another question refers to flexibility, or rather to numerical flexibility. Mr. Pederson spoke of a 30 percent rotation in the country. Are there any differences between industries? Austria has such differences: tourism has a fluctuation of 95 percent. The question is whether Denmark also has certain industries with a particularly high fluctuation. Another term mentioned is employment

flexibility - a "hire and fire" system in combination with a tight safety net. However, Mr. Pedersen did not address other forms of flexibility, such as wage flexibility, also known as "wage dumping". An Austrian/Scandinavian specificity, namely flexibly designed working hours, shift systems, innovative working hours, alternating shift systems, etc. - all this was not mentioned by Mr. Pedersen. Employment security plus job flexibility is a characteristic of the Danish system: what does the country do to achieve higher cost efficiency, if this is possible at all?

**Jesper Hartvig Pedersen, Arbejdsdirektoratet, DK,** states that the short unemployment periods are different durations down to a few weeks. Denmark has very good statistics about this. Upon closure of a shipyard, for example, there are figures that show that 80 percent of the unemployed had new jobs within three months. The Danish unemployment funds are also private organisations that work closely together with the trade unions. The 30 percent rotation is a mean value, and there are differences between the industries. There are no precise figures, but the interesting point is that the overall figure is so high. Of course, the fluctuation in tourism is larger than in the metal industry. However, even in the civil service, there is a relatively high rate, in an international comparison. Regarding wage flexibility, discussions have been underway for several years. And the picture is not looking particularly bright, says Pedersen. A complex flexicurity system, like that in Denmark, of course, raises many questions and conflicts between the partners. However, you must not forget that Denmark has a wage system that is set out in the collective agreement negotiations. And this results in wage differentiation. The downward flexibility is not very high in real life. One can say that the agreements between the social partners are only framework agreements. This happens to allow a high degree of flexibility. And this flexibility, which is facilitated by employer/works council agreements, comprises a good portion of the value of this system. Denmark has tried to take to heart the good advice from the OECD and other colleagues are of the opinion that Denmark is very efficient. However, this does not mean that all problems are solved and that Denmark is the best of all possible worlds but efforts must be continued in coopera-



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tion with the partners and make the system even more efficient. A point that has not yet sufficiently been discussed is the aging of the workforce. The Danish work-force is being reduced in terms of number and the average age has increased. And that requires even more flexibility during the coming years. Of course, Denmark is just as dynamic as it always has been, however nobody does know yet what this increase in the average age of the working population will bring with it.

**Christopher Pissarides, London School of Economics (LSE), UK**, thinks that what Denmark has achieved with its social protection system in Denmark is impressive. However, he still wants to ask a question that has not yet been dealt with, namely, the question of wages. The entire system can succeed only if it is based on wage restraint. Does the generous social protection system in Denmark not lead to workers, e.g. through their unions, exercising more wage pressure? A similar situation was shown to arise in Sweden, which affected adversely job creation. Another point is that if one looks at Denmark, Prof. Pissarides says, then the success of the system is less about unemployment and more about employment. And in this respect, he wants to know whether in the Danish opinion the flexicurity system has contributed to an increase in employment or whether you believe that it is the flexible institutional structure of the Danish economy, e.g., the flexibility in setting up new companies, in the supply of care and support services for children and other social services that did it. At the very end of his speech, Mr. Pedersen addressed a paradox. That the unemployed who very actively search for work, do so, not despite the high social benefits, but rather, because of them. But the unemployed know that they will only receive these social benefits over a short period of time and this is a strong incentive to look for work. It appears that generous social benefits that are limited in duration do not act as a deterrent to those seeking employment, Prof. Pissarides says.

**Jesper Hartvig Pedersen, Arbejdsdirektoratet, DK**, answers that in this very important points have been addressed. The unemployment figures are actually very good now in Denmark, with approximately 5 percent. One of the reasons for this good employment rate are the framework

conditions. That is, straightforward establishment of companies, straightforward dissolving of companies, various offers in the field of childcare etc. And also the high proportion of part-time work in Denmark. That is something that has not yet been mentioned. In Denmark, there are around 400,000 to 500,000 part-time employees, the majority of which are women. And they do not receive unemployment benefits, only very few of them. The generous benefit system relies on the capability and the performance of the job placement centres and also on the employability of the individual job seekers. The capability of these people to take on any type of work that is available. And these people, by all means, have an economic incentive to take on work. After all, the financial compensation has reduced during recent years. Now we are at approximately 60 percent of the active benefits. We primarily have a problem at the bottom end of the wage scale.

**Chris Serroyen, Confederation of Christian Trade Unions, BE**, thinks that there is a good reason for the happiness of the Danes. All of the unhappy Danes, the Vikings, sailed away several hundred years ago and therefore no longer live in Denmark. Chris Serroyen's question regards the high turnover rate of 30 percent. When employers are dealing with higher flexibility/mobility, they tend not to invest much in advanced and further training. There is a lot of empirical evidence that employers hesitate to invest in the training of flexible workers. Does this also apply in Denmark, which is a country where one knows that the employers actually invest a significant amount in advanced training measures? He thinks that this does not fit together somehow: lifelong learning on the one side and mobility of the workforce on the other side. His second question is about the ageing of the working population. What about flexicurity measures? Do they also work for older employees? The trade unions are dealing more and more with the difficulty of activating older employees: after a dismissal, it's rather difficult to reintegrate them in the labour market. There is very pronounced age discrimination on the labour market. A similar situation applies for ethnic minorities, which is certainly also a problem that exists in Denmark.



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**Jesper Hartvig Pedersen, Arbejdsdirektoratet, DK**, wants to answer the questions about the 30 percent mobility and the relationship between the so called unwillingness of employers to invest in further training, which is naturally also a great challenge for both sides in Denmark, Mr. Pedersen says. However, one can say that the Danish employers still invest a significant amount in the advanced and further training of their employees. John Martin said that many employers are, by all means, prepared to invest high sums in highly qualified employees, or even in younger employees. However, that the willingness to invest in further training for employees over 50 already decreases significantly. On the other hand, however, experience also shows that older employees are very loyal to the firms and that could perhaps be used, if particular framework conditions are changed. Also for employees above 50 Pedersen sees significantly better employment rates after all. And that the unemployment rate in this age group has fallen significantly, in fact, it is actually one of the lowest. And that was a very positive development.

Concerning the question about flexicurity and older employees Mr. Pedersen says that for older people, the same rules naturally apply as for all others. And in Denmark currently there is a very heated discussion going on about voluntary early retirement. The early retirement age is now 60. And everyone is under the impression that this discussion will probably bring with it a major political compromise, which can ultimately result in raising the early retirement age upwards perhaps to 62 or 63.

## 4.2 Workshop II: Promotion of labour market participation of migrants and youth

### 4.2.1 Robert Strauss, European Commission

Workshop II focuses on the issue of migrants and minorities, as well as on labour market integration of young people. Within this context, Robert Strauss refers to the Employment Guidelines under the Lisbon Strategy, which appear to be relevant for this topic. He mentions the following guidelines:

- **Guideline 18:** Promote a life-cycle approach to work through, inter alia, renewed endeavour to build employment pathways for young people and reduce youth unemployment, as called for in the European Youth Pact.
- **Guideline 19:** Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive, through
  - o active and preventative labour market measures including early identification of needs, job search assistance, guidance and training as part of personalised action plans, provision of necessary social services to support the inclusion of those furthest away from the labour market and contribute to the eradication of poverty;
  - o development of new sources of jobs in services for individuals and businesses, notably at local level.
- **Guideline 20:** Improve matching labour market needs, inter alia, through:
  - o removing obstacles to mobility for workers across Europe within the framework of the Treaties;
  - o better anticipation of skill needs, labour market shortages and bottlenecks;
  - o appropriate management of economic migration

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## 4.2.2 Jos Kester, European Commission "Integration of young people and of migrants into the labour market"

### Overview

There are considerable employment and unemployment gaps between nationals and non-nationals, and also employment gaps according to origin of migrants. Immigrants from other EU Member States or industrialised countries have similar or even higher employment rates than nationals. Non-Western immigrants tend to have particular difficulties in accessing labour markets in the EU. Immigrants from Northern Africa are particularly concerned.

Gaps also vary according to country of residence. They are exceptionally wide in Belgium, Denmark and the Netherlands, while they are very small or even negative in Greece, Spain, Ireland, Austria and Portugal. These are the more recent immigration countries. In these countries, immigration has started more recently and is still more dominated by labour immigrants as opposed to family migrants or asylum seekers.

There are huge employment and unemployment gaps between young people and the working age population as a whole. Activity rates and unemployment rates vary enormously between Member States. Positive examples are the Netherlands, Denmark, the United Kingdom, Austria, Malta, Ireland and Cyprus.

### The European policy context

The new Employment Guidelines according to the Lisbon Strategy call on Member States to attract and retain more people in employment.

- Guideline 18: To develop a lifecycle approach to employment, including employment pathways for young people and to reduce youth unemployment,
- Guideline 19: to develop active and preventive labour market policies to help those furthest away from the labour market. Young people should be offered a new start within six months of unemployment;

- Guideline 20: to manage economic migration as part of labour market matching;
- Guidelines 23 and 24: to increase investment in human capital through better education and skills.

Last year, the Commission issued a communication on Common Basic Principles for the Integration of Third Country nationals in the EU. It also issued a Communication on the implementation of the Youth Pact. In the Youth Pact, Member States committed themselves to improve the youth dimension in areas such as education, training, mobility, employment, social inclusion and reconciliation of work and family life.

The National Reform Programmes show that Member States pay a lot of attention to the integration of young people. They do their best to implement the EU ambition to offer a new start to every young person entering the labour market within 6 months. Activities focus on building employment pathways combining work, apprenticeship with education and training. But there is little emphasis on increasing the offers of employment. There is a need to better integrate policies on education, training and employment and to set clear objectives.

Integration of migrants receives much less attention in the programmes. National Reform Programmes set targets only in a few cases (Denmark: 25,000 extra places; the Netherlands' target for 2005 was not met).

### Skills: a common issue to both groups

Skills are an extremely important factor explaining the chances of success of young people and immigrants on the labour market. Both groups cannot rely on work experience and track record, either because they are too young to have a track record or because their previous work experience has taken place elsewhere and is largely seen as irrelevant.

Factors causing problems in accessing the labour market for young people:

- insufficient skills and competences
- skills mismatch
- employers hesitate to employ young people without work experience



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- generally difficult labour market situation in some countries
- In the area of education and training, two main issues need to be addressed:
- firstly, to ensure that all young people reach a sufficient basic level of education; in many Member States a considerable reduction of the school drop-out rate is needed
- secondly, to ensure that education and training systems respond to today's labour market requirements. This includes for example more work-related training, introduction of apprenticeship schemes.

Generally, immigrants are over-represented in the highest and lowest qualified groups. Non-Western immigrants are particularly overrepresented in the lowest qualified groups. With the increasing demand for medium and higher skilled employees on the EU labour markets, low-skilled groups run a greater risk of unemployment and exclusion.

But this is not always the case. Other factors come into play. In France, the unemployment rate of non-EU foreign nationals with a postgraduate diploma is almost three times the rate of EU-citizens. In Sweden, data indicate a good skills match with regard to the labour market requirements, so that reasons for unemployment must be sought elsewhere.

Typical complications which have been found in studies and surveys:

- difficulties in transferring skills from abroad
- non-recognition of foreign, especially non-EU diplomas
- Unsuccessful integration in society. More and more Member States operate integration programmes, such as Finland, Denmark, the Netherlands, Austria and Germany. Most of them have compulsory elements. Non-fulfilment can have consequences for the residence permit or for benefits. In several cases, participants have to pay. Typical approaches: improve language proficiency; training measures; workplace induction schemes; diversity management (involving local authorities, social partners, companies, employment offices etc.)

- discrimination

Some remarks for the debate

- Member States are becoming more effective in implementing active labour market policies, combining all their aspects.
- However, Member States should pay more attention to improving the starting position of young people and immigrants before they enter the labour market. Opportunities missed in that phase are difficult to amend afterwards.
- For young persons this has to do with the education system, avoiding drop out and improving the link between education and labour market (dual learning).
- For immigrants this has to do with integration programmes, recognition of diplomas or practical skills, duration of asylum procedures, and maybe also with selection, but that's probably beyond today's debate.

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## 4.2.3 Anna Santesson, Ministry of Industry, Employment and Communications, SE – "Open doors, lower thresholds for migrants"

### The Swedish labour market

Sweden was in a good position in 2004 with respect to GDP per capita (117 percent of EU average in 2004), productivity and employment levels. Real GDP growth has been slightly below 3 percent on average over the last decade. Labour productivity growth has been just above the EU average. The employment rate is one of the highest in the EU (72.1 percent in 2004). However, over recent years employment growth has been weak and employment rates have declined, while unemployment (6.3 percent in 2004) has increased.

Attaining full employment is the Swedish Government's foremost priority. In the budget bill for 2006 the Government has declared that the unemployment rate shall be pressed back to 4 percent as a first step towards full employment and that the regular employment rate shall increase to 80 percent in the 20 to 64 age group. Measures to achieve this have been introduced in 2006 that will give 55,000 people a job, a trainee position or training. The number of openly unemployed people registered at the Public Employment Service (PES) was in December 2005, 249,000 and additional 126,000 participants in labour market policy (LMP) programmes.

In order to be able to meet its overall objective of full employment, the Government has identified certain groups that will be given priority. These are the long-term unemployed, the long-term sick, functionally occupationally disabled persons with a reduced capacity to work, the young unemployed, older women and men, and people with a foreign background.

### Migration to Sweden

A fairly high proportion of the immigrants coming to Sweden do not come for working reasons. Half of the residence permits issued in 2005 are either to refugees or to family members. These are the two groups in greatest need of integration. In-

tegration is important also for immigrants coming for other reasons (e.g. studies, temporary work) but many of those have a much better starting position.

Sweden has a high percentage of foreign-born population compared to many European countries. The percentage of the foreign-born population has increased six fold after World War II from 1.5 percent to nearly 12 percent in 2005. The majority of the foreign-born population has lived in the country at least ten years. Over 60 percent of the foreign born are naturalized.

### The employment and unemployment of migrants

Even if the overall indicators on unemployment and employment give Sweden a good position in an EU perspective, it is not at all satisfactory if we look at the same indicators for immigrants. There are big differences between immigrants and foreign born. Differences get smaller, though, with the duration of the migrants stay in Sweden.

There are differences also between groups of migrants - between men and women and between migrants from different countries. In December 2005, there were 58,000 unemployed immigrants and 28,000 in LMP programmes registered at PES. The foreign born were 12 percent of the population and 23 percent of the unemployed.

The situation for immigrants on the labour market today differs from the situation in the 1950's and 1960's and beginning of the 1970's where immigrants, for some periods, enjoyed even a higher labour participation compared to native Swedes. However, from the mid 1970's the employment rate of the immigrants started declining. The situation for the immigrants deteriorated rapidly during the economic recession in the 1990's and affected in particular immigrants who had been to Sweden for a short time and non-Nordic citizens. It has been estimated that an increase of the employment rate for immigrants up to the same level as Swedish born would give an additional number of people employed of over 100,000.

Differences in labour market outcomes between the foreign-born population and those born in Sweden are not merely attributable to problems that



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are related to immigrants themselves. Differences prevail even when controlling for variables such as schooling, experience, gender, civil status and place of residence.

According to Schröder and Dastserri (Swedish Integration Board, 2003) employment indices for foreign-born who have spent differing periods of time in Sweden reveals four typical traits.

1. Native-born have higher employment rates than foreign-born. Not even those who have spent 20 years or more in Sweden have the same employment rates as natives.
2. The relative employment rate of foreign-born is positively correlated to the time of residence in Sweden.
3. Considering a longer period of time, foreign-born who have been in Sweden for ten years or more have a slightly declining employment rate compared to the native-born.
4. Those with shorter residence in Sweden are more affected by fluctuations in the business cycle than natives.

## Swedish Integration Policy

The Swedish integration policy is formulated as follows:

1. Equal rights, obligations and opportunities for everyone, regardless of ethnic and cultural background.
2. Social cohesion built on diversity.
3. Social development characterised by mutual respect for cultural differences so long as these do not conflict with the basic values of society and in which everyone, irrespective of background, should participate and share a sense of commitment.

These objectives were first formulated in a bill from the Government to the Parliament in 1997. The focus was then changed from immigrant policy to integration policy, among other things stressing that integration is a mutual process and that the starting point for all policy must be the diversity in society. In 1998 the Swedish Integration Board was established with the mission to inform, coordinate and follow-up the Swedish integration policy.

The Swedish Government has recently appointed a parliamentary committee with the mission to make an inquiry about the objectives, the implementation, organisation and efficiency of the Swedish integration policy. The committee shall present its recommendations in June 2007.

The issue of integration has implications for all political areas and there are many stakeholders. The concept of integration can accordingly take on a number of meanings. Indicators used are for example employment and unemployment, earnings, school achievement, housing, voting behaviour and participation in community organisations. Among the stakeholders, the overall coordinator is the Swedish Integration Board. The Migration Board is responsible for asylum seekers. When a residence permit has been issued the municipalities have a coordinating role and also give economic support to the immigrants, for which they get funding from the state. Housing, child-care and education are other responsibilities for the municipalities. Many of the immigrants are of working age and the PES has an important role. Other stakeholders are the educational system financed by the state, the county councils responsible for health care and last but not least the employers and the trade unions.

## Measures to counteract discrimination

In order to combat discrimination, the Government is intensifying its training and information efforts aimed at men and women working in the recruitment field. A commission of inquiry has presented a report to the Government on the feasibility of a system of anonymous job applications in the public sector.

The Government has appointed two commissions of inquiry to examine problems associated with discrimination on grounds of ethnic or religious affiliation. The first commission investigated the current situation and reported in June 2005 on measures that are now under consideration by the Government. The second commission will identify institutional discrimination on these grounds from a broader perspective and will submit its report in June 2006. The Government will allocate additional funding for the Ombudsman against Ethnic Discrimination in 2006.



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## The role of labour market policy

A high level of labour market participation among the working age population and a large number of total hours worked in the economy are prerequisites for the Swedish model of a comprehensive welfare state. Although Sweden has a high employment rate compared with other European countries and meets the Lisbon targets by a sizeable margin, the situation will require further improvement not least to meet future demographic challenges. While the objectives are national, existing regional differences must also be taken into consideration.

Some of the main challenges are to reduce the number of long-term unemployed and to make it easier for both men and women to join and re-enter the labour market. This is especially important for groups with comparatively low employment rates, e.g. occupationally disabled, young people and men and women with a foreign background.

The general labour market policy should be designed with the ethnic and cultural diversity in society as a point of departure according to the Government's integration policy. This means that the policy in principle shall meet the needs of all persons in the labour force in Sweden irrespective of, for example, their ethnic origin. Thus targets set up for employment and unemployment applies to all people.

Nevertheless, due to the significant differences between immigrants and Swedish-born with regard to unemployment rate and employment ratio, the general policy is complemented with special efforts in different respects to enhance the integration of immigrants in the labour market.

The overall role of LMP is to facilitate employment. It must be remembered, though, that LMP is not involved in recruitment decisions and cannot radically change the demand for labour.

A lot of initiatives have been taken by the Government to improve the integration for immigrants. Within labour market policies, there are three different kinds of initiatives:

1. Measures to improve the immigrants' competitiveness,
2. Measures to influence the employers willingness to employ and

3. Measures to improve the quality of the service at PES and the cooperation between stakeholders.

The first kind concerns e.g. labour market training and work experience programs, the second one subsidized employment and two new initiatives (see below). The third concerns special funding to PES for service to immigrants and an agreement between stakeholders to develop the introduction for newly arrived refugees and other immigrants.

In spite of these initiatives, the situation on the labour market for immigrants is still a problem. The main reasons for this are a continued weak demand for labour and the existence of discrimination, according to conclusions made by the Swedish Integration Board.

## Measures and programmes

In spite of a number of far-reaching initiatives to improve the integration of men and women with a foreign background into the labour market, this group still has a lower level of employment. The legislation against discrimination at individual level has been strengthened but there are indications that institutional discrimination on grounds of ethnic or religious affiliation still exists in many areas of society. The Government intends to continue to reduce the difference in employment between those with a foreign background and the population as a whole, and to evaluate the measures that have been adopted.

In the budget bill for 2006 the Government launched a broad two-year employment package that targets both, the private and the public sector and aims at giving 55,000 people a job, a trainee position or a place in education or training. A large part of the package is carried out within the framework of LMP. The target group for these measures are long-term unemployed, among which immigrants are overrepresented and the package will give immigrant women and men new opportunities.

## Work Place Induction (WPI)

It is a well known fact that many immigrants lack contacts and network that are so very impor-



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tant in the search for a job. This measure wants to compensate for that lack.

The pilot scheme WPI for certain immigrants which have been in place since 2003 and will continue during 2006. The scheme is managed by PES. The intention is to give refugees and other immigrants extra support prior to employment and during the initial period on a new job. Support is also given to the employers, when needed, by specially trained employment officers. WPI builds on the method of supported employment, a very individualized service that has been successfully used for more than ten years at PES for handicapped jobseekers. The WPI is not an exact copy but the method has been adjusted to the needs of the immigrants. It should be underlined that WPI is not a new work experience scheme. The WPI is given in connection with an employment.

A recent report by the National Labour Market Board with a follow-up on WPI from 2005 shows that service was given to 4,800 immigrants. Over 60 percent of the participants had found permanent work three months after the WPI. An evaluation of the effects of the programme will be presented this summer by the Institute for Labour Market Evaluation.

## **A Joint Declaration of Intent with employers and trade unions**

In order to solve the problems with low employment and high unemployment among immigrants labour market policy is one important tool. It is also necessary to mobilise the social partners, who play a central role in Sweden on matters concerning the labour market. Two steps have been taken in this respect. A working group with representatives from the Confederation of Swedish Enterprise and the Swedish ministries was set up in January 2003 to propose measures to improve the participation of immigrants on the labour market. The working group submitted its report with concrete suggestions to the government at the end of April 2004. The suggestions include i.a. the new LMP programmes Skill Assessment on the Job and Trial Opportunity.

In summer 2003, the Government concluded discussions with central representatives for

Swedish trade unions and the Swedish Association of Local Authorities and Regions on how to increase the participation of immigrants on the labour market. The discussions resulted in a joint declaration of intent with commitments by the government, the employers and the trade unions. The parties concerned have promised to play an active roll to enhance a proper utilization of the new labour markets programmes mentioned earlier. The declaration contains a number of integration measures aimed at boosting employment, promoting equal opportunity and counteracting discrimination on grounds of ethnic origin. As a result of this joint declaration of intent, the new LMP programs Trial Opportunity and Skill Assessment on the Job was introduced in 2005.

## **Trial Opportunity**

This is one of the new LMP measures in the Joint Declaration of Intent. This programme is a three months' work experience scheme that shall be given to the immigrant soon after the registration at PES. The idea was first raised in the above mentioned working group with representatives from the Confederation of Swedish Enterprise and the Government. The purpose of the programme is to give the immigrant an opportunity, at an early stage, to demonstrate his knowledge and competence. The trial opportunity can take place with private or public employers or non profit organisations. A certificate shall be signed by the employer if the trial opportunity is not followed by an employment and it can be combined with procedures on the job for the assessment of professional skills. PES is responsible for the programme in co-operation with the social partners.

A follow-up study by the National Labour Market Board shows that a majority of the men that took part in the measure were given their opportunity at a private enterprise. This was true also for half of the women, of which a large proportion was at work places in municipalities and in the health sector. Half of the participants were employed six months after the programme had finished.

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## Skill Assessment on the Job

This is another joint initiative from the Confederation of Swedish Enterprise and the Government. The background is the agreed great importance of having the immigrants' previous education and work experience properly assessed that has been identified as one of the corner stones for better integration. With this measure the immigrant is offered an opportunity to receive a vocational assessment at their place of work. The purpose is to make quick assessment - maximally three weeks - of foreign credentials, individual skills and work experience. After the assessment, a certificate will be issued which can be included in future job applications. For some immigrants this can be the beginning of a more comprehensive validation. For others it can be all that is necessary for an employer to get an understanding of the immigrants' skills. PES is responsible for the measure in cooperation with the social partners.

There is not very much experience of this measure yet. Some problems have been reported regarding the regulation of the measure. The employment officers have found it difficult to distinguish this measure from the Trial Opportunity. It will be made clear that the Skill Assessment on the Job is part of the program Trial Opportunity.

The Government set up a special commission in 2003 - The Swedish National Commission on Validation - in order to develop the processes of quality and methods for validation. Validation can be defined as a precise assessment, valuing, documentation and recognition of knowledge and competences that an individual has gained, irrespective of how and where they have been acquired. The responsibility for validation in Sweden is divided between the education system and the social partners. The commission will carry on its work until 2007.

## Follow-up of the Declaration of Intent

In the last follow-up of the declaration in December 2005 by the Minister for Integration, the Minister for Employment and representatives for the social partners who had signed the declaration, the overall impression was that the implementation of

the commitments had taken long time and many of the commitments were still at an implementing phase. Other commitments were still at a preparatory stage.

With one exception - the new measure Trial Opportunity - that had been very well received both by the PES and the employers. However more information was needed to make the measures better known among the employers.

The importance of partnership with the Confederation of Swedish Enterprise (the private sector) was underlined by the social partners.

The Confederation came up with the idea on new LMP measures but did not sign the declaration.

## Follow-up and evaluation of LMP

The Institute for Labour Market Policy Evaluation (IFAU) has been assigned specially to monitor and evaluate labour market policy initiatives for men and women with a foreign background. Workplace induction for certain immigrants will be evaluated as a first stage. Reports will be presented in 2006.

## Future challenges

In spite of the many initiatives taken by the Government to improve the situation on the labour market for immigrants much is left to be done before people are judged by their skills rather than by the colour of their skin or ethnic background. Continued efforts to combat discrimination on the labour market is therefore of utmost importance.

Higher participation of immigrants on the Swedish labour market is vital not only for a sound economic development but also to meet the challenge of an ageing population. The time between the immigrants' arrival to Sweden and their entrance into the labour market must be shortened. LMP and the service offered by PES have a very important role to play in co-operation with the Migration Board and the municipalities.

The cooperation between stakeholders must be further developed in order to meet the often very varied and complex needs of the newly arrived immigrant.



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The skills and experiences of the immigrants must be properly assessed and recognized at an early stage. To find better and more effective procedures for how to combine this with the training in the Swedish language and actual contacts with working life is an issue that the Government will come back to in 2006.

State initiatives in combination with agreements with the social partners are an approach to the problems that hopefully will prepare the ground for more job opportunities for immigrants. Continued implementation of the commitments in the Joint Declaration of Intent must accordingly be given high priority.

## 4.2.4 Discussion

**Joseph Remy, Ministry of Employment and Labour, BE**, states that with respect to the professional and social integration of this target group, the example from Sweden was very impressive. The question that arises for him in this context is: In the programme from Belgium that Joseph Remy will be presenting, the key is the commitment of particular employers to hire young people. Various facilities and organisations are currently demanding a similar work programme, or the commitment to hire a certain percentage of specific target groups, e.g. immigrants. Is there a similar system in Sweden, or are there considerations in this respect by particular immigrant organisations? Are there comparable systems in other countries? This question does not mean that Joseph Remy supports the quota regulations; however, a discussion in this respect would appear relevant to him.

**Helen Bache, Department for Work and Pensions, UK**, asks whether there have also been considerations to allow for sanctions in the field of social security taxes, if the training commitments are not fulfilled. Would it not be better to ensure that the individual people (migrants, young people, etc.) are prepared for a job or training, i.e. receive training/support in advance?

**Anna Santesson, Ministry of Industry, Employment and Communications, SE**, answers that Sweden is not a quota country. On the contrary, attempts are being made to adopt other solutions. The declaration of intent, of which she spoke earlier, is such a different approach, without imposing an obligation on employers. Quota regulations have been repeatedly considered, but the current government tends to be against them.

For answering the second question, it is important to consider the different migrant groups: first, there are the “new arrivals” that are financially supported by the municipalities; the municipalities, in turn, receive funding for this from the government. The municipalities have an agreement with the integration committee and receive state funding that flows directly to the migrants as well as into integration measures. Financial benefits for migrants are relatively low. They only serve to cover subsistence and thus offer little room for sanctions. Se-

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cond, there is the group of unemployed migrants who have lived in Sweden for a longer period of time. Some of this group have already worked and may have a right to unemployment benefits. These people receive the same benefits and must fulfil the same obligations as unemployed Swedish citizens. At the same time, there is a relatively large group of migrants who only receive a low amount of financial support, and sanctions are barely possible here.

**Eleonora Schmid, European Centre for the Development of Vocational Education and Training, CEDEFOP**, asks to what extent educational institutions are also involved in vocational training. Ms. Santesson said in her presentation that one of the stakeholders was the education sector - to what extent is it involved in the project?

**Manuela Vollmann, Bundesdachverband für soziale Unternehmen, A**, assumes that Sweden has certainly not forgotten the aspect of gender mainstreaming in its integration policy. She would be interested to learn how the programme has been designed to have women and men benefit from it equally. Are there any results available in this respect? Was an extra budget required to implement the programme? How is the financing of this programme structured?

**Ali Taghian, Uns verbindet Gesundheit und Migration, A**, would like to know which communication phenomena, other than language, are taken into account. For instance, the cultural differences between migrants from different countries are a particular problem. The youth riots in France are a good example for this. Is Sweden also thinking along these lines?

Regarding the question of Eleonora Schmid about the role of education and training within the declaration of intent, **Anna Santesson, Ministry of Industry, Employment and Communications, SE**, replies that the declaration of intent refers to the link between the labour market and education and training. It is very obvious that this is an important issue, and many migrants require support in this respect. Not only the labour market is responsible for the integration of these people but also a whole series of other players. However, it would be an exaggeration to claim that education and training are explicitly emphasised in the declaration of intent.

The gender issue is a very significant aspect. Sweden is aware of the existing differences between men and women - this applies to Swedish citizens, but much more so to immigrants. There are special programmes for female migrants, as they find themselves in a special situation. It is particularly difficult for these women to approach the image of the Swedish woman. In addition, employees of Swedish ministries are obliged to use a gender-appropriate language. Moreover, separate gender statistics show very interesting differences to be addressed by adequate programmes.

Anna Santesson shares Mr. Taghian's view that communication is a very important factor that must be duly considered, as differing cultural customs create differences.

**Peter Bencics, Burgenland public employment service (AMS), A**, remarks that Ms. Santesson's presentation included a reference to 275 trainers being trained within the programme. He would like to know more about the structure of these special training courses and about the providers that employ such trainers. Are they employed directly by the communities, by public employment services or non-profit organisations? With a duration of three or six months these measures appear to be relatively short. Can sustained integration be achieved with such short measures?

**Anna Santesson, Ministry of Industry, Employment and Communications, SE**, replies that the trainers are trained by people who have experience themselves with these methods. The methods have been adjusted to the needs of the target group in question. Training is constantly being fine-tuned during programme runs based on the experiences made.

Employment can be both in the private and the public sector. Advisors have to be highly committed to find the right job for such job-seekers. This is a tailor-made service catering to the needs, capabilities and qualifications of immigrants.



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## 4.2.5 Joseph Remy, Ministry of Employment and Labour, BE "The First Job Agreement"

In order to reduce the rate of young people entering long-term unemployment, the Federal Belgian Government launched an ambitious plan in the year 2000 for youth employment, namely the First Job Agreement.

The objective of the plan is two-fold:

1. to allow each young person to enter into employment as quickly as possible on leaving school;
2. to offer young people the possibility of acquiring or continuing their training in the framework of their first professional experience.

In concrete terms, the integration of young people into professional life is encouraged by:

- an obligation for certain employers to employ young people;
- a reduction in employers' social security contributions for all employers employing poorly qualified young people under the terms of a First Job Agreement.

The regulations relating to the First Job Agreement have undergone numerous changes since their introduction in 2000. The most important change occurred in 2004. During the national employment conference that took place during the autumn of 2003, the social partners expressed the wish to review the regulations with a view to greater simplification. The modified regulatory provisions entered into force on the 1st January 2004.

The First Job Agreement is not the first active employment policy pursued by Belgium to promote the integration of young people in the employment market. In fact, it followed a similar programme called "youth work placement" ("stage des jeunes"), which offered in-company professional training to young job seekers who had not yet carried out any professional activity. This measure, which dated from 1976 and also included an obligation on certain employers to employ a minimum number of young trainees, saw reduced success from the start of the 1990s.

## Target group - young people that can benefit from a First Job Agreement

The "first job" scheme is for all young people who are registered as job seekers and who are less than 26 years old when they take up employment with their employer. The employment is considered to be a First Job Agreement until the end of the quarter during which the young person reaches the age of 26. The fact that the young person has worked before, even if they were previously employed in the framework of a First Job Agreement with the same or with another employer, is of no importance; all that matters is their age.

Foreign-born young people employed under a First Job Agreement can be counted twice by the employer in relation to fulfilling their youth employment obligation if they are subject to this obligation.

The term "foreign-born young people" means:

- persons who do not possess citizenship of a State which is a member of the European Union;
- persons having at least one parent who does not possess such citizenship or who did not possess such citizenship at the time of their death;
- persons having at least two grandparents who do not possess such citizenship or who did not possess such citizenship at the time of their death.

Young people registered as handicapped persons (with a Regional Fund for the Integration of People with disabilities) and who are appointed under a First Job Agreement are also counted as two units when calculating the share of youth employment imposed on companies.

## Employers concerned

All employers can employ young people within the framework of a First Job Agreement. Both public sector and private sector employers fall within the scope of application of the legislation on First Job Agreements.



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## The obligation to employ young people

Some employers are obliged to employ young people.

This regulation affects (public or private) employers who had at least 50 staff members (expressed in units) at 30 June of the previous calendar year. Here, the concept of employer refers to the legal entity (the employer as a physical or legal person governed by private law).

The employment obligation must therefore be examined by the legal entity and not at the level of the technical work/production unit<sup>29</sup>. To calculate the number of personnel, people for whom the employer is liable to make contributions in the framework of the general social security scheme are taken into account. In practice, this calculation is based on the people (workers, employees, apprentices, etc.) who figure on the multifunctional declaration of the second quarter of the preceding year and for whom the employer has paid social security contributions.

In relation to the employment obligation volume that is to be observed by those employers engaging at least 50 workers, a distinction must be made between the private and the public sectors.

Employers from the private sector must employ young people less than 26 years old at a rate of 3% of their total personnel workforce (calculated on a full-time equivalent basis) in the 2nd quarter of the previous year.

Employers from the public sector must employ young people less than 26 years old at a rate of 1.5 % of their total personnel workforce (calculated on a full-time equivalent basis) in the 2nd quarter of the previous year. It should be noted that a private sector employer from the non-profit sector is placed in the same category as a public sector employer.

Let us illustrate how the recruitment obligation

is observed using the example of a private market sector employer:

At 30 June 2005, Dupont S.A. has a total workforce of 134 employees (expressed in physical units). During the 2nd quarter of 2005, Dupont S.A. has a total workforce of 112 employees (expressed in full-time equivalent units). Dupont S.A. therefore has a recruitment employment obligation of 3.36 (= 3% of 112) employees. Thus, it is obliged to employ at least 3.36 young people under 26 years of age each quarter during 2006.

It should still be noted that the percentage of 3% of young people constitutes an average that the employer must achieve during the course of each quarter. There may therefore be variations during the course of the quarter, but the rule must be satisfied on a quarterly basis. Any recruitment carried out to fulfil the obligation must constitute an additional job that cannot be compensated for by a layoff of staff.

All employees covered by social security are taken into account for the purpose of observing the obligatory recruitment quotas until the last day of the quarter during which the young person reaches the age of 26 years, regardless of whether they are employed in the framework of the First Job Agreement. The signing of a First Job Agreement nevertheless provides some advantages. Therefore, young people bound by a FJA are excluded from the employer workforce on the basis of which the obligatory employment quota is calculated; foreign-born or disabled young people are only counted twice on the condition that they have been hired within the framework of a FJA and reductions in contributions are only granted for the job within the framework of a FJA for young lesser qualified workers.

In addition to the individual recruitment obligation, there is also a collective recruitment obligation in the private sector. Private employers, taken together as a whole and irrespective of the number of employees that they employ individually, must recruit new employees at the rate of 1% of the total personnel workforce. This personnel workforce is calculated, on a full-time equivalent basis, in the 2nd quarter of the previous year. In this respect, companies that are taken into account are solely those that, on the 30th June of the previous year,

29 Please note the following EU definition of a *unité technique d'exploitation* : 101Article 14 defines enterprises as "the technical work/production unit". The enterprise in the sense of a technical work/production unit does not necessarily correspond to the enterprise as a legal entity Source: The European Foundation for the Improvement of Living and Working Conditions [Translator's note].



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had a personnel workforce of at least 50 workers, expressed in physical units. The collective objective affects all employers in the private sector, regardless of how many employees are employed by each individual employer.

## The First Job Agreement

There are three types of contract which can be used for a First Job Agreement; the most frequently used is the Type 1 First Job Agreement (FJA).

Type 1: a standard contract of employment; the contract must provide for half-time employment at least. The contract can be for employment for a fixed term or for an indefinite period; there is no minimum duration period requirement.

Type 2: a combination of a part-time contract of employment and training.

For this type, the contract must provide for half-time employment at least. The contract may be for employment for a fixed or for an indefinite period; there is no minimum duration period requirement. The sum of the working period and the time devoted to training cannot exceed that required for full time employment on an annual basis. The training (approved by the competent authority) must be of at least 240 hours on an annual basis.

Type 3: a contract of apprenticeship for a salaried position, a training period agreement or an agreement for socio-professional integration.

The First Job Agreement must be confirmed in writing for each new worker on an individual basis at the very latest at the time that he or she starts to perform the agreement.

As for the duration of the First Job Agreement, it continues for as long as the employment with the employer continues until the end of the quarter during which the young person reaches 26 years of age at the very latest.

This employment must not necessarily be subject to a single contract: the First Job Agreement with an employer can consist of several consecutive contracts that follow one another without interruption.

Examples: firstly an apprenticeship contract, followed by a training periods agreement, then an employment contract, or even firstly a fixed term employment contract and then an indefinite employment contract.

New workers who are employed in the private market or non-profit sector in the framework of a Type 1 or Type 2 First Job Agreement, have the right to be remunerated at the same level as that which a worker exercising the same functions can claim according to the wage rates applied in the organization.

New workers employed in the public sector in the framework of a Type 1 or Type 2 First Job Agreement, have the right to be remunerated at the same level as the starting salary granted to a personnel member with the same professional qualifications as supported by their diploma or school leavers' certificate.

If they are employed on a part-time basis, they have the right to remuneration reduced in proportion to the working hours provided in the framework of the Type 1 or Type 2 contract that applies to them.

The end of the First Job Agreement shall in principle coincide with the end of the contract of employment (when it is a fixed-term contract), apprenticeship contract, training period agreement or the professional integration agreement and at the very latest, on the last day of the quarter during which the young person reaches 26 years of age, regardless of the circumstances. The end of the FJA, however, does not mean that an automatic end has been put to the employment contract (e.g. a contract concluded for an indefinite period of time); the latter will continue to have effect according to what has been agreed by the parties, but the employer will no longer be able, from the end of the FJA, to take the young person into account to prove that he complies with his recruitment obligation.

## Special features of the First Job Agreement

### *Lower remuneration when there is training*

When the employer recruits a young person in the framework of a Type 1 First Job Agreement (standard contract of employment), they may allocate an amount equivalent to 10% of their remuneration for their training during the first 12 months of employment. Where this is the case, the em-

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employer may deduct this amount from the remuneration of the young person without prejudice to the fact that the remuneration may not in any case be lower than the guaranteed monthly minimum wage (minimum inter-professional wage). Each year, the works council, or, in its absence, the union delegation, or in its absence, the subregional employment committee must receive all information relating to the actual allocation of 10% devoted to training.

## ***Absence with continued remuneration to respond to offers of employment***

For the first 12 months of employment under a First Job Agreement, the young persons may absent themselves at any time with continued remuneration to respond to offers of employment. The workers must submit an attestation indicating the place, day and time at which they went in response to an offer of employment to their employer.

## ***Reduced notice period***

If the First Job Agreement is for employment in the framework of a contract of employment or a contract of apprenticeship for a salaried position, the young persons may, during a period of 12 months, terminate their contract with a notice period of 7 days if they find another job. This notice period takes effect the day after notification has been given.

## **The First Job card**

To increase legal certainty and harmonise administrative procedures, the National Employment Office (ONEM) provides First Job Cards. By using this card, young workers prove that they satisfy the conditions for employment in the framework of a First Job Agreement and that they may confer the right to additional benefits (reduction in employers' social security contributions, double counting, etc.). The card shows, where applicable, if the young person is foreign born or has disabilities. It is through this card that the contract of employment or apprenticeship becomes a "First Job Agreement".

The card can be applied for by the young person or by the employer when the young person

does not yet have a First Job card at the time of their appointment. Basically, the application must be submitted to the competent job centre within 30 days of employment at the very latest.

The First Job Card has a validity period of 12 months that may, if necessary, be extended for the same period of time. However, the card's validity cannot go beyond the date of the young person's 26th birthday.

## **Reduction of employers' social security contributions**

Both private sector and public sector employers can be considered for the "young workers" target group reduction regardless of how many workers they employ. Obviously, they have to satisfy the obligation relating to First Job Agreements.

With regard to workers conferring the right to this reduction, a distinction has to be made between two categories:

Category 1: young people until 31 December of the year when they reach the age of 18 (minors);

Category 2: young people from 1 January of the year when they reach the age of 19 until the last day of the quarter when they reach the age of 26.

As far as young people from category 1 (minors) are concerned, there are no further conditions to fulfil for the conferral of the right to a reduction.

In relation to young people falling into category 2, the worker must be registered as a jobseeker on the eve of their appointment, be employed under the terms of a First Job Agreement and be poorly qualified (possessing a junior cycle secondary education diploma).

For the employment of young people from category 1, a reduction of € 1,000 per quarter is granted to the employer for each young person that they take on until the 4th quarter of the calendar year in which the worker becomes 18.

For the employment of young people from category 2, the reduction amounts to € 1,000 per quarter during the first eight quarters following their appointment and € 400 per quarter until the included quarter when they reach the age of 26.

## **Sanctions for failure to respect the obligation to employ young people**

A Employers that do not respect their obligations in relation to the First Job Agreement are required to pay a compensatory allowance of € 75 to be multiplied by the number of calendar days of infraction and by the number of workers concerned (i.e., young people not employed or workers made redundant to compensate for the recruitment of young people).

The income from these compensatory allocations is destined to create jobs for young people.

## **Exemption from the individual employment obligation**

A (partial or total) exemption from the youth employment obligation may be granted for specific reasons by means of a special procedure.

Thus, private sector businesses experiencing difficulties, businesses creating additional jobs, local authorities and private employers in the non-profit sector experiencing financial difficulties can submit an application for exemption to the Federal Belgian Minister for Employment.

Since the 1st of January 2003, a new possibility of exemption was established for private sector employers who could prove there had been a gradual reduction in the personnel workforce of their company. This exemption is intended for employers who, during the course of the different quarters preceding the date the exemption is requested, proceed with a continual, structural reduction of the personnel workforce. The exemption may be granted for a maximum renewable period of 2 years. The employer must, moreover, prove that, as a result of the granting of the exemption, the laying off of other members of staff can be avoided.

Private and public sector businesses may also be exempted from the obligation to employ new workers when, through agreement with the Federal Minister for Employment, they undertake to employ young people under an indefinite employment contract. This agreement

is for a maximum duration of 2 years and may be renewed.

## **Assessment of the First Job Agreement**

A study carried out in 2003 showed that the majority of employments in the framework of a First Job Agreement occurred in those regions having a more favourable employment-market situation and that employers hired (highly) qualified young people for the most part.

Thus, Flanders has a monopoly of almost 70% of beneficiaries of the First Job Agreement, the Walloon Region a little over 20% and the Brussels-Capital Region, less than 10%. Yet young Flemish people only represent 30% of all young jobseekers in the country, compared to 57% for the Walloon Region and 13% for the Brussels-Capital Region.

Therefore, the first jobs are not created in the regions with the highest rates of youth unemployment but in the regions with the highest employment rates. Thus, we find ourselves with the paradoxical result whereby the regions where the need was the greatest had the fewest First Job Agreement beneficiaries. However, this does not mean that it has not had any beneficial effects in these regions.

The first way of combating this phenomenon would be to encourage much greater geographic mobility in workers. Another way would be to adjust the age so as to see access to the First Job Agreement across the regions.

Qualified young people (at least senior cycle secondary education diploma) make up two thirds of the beneficiaries of the First Job Agreement, whilst the unqualified form the majority of jobseekers (54%). However, in relation to total youth employment for the 15 to 25s age group, poorly qualified people are more strongly represented in First Job Agreements (34%) than in employment as a whole (20%). In comparison with their unemployment rate, there is under-representation of poorly qualified people in First Job Agreements.

These figures lead us to ask certain questions. The first is to find out if the FJA jobs sim-

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ply mean, for the most part, a windfall for businesses, in other words whether these jobs would have been provided anyway without the First Job Agreement. The fact that those who benefit from a First Job Agreement are in the main qualified (which corresponds to business demand) and that the number of them varies according to the economic situation (both regionally and from year to year) would seem to support this view. On the other hand, the results do not allow us to conclude that the lesser success of the First Job Agreement for non-qualified people does not nevertheless hide an improvement in their integration in the employment market compared to what might have occurred without the First Job Agreement.

Women are in the minority amongst First Job Agreement beneficiaries but the same phenomenon is observed amongst the working population and the employed working population. Generally, women are represented almost as strongly in First Job Agreements as in employment as a whole for the same age category. Nevertheless, it is worth pointing out that these are highly qualified women for the most part, the presence of women being more limited amongst poorly qualified young people benefiting from a First Job Agreement.

If we examine the types of contracts, it is apparent that a large majority (96%) of them were recruited under ordinary fixed-term or indefinite contracts of employment. Only 0.6% of the contracts combine a contract of employment with training, whereas only 2.3% are apprenticeship contracts. The possibility of concluding First Job Agreements by combining work with an apprenticeship in a format suited to young people with poor or average qualifications has not led to any significant growth of the employment-training system.

Looking at a breakdown by business sector activity, the electricity sector, the primary sector, manufacturing industries and finance have a far higher ratio than the economy as a whole. This data must be put into perspective all the same.

Thus, amongst the sectors employing proportionally the most First Job Agreement beneficiaries, only the manufacturing industries, and

to a lesser extent the financial sector, represent a significant share of the employment (total and of under 26 years). On the other hand, amongst the sectors employing proportionally the least First Job Agreement beneficiaries (teaching, hospitality, construction and services), no sector is really insignificant in terms of employment.

In the public domain, only four sectors employ First Job Agreement beneficiaries: the electricity sector, the health sector, the civil service and the services sector.

What about observance of the collective youth employment obligations (3% + 1% for the private sector and 1.5% for the public sector) at the level of the sectors? Only the primary sector and transport exceeded the target with 4% young people. The primary sector clearly stands above the rest with a ratio of 20% young people, but it is a marginal sector representing less than 1% of the total for private sector remunerated employees. The construction, property and health sectors were below standard, whereas they represent a third of the employed private sector population!

The electricity, hospitality and retail sectors almost fulfil their obligation with a rate of over 3.5%. This is of particular importance for a sector like retail, which is the second employment sector with 18.29% of private sector employees. The most important employers in the private sector, the manufacturing industries, had a rate of 2.97%. However, it should be stressed that these figures underestimate observance of the obligation. In fact, on the one hand, they do not take into account the exemptions and derogations obtained by businesses or sectors and on the other, they do not distinguish between the private market sector and the private non-profit sector which benefits from a reduced employment obligation.

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## Statistical data

**Table 4: Number of First Job Agreements recorded by the National Social Security Office for the second quarter of 2005**

Nature of the First Job Agreement	Second quarter 2005				
	Residence				
	Brussels-Capital-Region	Flanders	Walloon	Unknown	Total 2005/2
FJA in the form of an employment contract that is at least part-time	2.988	36.866	13.662	807	54.323
FJA in the form of an employment contract combined with training	184	6.756	1.324	86	8.350
FJA in the form of an apprenticeship contract or agreement or even an integration agreement or contract	377	2.941	2.941	222	6.481
FJA in the form of an employment contract that is at least part-time (handicapped)	13	271	58		342
FJA in the form of an employment contract combined with training (handicapped)		6	3		9
FJA in the form of an apprenticeship contract or agreement or even an integration agreement or contract (handicapped)		1	1		2
FJA in the form of an employment contract that is at least part-time (foreign-born workers)	303	448	128	4	881
FJA in the form of an employment contract combined with training (foreign-born workers)	2	9	2		13
FJA in the form of an apprenticeship contract or agreement or even an integration agreement or contract (foreign-born workers)	1	4	5		10
<b>Total</b>	<b>3.868</b>	<b>47.302</b>	<b>18.122</b>	<b>1.119</b>	<b>70.411</b>



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**Table 5: Number of First Job Agreements recorded by the National Social Security Office for the second quarter of 2005**

Nature of the First Job Agreement	Men	Women	Total 2005/2
FJA in the form of an employment contract that is at least part-time	31.571	22.752	54.323
FJA in the form of an employment contract combined with training	3.871	4.479	8.350
FJA in the form of an apprenticeship contract or agreement or even an integration agreement or contract	4.331	2.150	6.481
FJA in the form of an employment contract that is at least part-time (handicapped)	215		342
FJA in the form of an employment contract combined with training (handicapped)	4	127	9
FJA in the form of an apprenticeship contract or agreement or even an integration agreement or contract (handicapped)	2	5	2
FJA in the form of an employment contract that is at least part-time (foreign-born workers)	524	357	881
FJA in the form of an employment contract combined with training (foreign-born workers)	8	5	13
FJA in the form of an apprenticeship contract or agreement or even an integration agreement or contract (foreign-born workers)	9	1	10
<b>Total</b>	<b>40.535</b>	<b>29.876</b>	<b>70.411</b>

**Table 6: Reduction in employer contributions for the employment of young people**

	Number of full-time equivalents					
	2004/1	2004/2	2004/3	2004/4	2005/1	2005/1
Young, poorly qualified workers with FJA	1.434,4	4.465,7	5.887,6	7.862,0	9.792,9	11.446,1
Young workers employed up to 31/12 of the year in which they turn 18	7.860,1	9.111,2	9.983,7	15.219,5	9.694,8	10.032,3
<b>Total</b>	<b>9.294,5</b>	<b>13.576,9</b>	<b>15.871,3</b>	<b>23.081,5</b>	<b>19.487,7</b>	<b>21.478,4</b>

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	Amount of reductions (in thousands €)					
	2004/1	2004/2	2004/3	2004/4	2005/1	2005/1
Young, poorly qualified workers with FJA	1.436,4	4.202,0	5.342,9	7.587,2	8.729,0	10.360,3
Young workers employed up to 31/12 of the year in which they turn 18	278,8	727,3	1.250,8	2.685,9	731,1	1.088,4
<b>Total</b>	<b>1.715,2</b>	<b>4.929,3</b>	<b>6.593,7</b>	<b>10.273,1</b>	<b>9.460,1</b>	<b>11.448,7</b>

## Changes made by the law of 23rd December 2005 relating to the Solidarity Pact between generations

After consultation with the social partners, the Belgian federal government introduced its contract of solidarity between generations in autumn 2005. In addition to the measures aimed at increasing the rate of employment of workers of 55 years of age or older and securing funding of the social security system, this pact also contains measures intended to improve the integration of young people in the employment market, particularly through adaptation of the legislation in the area of the First Job Agreement.

Firstly, the age up until which young people may be taken into account for the purposes of fulfilling the obligation to employ young people is reduced by one year. From the 1st of July 2006, young people will therefore be taken into account for the purposes of fulfilling the obligation to employ young people until the end of the quarter during which they reach the age of 25 years (compared to 26 years at present). However, it will be possible by means of royal decree to lower or raise this new age limit, on the advice of a Region, in order to make better allowance for the state of the employment market in that region.

For the federal authority, the obligation to employ young people will be toughened. The Federal Government and the bodies for which it is responsible, must from now on employ young workers up to a quota of 3 % of the personnel workforce of the second quarter of the previous year, expressed in full-time equivalent units (compared with 1.5 % at present).

The reduction in employer social security contributions will also be adjusted. For employing a

poorly qualified young person under a First Job Agreement, the employer will be able to benefit from a fixed reduction of € 1,000 during 16 quarters instead of 8 quarters. Furthermore, foreign-born young people as well as handicapped young people will confer the right to this young worker target group reduction (without necessarily having to be poorly qualified).

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## 4.2.6 Discussion

**Barbara Adamowsky, German Trade Union Confederation**, reports that also in Germany attempts were made to increase the training rate with pay-as-you-go financing. However, this application was rejected by the German parliament's Bundesrat. It would be interesting to know whether the Belgian programme actually created more training places. After all, there is the general risk of indirectly subsidising employers through such models. In addition, Ms. Adamowsky would be interested to hear whether Belgium's three percent quota applies to all companies, or whether there is a sliding scale.

**Joseph Remy, Ministry of Employment and Labour, BE**, states that the creation of training places was naturally one of the objectives of this measure. The evaluations document that 96 percent of the contracts were work contracts and no significant increase in contracts with a combination of job and training position or vocational training contracts was observed. This balance was not really positive. Nevertheless, Joseph Remy sees a first employment contract as a good instrument for creating additional opportunities for young people. Unfortunately, a more detailed evaluation of the programme and exact data are not yet available.

The quota of 3 percent only refers to employers with at least 50 employees. Companies with fewer employees can hire young people - also within the context of a first employment contract - however, they have no obligation to do so.

**Gottfried Wetzel, Federal Ministry of Economics and Labour, A**, addresses two aspects, namely deadweight loss and targeting. Most of the young people that have received a first employment contract are well-qualified. The target group of the low-skilled and/or older young people, who generally represent a problem group on the labour market, do not appear to have been reached so well. Gottfried Wetzel asks whether his impression is correct that only a narrow age segment has been reached, and whether considerations are being made to improve targeting by providing different incentives.

**Matthias Thorns, German Employers' Federation**, believes that the example has clearly

shown the failure of quotas to address or resolve the problem: low-skilled youth was unable to find or obtain a job through this quota system. One has to raise the employability and training capabilities of low-skilled youth instead of trying to force employment with quotas for employers. Furthermore, the participation of other groups, such as women and older workers, should be increased. Matthias Thorns asks how one could justify the introduction of quotas for young people. A quota regime would counteract the urgently needed efforts of reducing the employers' burden and cost, and of raising labour market flexibility.

**Joseph Remy, Ministry of Employment and Labour, BE**, answers that qualified young people, who found a job within the context of a first employment contract are not necessarily younger than 19. This group includes university graduates, for example. Currently, there is not yet sufficient data in order to confirm that the target of the young, qualified persons was exceeded. In any case, a generalised comment can not be made that older young people are less qualified. Some background information on the Belgian school system may be helpful in this respect: In Belgium, compulsory education applies up to the age of 18, with the possibility of part-time schooling between 16 and 18. Nevertheless, Joseph Remy agrees that the target group of young people with low qualifications could not be reached accordingly through the first employment contract. Action is certainly still required here. This is made more difficult by the fact that the federal government has practically no responsibility in the field of training, but rather, this is in the hands of the communities and regions. Due to responsibility being held at three different political levels, ideal, effective solutions can, unfortunately, not always be achieved. Hard work is still required here on a political level.

Answering the second question, Joseph Remy says that, in his personal opinion, first and foremost, training must be improved, in order to facilitate integration into the labour market. However, on the federal level, there are no possibilities of taking this initiative and we are forced to use those possibilities that are available to us. He is personally not in favour of quotas and there are naturally also other groups for which quotas could be introduced.



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ced, such as older workers. In his opinion, the concentration on young people also has historical reasons. The first employment programme that was set up during the 1970's, after the oil crisis, was a programme for the on the job training of young people and included already an obligation for some employers to hire young people. However, it would presumably be difficult also to introduce quotas for other groups. Thus, quotas are being demanded for immigrants. However, the Federal Minister of Employment is following the strategy that quotas should only be introduced if all other measures have been completely unsuccessful.

**Bruno Coquet, Ministry of Labour, F**, wants to know the number of programme participants and their distribution by age groups. He would also be interested in the total cost of introducing this measure. As companies with fewer than 50 employees are not affected, the question arises of whether it would be appropriate to shift incentives to SMEs to open up new employment opportunities for young people with low skills.

**Joseph Remy, Ministry of Employment and Labour, BE**, states that exact figures would only be available in several months' time, as a new IT system has been introduced. As a rough estimate, around 70,000 young people have currently been hired within the scope of this programme.

There are no interventions by the state. If young people are hired, their wages are to be paid by the employer and there is only a possibility of reducing the social security contributions. However, Joseph Remy agrees that there are many possibilities for hiring young people with low qualifications, particularly in small and medium-sized companies.

## 4.3 Workshop III: Supporting the low income sector

### 4.3.1 Johannes Schweighofer, Federal Ministry of Economics and Labour (BMWA), A

Johannes Schweighofer from the Austrian Ministry of Economics and Labour welcomes the participants on behalf of the Austrian Presidency to the workshop on the topic of 'supporting the low wage sector'.

He introduces the speakers of the workshop: Ulrich Schuh from the Institute of Advanced Studies, who will report the results from this workshop to the following plenary session. Ulrich Schuh is head of the department for Economics and Finance and his major research field is labour economics, in particular pension reform.

Sabine Desczka comes from the Netherlands but is of German origin. She is working as a senior researcher with ECORYS - which is a part of the Dutch economic institute - in the division of labour market and social policy and she also worked for the Dutch ministry of social affairs.

And last but not least Michael Wiseman from the United States. He is research professor in public policy, administrations and public economics at the George Washington University. He is also working as a consultant in programme management and evaluation for different government bodies.

Ulrich Schuh will give some introductory remarks on the topic, he will point to challenges and policy options and will shortly explain the Austrian case concerning the support of the low wage sector, Sabine Desczka will present the Dutch SPAK, a system for supporting the low income sector, and evaluation results, as this programme does not exist any longer. Finally, Michael Wiseman will do a presentation about the "Earned Income Tax Credit" (EITC) in the United States, which is one of the major social programmes already in existence for over 30 years. It also supports the low income sector but through tax credits.

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## 4.3.2 Ulrich Schuh, Institute for Advanced Studies (IHS), A

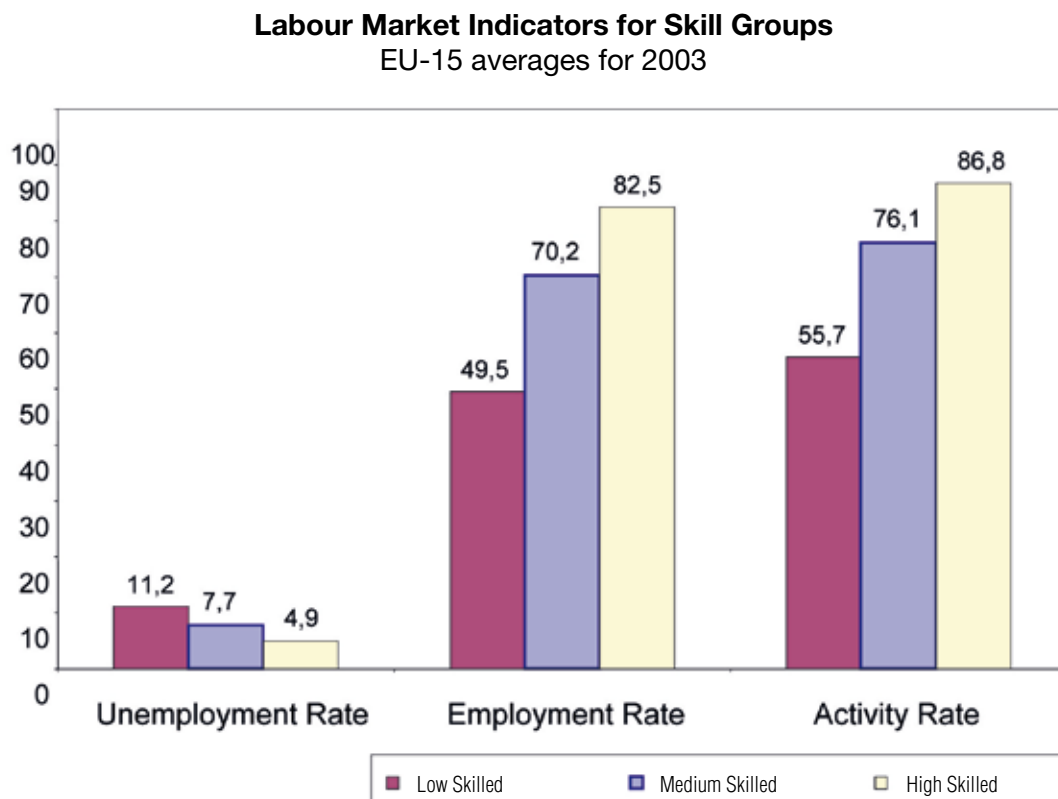
### Introduction

The European Union faces a number of fundamental challenges, which shape the strategies for economic policies in the member states. First ongoing demographic trends call for economic conditions that favour economic growth and employment in order to safeguard the sustainability of current welfare standards for future generations. Second the swift technological progress and the continuing process of integration of economies into the global market make it necessary that firms, employees and institutions adapt to a changing economic framework. Finally and most prominently the labour market

situation in most member states of the European Union is still unsatisfactory. Unemployment rates are on average on unacceptable high levels and labour market participation needs to be increased significantly.

Labour market perspectives of the group of low skilled individuals have deteriorated markedly in recent decades. This has become evident through a widening of the wage distribution in the United States and is reflected by high non-employment and unemployment of low skilled individuals in the European Union. For EU-15 and EU-25 member states about one third of the labour force has not attained more than a lower secondary education level (ISCED 0-2). Activity rates for this education group lie twenty percentage points below the respective value for the medium skilled labour force and the unemployment rate for this group is higher

**Figure 21: Labour market performance for different skill groups**



Source: Employment for Europe, 2004

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by one third or by 3.5 percentage points. Economic policy measures that are specifically targeted to the low skilled and low income sector are therefore essential to overcome the persistent unemployment challenge in the European Union.

## The inherent challenges in the low income sector

From an economic perspective the following factors have resulted in an unfavourable situation in the low skilled sector in most developed countries:

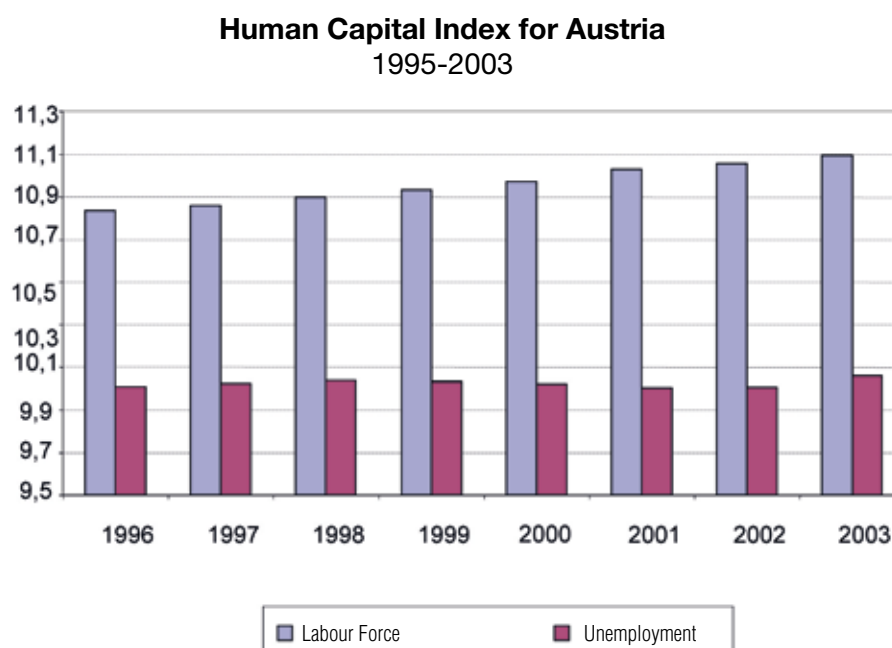
- The relative demand for low skilled labour has declined over time and firms are willing to pay only low wages for this group.
- Taxes and social security contributions borne by labour tended to increase and have resulted in a significant wedge between labour costs and take home pay - returns for individuals who take up a job declined.
- Public social transfers that are intended to prevent poverty lead to unemployment and inactivity traps - in many cases benefits are

withdrawn if the individual takes up a job, resulting in effective tax rates of more than 100 percent.

According to this view the interaction of tax and benefit systems lead to adverse incentives that are especially pronounced in the low income sector, which prevent the market mechanism to clear the labour market. Policy measures to support this target group should therefore focus on programs that reduce market distortions without eroding social standards.

The past trends in labour markets have resulted in weak labour market performance of low skilled groups. Labour market indicators vary significantly across different skill groups. Unemployment is low and labour force participation is very high for persons with high or medium skills, whereas the opposite is true for the persons belonging to the low skilled group (with an education level up to ISCED 2). In this respect it is interesting to note, that the employment targets of the Lisbon Strategy are already fulfilled in the higher skill groups, whereas the remaining gap is due to the poor outcomes for

**Figure 22: Human Capital Index for Austria**



Source: IHS



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the low skilled. Figure 1 shows the labour market indicators for the different skill groups.

In addition to that evidence for Austria indicates that the relative position of the low skilled persons deteriorated over time. Figure 2 shows a "human capital index", which captures the average years of schooling of the employed and unemployed in Austria for the period 1995-2003. Whereas the average years of schooling increased continuously for the labour force as a whole by about 2.5 percent, the corresponding value for the unemployed stayed roughly constant. This implies that over time the relative share of the lower skilled increased among the unemployed.

Figure 3 shows an indicator that measures the percentage of gross earnings, which is "taxed away" through higher tax and social security contributions and the withdrawal of unemployment and other benefits, when an unemployed person returns to employment. This structural indicator covers single persons without children earning, when in work, 67percent of the average earnings of a full-time production worker in the manufacturing industry. For the EU-15 and EU-25 average the value of this indicator is about 80percent, which points to the significant impact of the tax and be-

nefit system on the incentives of low income individuals.

## Potential policy areas to support the low income sector

Given the identified origins of high under- and unemployment in the low skill/low income sector there exist the following possible areas for policy reform:

- Improving the skills in the target sector and reducing the number of the low skilled is of course the most uncontroversial policy intervention; it is however clear, that it is time consuming and costly to achieve this goal and short term results should not be expected.
- Reducing the burden of taxes and social security contributions on labour, especially on low income earners; measures in this policy area seem promising as they address two problems at the same time. First labour costs are reduced for firms, which should support labour demand. Second take home pay for workers will increase, thus supporting labour market participation; here of course reforms come into conflict with the fiscal sustainability

**Figure 23: Unemployment Trap**





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and to some extent with the principles of social security.

- Wage subsidies address the mismatch between labour costs and productivity of employees. The idea is that firms receive public transfers for low productivity jobs, which could bring low skilled individuals into the labour market and would allow them to earn a decent income. By getting low skilled from inactivity or unemployment into jobs such subsidies could be at least self-financing. Difficulties may, however, arise as deadweight and displacement effects could result in costly and ineffective measures. It is therefore necessary to carefully design and monitor targeted wage subsidies.
- In-work benefits are similar to wage subsidies. The idea is to make the entitlement to benefits conditional on employment. This is intended to contain the incentives to become dependent on public transfers on the one hand and to mitigate the consequences of low pay on the other hand.

Empirical studies have confirmed that financial incentives do play a significant role in labour market transitions (see OECD Employment Outlook, 2004). However, it has also been shown, that marginal effective tax rates do exert only moderate effects on labour market performance. From existing evidence a general conclusion is that measures for the low income sector are an important tool to achieve improvements in the labour market situation, but that they are also no panacea.

Programs for the low skill/low income sector have been introduced by several EU and OECD member states in recent years. Learning from experiences within these programs that vary widely in terms of characteristics such as generosity and the income level and the rate at which benefits are withdrawn, can provide valuable input for the improvement of national initiatives. Some remarks on the Austrian case:

The labour market situation in Austria is still favourable compared to other member states of the European Union. With an unemployment rate of 5.2 percent and an employment rate of 68 percent Austria performs well above European Union averages. The labour market situation is, however, regarded as unsatisfactory. One aspect that has been observed in recent years was the deteriorating

labour performance of low skilled workers in Austria. Between 1995 and 2003, the average skill level (measured with years of schooling) of the Austrian labour force has improved by about 2.5 percent. The average unemployed had an average skill level that was 10 percent below the respective value of the labour force. The gap has widened by two percentage points in the period 1995 to 2003.

Measures to support the low income sector are consequently a focus of Austrian labour market policies. Currently, three approaches to support the low income sector exist in Austria.

First the Austrian tax system contains a negative income tax for earnings below 10,000 Euro per year in order to provide incentives to take up low paid jobs. The tax credit is however small and potential impacts are limited because the burden of non wage labour costs is still substantial.

Second wage subsidies are available to certain disadvantaged groups on the labour market. These wage subsidies are used as an instrument for reintegration of certain well defined groups on the labour market.

Finally a new model of wage subsidies for young and elderly long-term unemployed persons ("Kombilohn") was introduced only recently. The measure shall provide incentives for the target groups to take up jobs which would not provide a sufficient income without the subsidy.

Austria currently favours an approach that limits support in the low income sector to narrowly defined target groups in order to avoid significant deadweight and displacement effects.

## Conclusions

Labour market perspectives of the group of low skilled individuals have deteriorated markedly in recent decades. This has become evident through a widening of the wage distribution in the United States and is reflected by high non-employment and unemployment of low skilled individuals in the European Union. The interaction of unfavourable labour demand for low skilled with the tax and transfer system points to potential policy instruments that could reduce unemployment as well as non-employment in the low wage sector. A number of policy options have been discussed in the litera-

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ture and various countries have already implemented different measures of this kind.

Given the complex interaction of specific policy measures for the low skilled/low income group with the tax-benefit system of member states, care has to be given to the specific design of appropriate programs. As empirical evidence points to the necessity to have sufficiently large financial incentives in order to generate potentially large employment effects this also implies that a narrow targeting is necessary to achieve satisfactory results.

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## 4.3.3 Sabine Desczka, ECORYS Research and Consulting, NL

### "Lowering the non-wage labour costs"

## Introduction

Due to globalization and technological progress, low productivity employment has come under pressure. The industrialized world is confronted with increasing competition from emerging countries, especially in the low wage sector. Low-skilled production work partly shifted to emerging countries because of lower wages. However, even without the effects of globalization, there are enough reasons to pay more attention to low productivity employment. Demand for low productivity work has been decreasing for decades, often because labour costs exceed productivity. Moreover, in most EU countries unemployment of low productivity workers is high. Active labour market policies should address this problem.

This paper describes a Dutch active labour market instrument (SPAK = Specifieke Afdrachtskorting) that was designed in 1996 to promote employment among low productivity workers by lowering non-wage labour costs. The policy was broadly applied to low wage earners for nearly a decade. Due to changing circumstances on the labour market SPAK was abolished in 2004. With regard to more structural problems on the labour market, the government shifted policies from a more demand side oriented approach to a supply side approach in 2004. The existing means for labour market policy were partly transferred to increase workers' tax credit.

The first paragraph describes the development of low productivity work in the Netherlands. The second and third subsections will focus on the policy scheme itself and describe the specific features of the policy instrument. Finally, the last two paragraphs will focus on the performance of the scheme, the employment effects and other effects compared to other policies and other countries' regulations.

## Development of low-skilled work in the Netherlands

Low productivity work is often performed by low-skilled workers. Therefore, those could be used

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**Table 7: Employment and unemployment rates in selected countries 2002/2003**

Country	Employment rates low-skilled	Employment rates high-skilled	Unemployment rates low-skilled	Unemployment rates high-skilled
Austria	55,0	85,0	7,9	2,0
Belgium	48,9	83,6	10,7	3,5
Germany	50,2	83,0	18,0	5,2
Denmark	60,7	85,2	7,2	4,7
France	59,0	81,9	12,1	6,1
Netherlands *	58,7	87,1	3,8	2,1
UK	54,0	88,0	6,9	2,4
USA	57,8	82,2	9,9	3,4

Source: OECD Employment Outlook 2005, Netherlands\*: OECD Employment Outlook 2004, OECD figures for the Netherlands are estimated with a different method and therefore deviate from national figures (cf. first paragraph).

as a benchmark. Statistics on low-skilled workers give a good impression of the low wage segment. In 2005, the unemployment rate for workers with basic education in the Netherlands was 13.2 percent and for persons with a low educational level it was 9.6 percent. At the same time, the average unemployment rate was 6.4 percent, which shows that unemployment levels among the low-skilled are nearly twice as high (Statistics Netherlands).

The employment of low-skilled workers is a challenge not only to the Netherlands, but to many countries. The table below displays the employment and unemployment rates of low-skilled compared to high-skilled workers in selected countries for the year 2002/2003.

In all countries, participation of low-skilled workers is lacking behind. Employment rates for low-skilled workers range between 48 and 61 percent. Employment of high-skilled workers is much higher with 81 to 88 percent. Employment rates in the Netherlands are not specifically low compared to other countries. Unemployment rates of low-skilled compared to high-skilled workers are nearly twice as high in almost all countries. In Austria, Belgium and Germany, low-skilled workers are even three times more frequently unemployed than high-skilled workers. All countries have an excess supply of low-skilled workers on the labour market. This is equally true for the USA as it is for European countries.

## Supply and demand side policies

In active labour market policies (ALMP), there are - generally speaking - two ways in which governments can influence employment. One is by supporting employers and one is by supporting employees. The corresponding instruments are addressing two different situations. The first is a situation in which the level of productivity of low-skilled workers falls short of the (minimum) wage costs employers have to pay. A person in this situation would be confronted with involuntary unemployment. Labour market instruments addressing this situation could be a reduction of minimum wages, training or education, or financial incentives to employers. The second situation is one in which unemployed people do not have any incentives to participate and take up a job, for example because it would yield less income than their current benefits. Those persons are often considered voluntarily unemployed, and this situation is also called the "poverty trap". In the past, much consideration has been given to the second situation. "Making work pay" has been one of the EU's major slogans in recent years and most EU countries have adopted policies to make work pay. Policy instruments addressing this situation reduce benefits or grant an (earned) income tax credit.

Lowering non-wage labour costs is a policy instrument addressing the demand side of the labour

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market. Subsidizing wage costs of low productivity workers improves their situation on the labour market without lowering wages. It gets employers in the position to alternatively grant higher wages to those in low productivity employment or create more jobs. In the US lowering non-wage labour costs has been often used to increase wages. The main purpose in the Netherlands, however, was to create employment.

Nelissen (2004) investigated the development of the productivity and poverty traps in the Netherlands during the period of 1985 to 1998. With regard to men, the poverty trap fluctuates around 3 percent with a rather high level in 1998 (3.5 percent). Especially older men were affected by the poverty trap. With regard to women, the poverty trap level decreased strongly from 53 percent in 1985 to 23 percent in 1998. In the same period, the productivity trap fluctuated between 3 and 4 percent for men. From 1996 onwards, the percentage decreased to a historical low level of below 3 percent in 1998. With regard to women, the productivity trap rose until 1996, probably due to the increased wish to participate. After 1996, the productivity trap has been decreasing.

## SPAK in the Netherlands

In 1996, the Dutch government introduced a non-wage labour costs subsidy for low wage workers. SPAK (Specifieke Afdrachtskorting lage lonen) was part of a general Act in order to reduce labour costs for employers for several categories of workers, such as the low-skilled and the unemployed. The regulation was designed in order to promote (and maintain in the long run) employment among low wage workers. Within the scheme, each employer was entitled to a reduction of non-wage labour costs (and social security contributions) of up to 10 percent of the labour costs for each employee earning a wage not exceeding 115 percent of the statutory minimum wage.

The reduction was based on a working week of 32 hours and reduced accordingly for those workers working less than 32 hours a week. For workers older than 23 years, the amount was € 209 in 2002. For workers aged 15 to 23 years, the amount was lower. It increased according to age from

€ 209 at 15 years of age up to € 591 for a person aged 22. The government spent about 0.9 billion Euro a year on SPAK. (Internet: Ministerie van Sociale Zaken, 2003).

The reduction was given in the yearly tax report. The target group was kept broad in order to reduce administrative burdens and deliberately keep the administrative procedure simple. The advantages of the scheme were that it was simple to apply and the fact that structural relieves of labour costs seem to have stronger effects on the economy than temporary subsidies have. The low wage threshold of 115 percent of the statutory minimum wage made the scheme rather cost-efficient compared to other general tax credits. It is non-discriminatory and did not affect the wage level and the social assistance threshold, which is tied to the minimum wage in the Netherlands. However, there are two main disadvantages of the scheme: a large dead weight loss and a high marginal tax burden. About 80 percent of all workers to whom SPAK was applied would have been in the same job without SPAK (ECORYS-NEI, 1999) and SPAK provides a disincentive to raise wages above the threshold level of 115 percent of the minimum wage. In order to address the later disadvantage, the government introduced the transitional SPAK in 1998 that gave a reduction of labour costs for workers with a maximum of 135 percent of the minimum wage, which however did not affect the percentage of workers moving above the wage threshold of 115 percent of statutory minimum wage. So the later argument is highly theoretical in the case of the Netherlands (Hagoort, 1999). The success of SPAK was highly depending on its potential to create new jobs and maintain employment in the low wage segment. Therefore, research was clustered around this issue. The employment effects will be described in the following paragraph.

## Employment effects

SPAK was applied for about 839,000 workers in the Netherlands in the period from 1996 to 1998. The diagrams below show towards which groups it was geared. About 22 percent of the workers only had basic education, 67 percent achieved the lowest official skill level. SPAK was hardly ap-

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plied to higher educated workers. Women were overrepresented and it was especially applied for younger persons.

About 124,000 workers, to whom SPAK applied, work in large enterprises, 256.000 in small and medium size enterprises. It was more often applied in smaller than in larger enterprises. Figure 25 shows the type of employers that used SPAK. About 48,000 workers work in agriculture and industry, 172,000 in trade, hotels & catering and transport & communication, 118,000 in services and 42,000 in the non-profit sector and government, especially in education. Trade, hotels & catering and transport & communication are therefore overrepresented with regard to beneficiaries of SPAK.

In 1999 ECORYS evaluated the employment effects of SPAK. In the period from 1996 to 1998 the non-wage labour cost instrument was applied to 839,000 persons. From this number, two specific groups could be singled out. Firstly, the workers that where in the same position or job before 1 January 1996: They profit from the scheme, but they are not considered to benefit from an extra employment effect, because they would also have worked in a situation without SPAK. Of course, those who would have been made redundant in the meantime are not part of this group. Secondly, there is another group of unemployed, to whom SPAK applied, that would have found a job even when the instrument had not been there.

Both groups together give an estimation of the dead weight loss of SPAK. Earlier research results show that employers received reductions for 777,000 persons (about 80 percent), where it was not necessary. The employment effect on low wage workers is only 62,000 persons. Econometric estimations gave similar results. The net employment effect was about 44,000 to 64,000 persons.

Another side effect that appeared was a substitution and displacement effect. Some work formerly performed by higher paid workers was later performed by workers to whom SPAK applied. In about 5,000 to 8,000 cases that was the case. Including that effect, the survey results give a net employment effect of 46,000 up to 59,000 employees in the period from 1996 to 1998. The econometric models show a short-term employment effect of 41,000 up to 87,000 labour years for the period 1996-1998. The long-term estimations show an employment effect of 90,000 up to 140,000 labour years. Table 8 gives the results.

Employment effects have been estimated by different economic agencies in the Netherlands. The large variance between the estimation results is striking, which obviously leads to the conclusion that the employment effect is difficult to measure. The employment effect is considered to be between 27,000 and 87,000 labour years in the short run and 90,000 to 140,000 labour years in the long run. What is remarkable is the large dead weight loss.

**Figure 24: SPAK beneficiaries according to education level, gender and age**

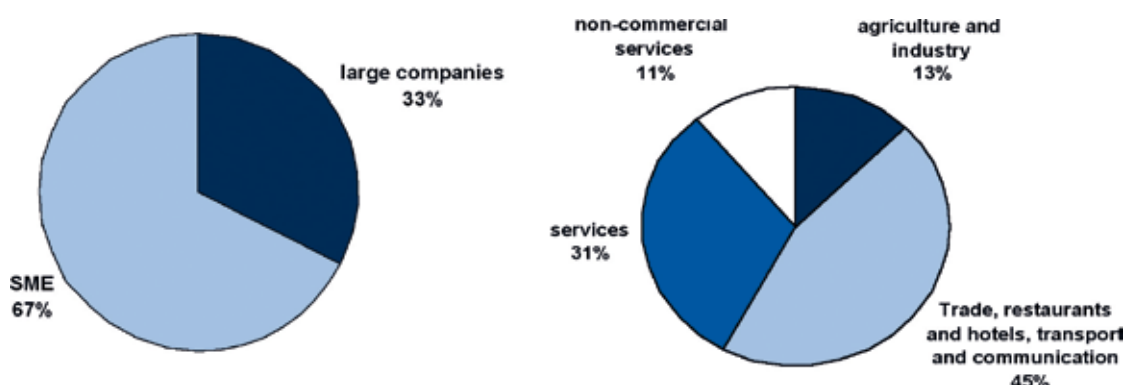


Source: ECORYS-NEI 1999.



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**Figure 25: SPAK users according to size of enterprise and industry**



**SME: Small and medium-sized enterprises.**

Source: NEI 1999.

## Performance of SPAK

SPAK is only one of the instruments that may be used to reduce long-term inactivity on the labour market. One of the central questions is the question of efficiency and effectiveness and the question on whether the employment effect is small or large compared to the effect other instruments generate. With regard to the employment effect, different

policies have been compared (Nelissen, 2004). The graph below gives the employment effects of different types of instruments that could be used in order to create employment. Besides the effect of SPAK, the effect of an earned income tax credit and of a worker's tax credit have been included as well as the effect of institutional measures, such as a reduction of the social assistance allowance of 5 per-

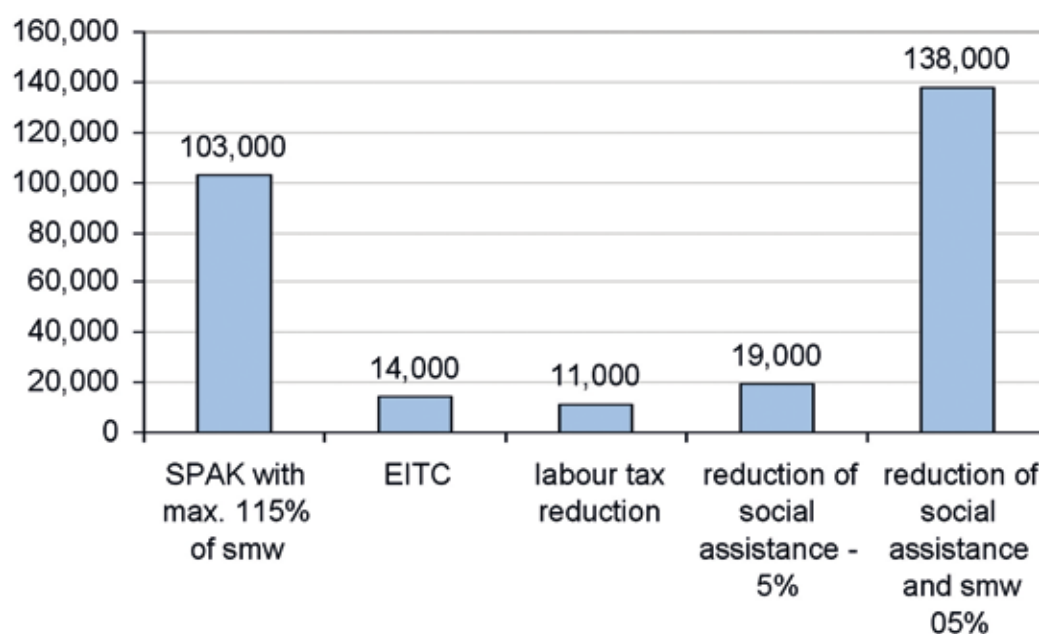
**Table 8: Employment effects**

	Type/method		Employment effect	
Take-up of SPAK	SPAK		839.000	Persons
minus dead weight loss			-777.000	Persons
is effect on low-wage workers		44.000	64.000	Persons
minus substitution/ displacement		-5.000	-8.000	Persons
overall employment effect:				
NEI survey	SPAK	46.000	59.0000	Persons
NEI econometric model	SPAK	41.000	87.000	Labour years
NEI long-term model	SPAK	90.000	140.000	Labour years
Other studies:				
CPB	Tax subsidy on labour costs		27.000	Labour years
Centre	Labour cost reduction	32.000	44.000	Labour years

Source: CPB 1998, NEI 1999, Centre 1996.

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**Figure 26: Employment effects of different types of labour market policies**



Source: Nelissen 2004.

cent or a combined reduction of social assistance and the minimum wage by 5 percent each.

The graph shows that the effectiveness of SPAK with regard to the employment effect can only be equalized by a rather strong reduction of the social assistance allowance and the statutory minimum wage.

## International comparison

Productivity trap and poverty trap issues are important causes of unemployment and low participation not only in the Netherlands but also in other countries, however to a more or less severe extent. Therefore, governments make different choices in policy instruments. In the UK and the US, policies are mostly supply-driven. Good examples are the Earned Income Tax Credit and the Working Family Tax Credit. In the Netherlands, Belgium and France, demand instruments have been developed. Supply side instruments are also being discussed in Germany ("Kombilohn"). Besides, Austria, the Netherlands and France have a scheme for a reduction of

social security contributions for older workers that also face low productivity problems on the labour market.

The most comparable among those schemes is the French one. The subsidy was introduced in 1994. It was first a percentage of total non-wage labour costs and had later been transformed to a linear system from 18 percent subsidy at minimum wage level to 0 percent at 133 percent of minimum wage. At 115 percent, the reduction of labour costs was 12 percent (Kramarz and Phillipon, 1999). The employment effects of that scheme were evaluated and have been compared to the Dutch scheme in table 9 below. The table shows the actual labour cost reduction and the net employment effect. In France, the labour cost reduction was 12 percent, which is rather similar to the Dutch reduction of 10 percent at 115 percent minimum wage level. Both schemes are targeted towards employment of low-skilled workers, younger persons and women. The authors conclude that the reduction of non-wage labour costs have a growth effect on low productivity work. The estimated employment effect is

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**Table 9: Employment effects compared**

	Netherlands	France
Labour cost reduction	10percent	12percent
Employment effect	46,000- 140,000	10,000-50,000

Source: Reducing social welfare contributions for low-paid workers.  
Report to the Prime Minister from the Advisory Committee on Employment, Incomes and Costs, 1999.

about 10,000 to 50,000 persons in employment (Advisory Committee on Employment, Income and Costs 1999). Thus, in both cases the employment effect is positive and with a rather large variety between the low and the high threshold. Differently from the Dutch situation the authors found an effect on the marginal tax rate of the employer that kept those from increasing wages for the low-skilled group to whom the non-wage labour cost reduction applied.

The table shows the differences with regard to the size of the labour cost reduction and the employment effect. Both effects are rather similar and positive. Possibly, there are four reasons why the employment effects are rather encouraging. Generally speaking, financial incentives directed towards employers work rather well. Therefore, it seems to be easier to address the productivity trap rather than the poverty trap, because employers respond better to financial incentives. Second, both countries have a minimum wage, which makes it rather difficult to hire low productivity workers. In both countries, the difference between the social assistance level and the minimum wage is rather small. This shows that lowering non-wage costs has also an effect on the poverty trap. Finally, there is a financial effect on the economy and the wage level, because it brings down wages for some groups to the level of the 1980's.

## Conclusions

A structural excess supply of low productivity workers in most industrialized countries results in involuntary unemployment. SPAK has a positive employment effect for low productivity workers of about 41,000 to 140,000 labour years and is therefore an effective instrument

to address this problem. Other instruments to address this kind of labour market problem are training and education. However, they will be successful in the long run, not in the short run. Maybe SPAK was not the most efficient instrument in terms of creating employment, but it had a large effect on keeping low productivity employment. A disadvantage of the scheme is the large wind fall effect with regard to persons that would have got the same job anyway. The considerable size of the dead weight loss makes SPAK a rather costly instrument. Another disadvantage is that it also provides a disincentive to raise wages above the threshold level of the statutory minimum wage.

The productivity trap is not the only problem in labour market policy and countries differ in labour market developments. Governments need to address different challenges and the actual labour market situation should determine the kind of policies that are used. SPAK was abolished in 2004 because the government found it more important at that moment to reduce the poverty trap. They also thought that the new law on social assistance would offer enough possibilities for communities to reduce the productivity trap. Financial resources were (partly) transferred to workers' tax reductions.

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## 4.3.4 Discussion

**Bilal Taner, Dutch Ministry of Social Affairs,** mentions that the SPAK programme had a very high dead-weight loss and that therefore the Dutch ministry was rather happy that the programme was abolished. He asks Sabine Desczka whether the ministry was right to abolish the programme. Bilal Taner points out that his contribution is not an official statement of the ministry.

**Sabine Desczka, ECORYS Research and Consulting, NL,** points out that the programme was performing rather well in addressing the problem of low skilled work. As, however, the Situation in the Netherlands has changed - according to the statistics bureau of the Netherlands there was a sudden rise in unemployment - the government shifted the focus from the SPAK scheme to a more structural programme with regard to lowering the poverty trap. Sabine Desczka thinks that this was a good thing to do at that time, but if one considers the SPAK scheme, it was performing well, compared to other instruments. To get people to work it is always easier to target employers rather than to target employees, as this is a multi-dimensional problem.

**Another question from the public** concerns the effects of stopping the programme. The question is whether there was a monitoring especially regarding the addressed groups.

**Sabine Desczka** answers that there is monitoring of the productivity trap and the poverty trap but no monitoring of the effects of stopping the SPAK programme. She also adds that the programme was not stopped at once but gradually within four years.

**Johannes Schweighofer, Ministry of Economic and Labour, A,** adds that as the programme was only phased out in 2005, data might not be available yet.

**Jussi Toppila, Finnish labour ministry,** asks whether the SPAK and the fiscal schemes have been compared.

**Sabine Desczka** has the impression that the fiscal scheme might be cheaper, however, there has not been an evaluation of the two schemes. Furthermore, the schemes are targeted at different groups, which make a comparison very difficult.

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**Alfred Stiglbauer, Austrian central bank (OeNB)**, is interested in the scale of the programme. He has the impression that it was rather big which was the reason why it was so costly. He also wants to know how big the programme was compared to total employment.

**Sabine Desczka** answers that the programme indeed was big. She explains that total employment in the Netherlands is around 7 million. She estimates that a bit less than 10 percent of employed people have been affected by the SPAK programme.

**Jan Dannenbring, Zentralverband Deutsches Handwerk**, mentions that he was quite surprised about the high number of SMEs participating, as it is normally rather difficult to involve this group in such programmes. He would like to get information on the type and size of those SMEs.

**Sabine Desczka** explains that there is data about the sizes of the companies, but that there was generally the impression that especially small companies commissioned other companies for the tax reports when they had to apply for the scheme. They therefore did not apply themselves; they had other people applying for them. However, not all employers were familiar with the scheme.

**Martin Gleitsmann, Austrian Chamber of Commerce (WKÖ)**, asks about the costs of the SPAK programme and who paid for it.

**Sabine Desczka** answers that of course the state paid for the programme and that the SPAK cost the Dutch ministry around 900,000 €. However, no cost-benefit analysis has been made.

## 4.3.5 Michael Wiseman, The George Washington University, USA, "The American Earned Income Tax Credit"

The topic of this conference is "Innovations in Labour Market Policies". In my judgement the most significant labor market policy development in recent United States history is the expansion of the Earned Income Tax Credit (EITC). The EITC is a national earnings subsidy for low-income workers. The program is credited with substantially increasing labor supply among lone parents and contributing to dramatic declines in take-up of Temporary Assistance for Needy Families, America's program of last resort for destitute families with children. While the credit was originally enacted in 1975, take-up and effects grew substantially after implementation of significant benefit expansions in the early 1990s. Thus even with the usual lags in data accumulation and analysis, we have over a decade of experience with the credit to mine for ideas and lessons.

Generally speaking, the lessons seem to be that earnings subsidies can be successfully administered through the tax code and that the EITC did increase labor force participation among lone parents. Anticipated perverse effects on labor supply of the credit phase-out have not been shown to be substantial. Understanding the connection between expansion of the EITC and decline in the number of families receiving more social assistance is complicated by near simultaneity between EITC expansion, state welfare reform efforts, and decline in unemployment rates. As experience with the EITC has grown, effects beyond labor supply are attracting attention, including consequences for saving and children's well-being. Integration of the major components of the American social assistance "triad" - the EITC, the Food Stamp program, and Temporary Assistance for Needy Families - is yet to be accomplished. American experience with the EITC is pertinent to consideration of policies such as those discussed at this conference by Christopher Pissarides that are intended to expand low-skill service employment in Europe.

My plan is straightforward: I begin with a description of the structure of the EITC and a review of take-up. I then summarize the results of a num-

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ber of important recent studies of EITC effects. I close with some questions for which researchers and academics are still seeking answers, as they are wont to do.

## How the EITC Operates

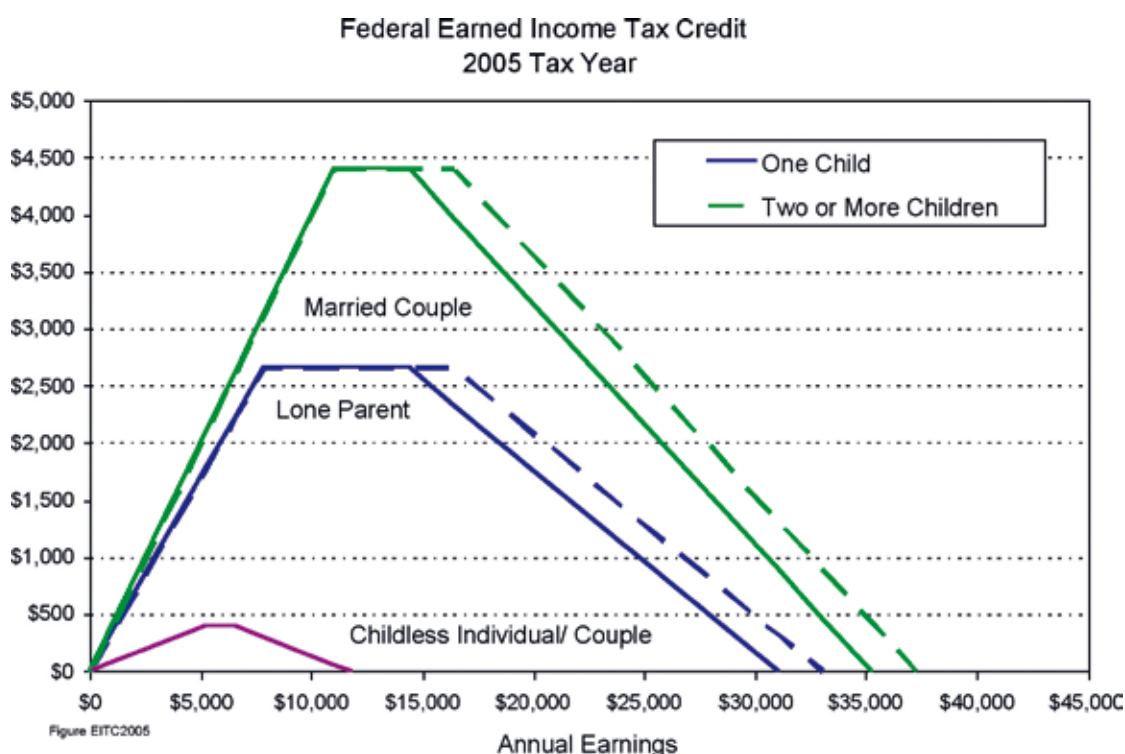
The EITC is available to low-income working taxpayers. Since Americans are engaged in the process of filing tax returns for 2005 as we are meeting in Vienna, I shall describe the program's parameters as applied to last year's income. There are schedules for (1) taxpayers with one qualifying child, (2) taxpayers with two or more qualifying children, and (3) taxpayers who are over 24, but less than 65 years old and have no qualifying children.

As outlined in Figure 1, in 2005 a single parent with one child and annual earnings less than \$7,660 gains \$34 in EITC for every \$1 earned to a maximum (at \$7,660) of \$2,604. This maximum benefit

continues until earnings reach \$14,040; beyond this amount, in what is termed the "phase-out" range, the benefit declines at a rate of \$153 per dollar of earnings, reaching zero at \$31,030. Two children raise the maximum payment to \$4,400 and the maximum earnings level for any eligibility to \$35,263. Married couples' benefits are the same except that phase-out begins at a slightly higher level. There is a very small EITC (maximum benefit \$390 per year) for childless individuals and couples. The fact that the major EITC operates only on adults with child dependents offers an opportunity to gauge EITC effects by comparing changes in labor force participation among those affected by changes in the benefit to contemporaneous change among adults without children.

Of course, worker/taxpayers also have positive tax obligations. One is contributions for social insurance, including social pensions, disability insurance, and hospital (Medicare) insurance in retirement, amounting to 7.65 percent up to a maximum

**Figure 27: The Federal Earned Income Tax Credit in Tax Year 2005**





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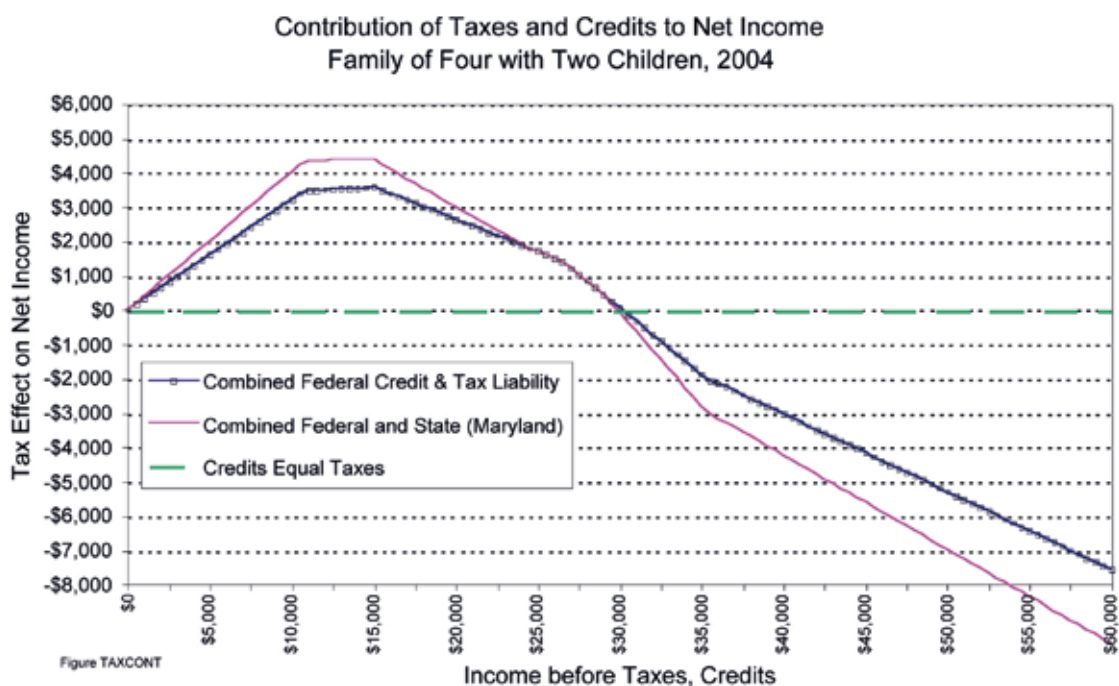
(for all but Medicare component) of \$90,000. (An equal amount is paid by employers.) A second is liability for the federal income tax itself and, in many states, state income taxes. Figure 2 shows the change in combined federal tax liability as earnings increase for a family of four, both when counting only federal income tax (including the EITC and social insurance) and when adding, for a sample state (Maryland), state income taxes and the state's own earned income tax credit. These data are for 2004, the latest year for which state information was readily available. EITC benefits are indexed, so the maximum amount paid for a four-person, two-child family for the 2004 tax year was \$4,300, \$100 less than in 2005.

Note that at the Low Earnings Level of \$14,500 per year, two adults with two children would on balance gain about \$3,600 from the tax system. The official U.S. poverty standard for 2004 for a two-parent family of four was \$19,157 before taxes (DeNavas-Walt et al., 2005, 45); thus in prin-

ciple the EITC would almost lift the family out of poverty. This family would in addition be eligible for \$2,700 or more in Food Stamp program benefits, and this would cover the remainder of the gap. The "in principle" modifier is necessary because virtually all filers receive the EITC in the year after a claim accrues. There is provision in the law for partial EITC prepayment on a monthly basis, but very few taxpayers take advantage of this option.

The poverty standard used in the U.S. is an absolute standard rooted in budget studies done a half century ago. It differs from measures commonly used in Europe in that it is invariant with respect to the distribution of income. If one were to take a more European view and identify poverty with incomes less than half the national median based on a commonly used equivalence scale, the threshold for a family of four in 2004 would have been approximately \$29,000. Obviously, the families we are describing are poor.

**Figure 28: Social Insurance and Income Tax Liability, Family of 4, 2004**



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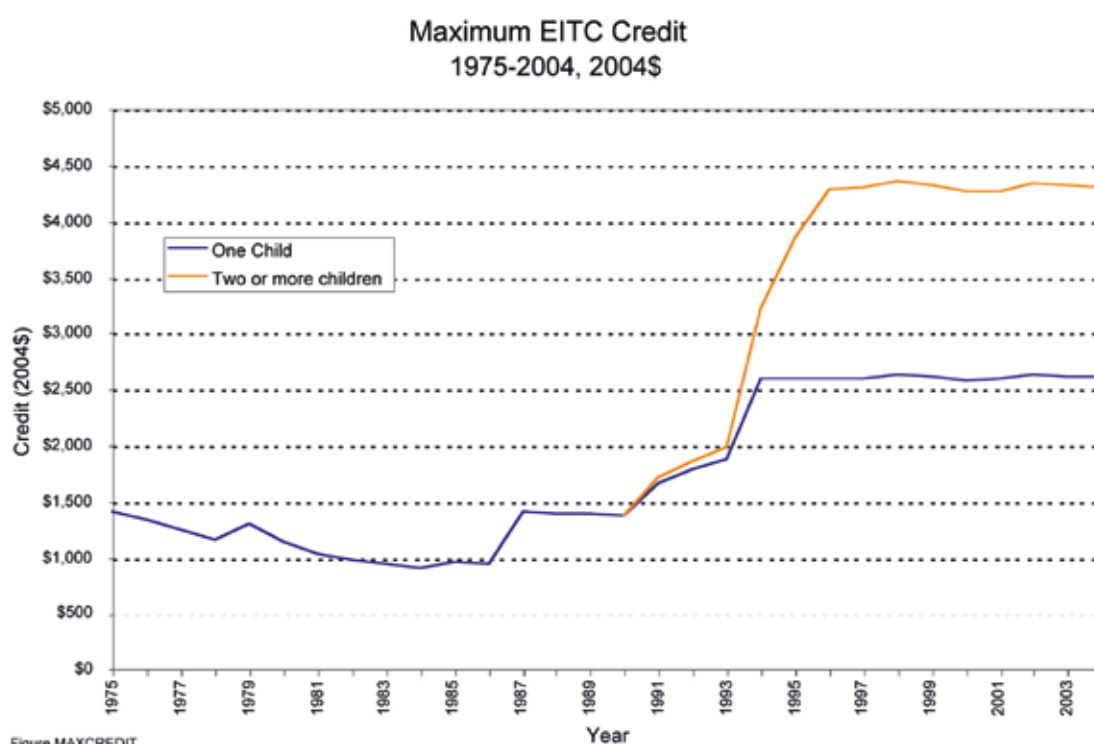
The operation of the EITC poses a number of administrative problems and raises various questions about taxpayer response. One administrative concern is fraud; or at least misappropriation of the benefit in cases in which parents not filing together both claim the same child. Scams are possible and have occurred, for example, when persons create artificial exchange of employment at low earnings in order to lay claim to the credit. To date no problem encountered in EITC administration appears sufficiently significant to warrant major program adjustments. The central behavioral concern involves labor supply. Over the range of earnings up to the phase-out, the credit creates substantial incentives for initiation of employment and expansion of earnings. However, beyond the “plateau” of the maximum benefit, the reduction in EITC as earnings go up creates what is in effect a substantial marginal tax rate on returns to work-over 50 percent at \$30,000 in the Maryland example plotted in Figure 2. In a typical tax year there are more households in the phase-out range than in the ran-

ge of increasing or constant subsidy, hence it is possible that the effect of the program as a whole is to reduce labor supply.

## Changes over Time

Major EITC policy changes occurred in 1987 (parameters indexed for inflation; effective 1987 tax year), 1990 (substantial expansion including differential benefit for two or more children, effective 1991), 1993 (substantial expansion, effective 1994), and 2001 (various administrative changes, phased in beginning 2002). The resulting pattern of change in the real value of the one- and two+-child maximum benefit is plotted in Figure 3. The substantial relative increase in the benefit for larger families that began in 1994 offers an opportunity for “difference-in-difference” analysis of EITC effects by comparing subsequent changes in labor force participation and hours worked for adults with two or more children to that of adults with only a single child dependent. Figure 4 illustrates both the incre-

**Figure 29: Maximum EITC Credit, 1975-2004**



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ase in take-up of the EITC and the average benefit. These data are plotted by tax year of accrual, but it should be recalled that claimants receive payment at the beginning of the following year. Thus the jump in benefit from 1990 to 91 was received in 1992. From 1991 (paid 1992) to 1998 (paid 1999) the average credit increased in real terms by 64 percent. There is a lot of money involved here: \$38 billion in credits in 2004. Part of this amount simply offsets other income tax liability, but over 87 percent of the total outlay - \$33 billion - was accounted for by positive payments.

## Effects

I turn now to a short and very selective overview of recent EITC-related research.

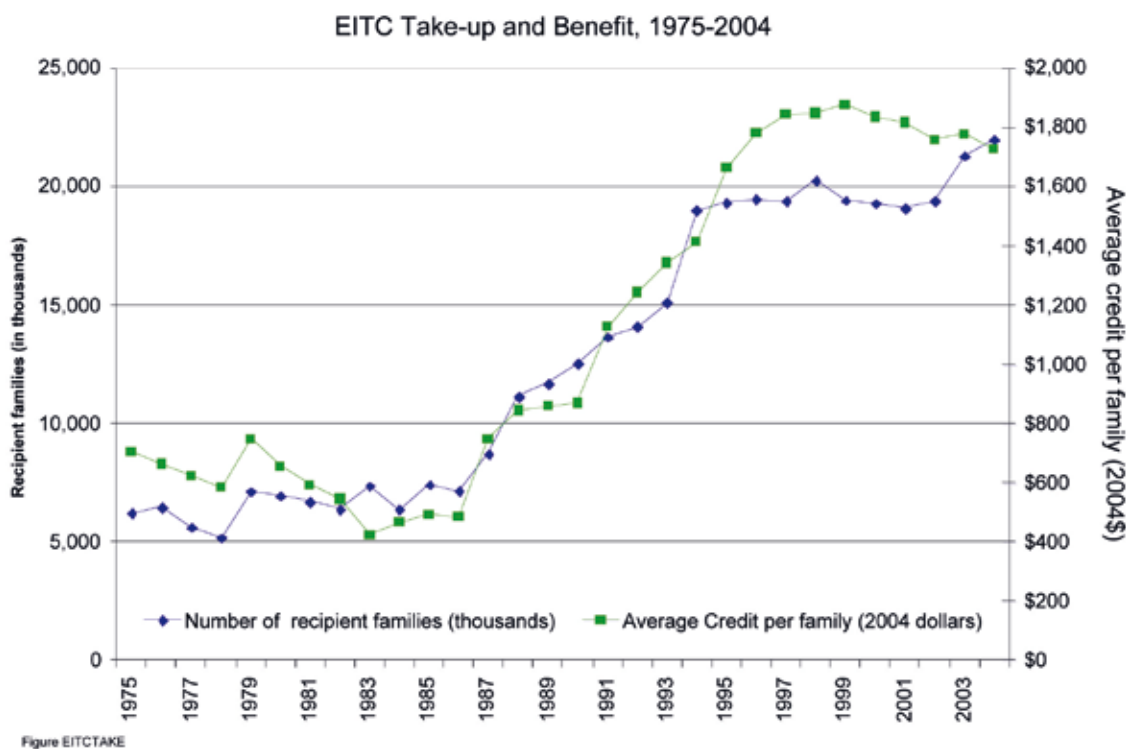
## Labor Supply

The increase in labor force participation among women with children, and in particular among lone

parents, is one of the most significant recent developments in the economic demography of the U.S. The response is particularly striking when one compares trends in labor force participation for married women who live with their spouses and have children under 18 to all other women with children. Figure 5 shows the prevalence of labor force participation over the period 1984-2003 for women age 19-44 in various family circumstances. Over this period labor force participation for those in the married-with-children group rose just four percentage points, from 66 to 70 percent. For women in the single-with-children group the increase was by 11 percentage points, from 73 to 84 percent. Lone parents account for over three-quarters of EITC recipients.

The most important early study of EITC effects on labor force participation by single mothers is that of Meyer and Rosenbaum (2001). The authors estimate that the EITC increased employment among single mothers by 4-7 percentage points by 1996. Their estimated increase due to the EITC for

**Figure 30: EITC Take-Up and Benefit, 1975-2004**



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**Figure 31: Women's Labor Force Participation and Family Status, 1984-2003**

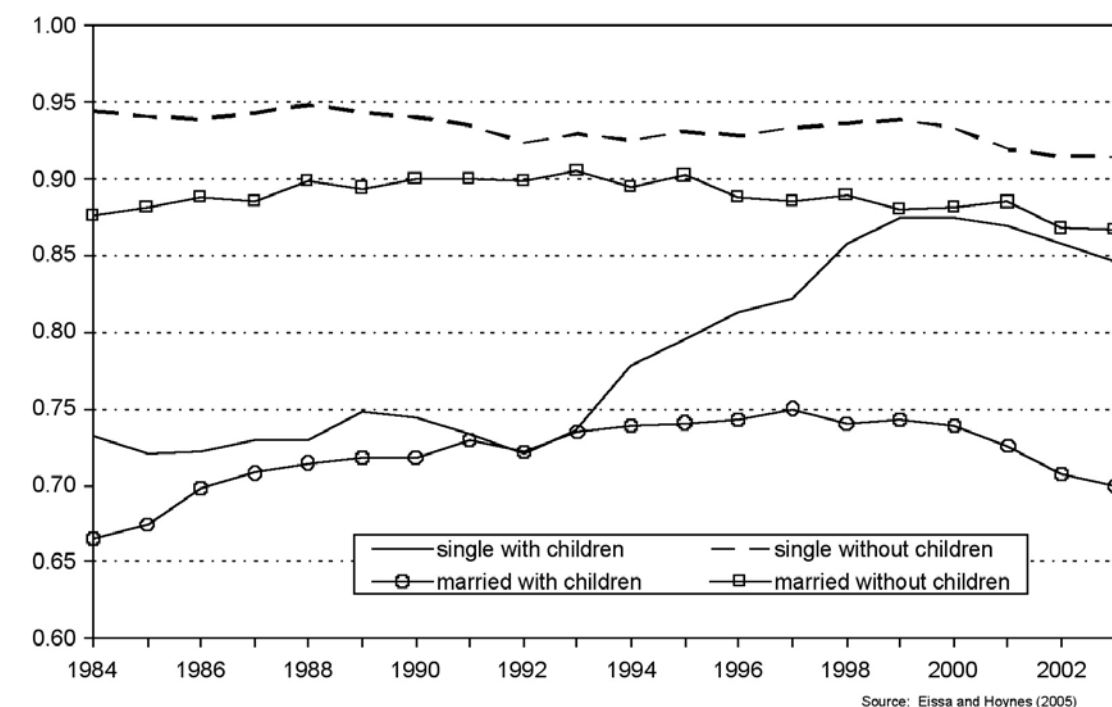


Figure  
WLFPPS

single mothers with young children and for single mothers with low education levels is larger. Overall, the authors judged the EITC to be responsible for more than 60 percent of the increase in labor force participation among single mothers between 1984 and 1996.

Subsequent work has generally been consistent with the core Meyer-Rosenbaum results. (For a comprehensive review, see Eissa and Hoynes 2005.) Analysts find EITC effects to be most evident on labor force participation for lone parents; little evidence of effects on hours worked has been detected. EITC expansion is typically estimated to lead to small decreases in hours of employment for married women in families with incomes in the phase-out range. Overall, the failure to detect effects on hours worked is a puzzle given the size of the implicit tax rate in the phase-out range of the tax. Explanations offered for the absence of a significant hours effect include: (1) Most workers can't

vary hours significantly, since generally most hold "full-time" jobs; (2) there are considerable errors in measurement of hours of work in surveys, and this errors-in-variables problem prevents detection of hours-of-work effects; and (3) workers simply don't understand the connection between benefits received and hours of work, especially difference in timing between when decisions about how much to work are made and the EITC benefit is received. To date none of these explanations has been conclusively supported or refuted by research. The problem of timing of perception and response clouds much of the analysis of EITC effects, since while changes in policy may be substantial and discontinuous, growth in understanding and the spread of response probably occur gradually.

Such puzzles aside, from a political standpoint the important thing is that the EITC expansion has produced neither administrative problems nor obvious effects on behavior that threaten its endurance

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as an institution. The EITC has become the central instrument of income support for low-income working families in the U.S.

## Welfare

Perhaps the most politically controversial aspect of analysis of the effect of the EITC has been the implications of such work for judgements regarding the efficacy of another feature of recent American social assistance history: welfare reform. In American terminology, "welfare" has traditionally meant the Aid to Families with Dependent Children (AFDC) program created by the Social Security Act of 1936 and "reform" describes the process leading to AFDC's replacement in 1996 with a new program, Temporary Assistance for Needy Families (TANF) (Wiseman, 2003). For families with children, the American social assistance system has three major components: The EITC, the Food Stamp program, and TANF. The EITC and Food Stamp

programs both have uniform national benefits (although, as indicated, some states supplement the EITC). The EITC serves only families with earnings and generally delivers benefits only once a year. The Food Stamp program provides benefits on a monthly basis, but support is adequate only for nutrition. TANF, like its predecessor program AFDC, is support of last resort.

For the first 40 years of AFDC operation, variation across states in the amount of benefits was always substantial, but most other features were standard. Since at least the early 1980's states have allowed the real value of basic benefits paid families without other income to erode. In the late 1980's and early 1990's states, with administrative permission from first Republican and then Democratic administrations, began to increase work and other obligations imposed on applicants for and recipients of AFDC payments in a variety of ways. The 1996 reforms further enhanced the latitude granted states in determining the structure of

**Figure 32: The AFDC/TANF Caseload and Unemployment, 1975-2003**

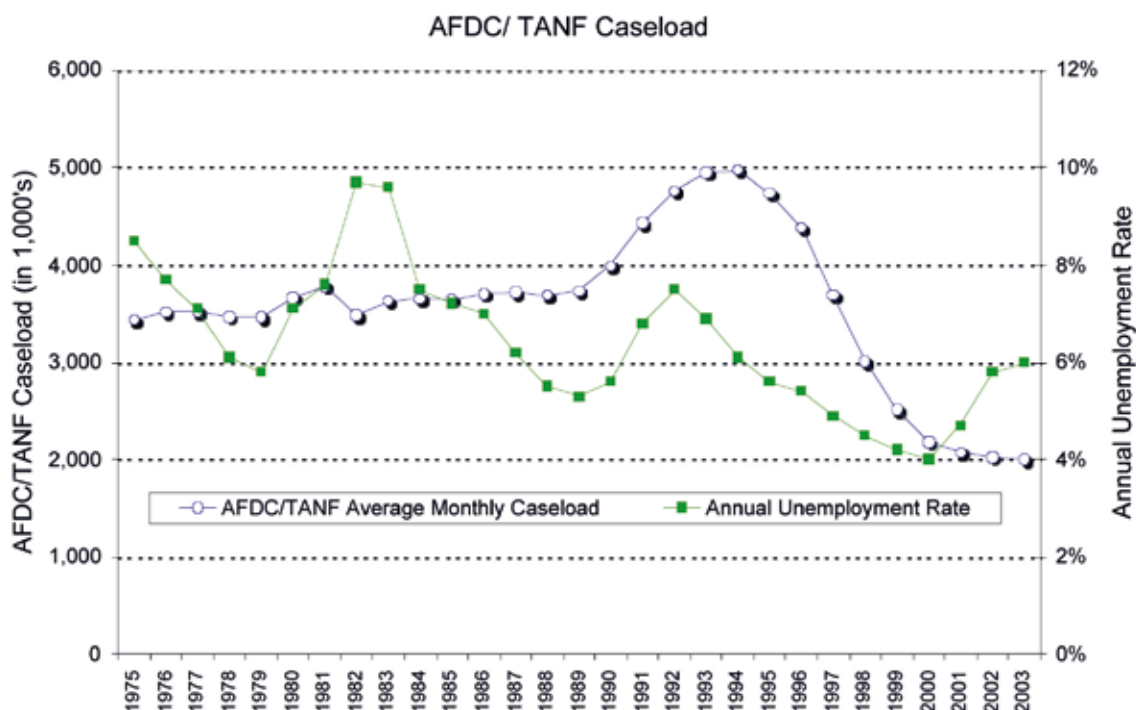


Figure PACASELOAD



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their TANF programs, including the nature of work requirements, the financial incentives for work, and choices with respect to time limits on benefit receipt. As a result diversity across states in TANF operation has continued to grow.

The AFDC/TANF policy developments of 1990's, as well as substantial economic expansion, are associated with a dramatic decline in the number of families receiving AFDC/TANF cash assistance. Figure 6 plots the number of families receiving AFDC/TANF from 1975 through 2003, along with the national unemployment rate. Obviously, there is a significant correlation between improvements in the labor market and decline in AFDC/TANF receipt. In addition, the 1994 turnaround in caseload totals coincides with the last of the series of substantial EITC increases. Both the EITC changes and welfare reform primarily affected families with children, and the most substantial changes occurred for single parents, the principle beneficiaries of AFDC/TANF. Thus we have two candidate explanations for declining welfare caseloads. On the one hand, the EITC made work more attractive. On the other, welfare reform, by raising the cost and uncertainty surrounding benefit receipt, made public assistance less attractive. And movement to work was encouraged by a steadily improving labor market. Sorting out the relative contribution of welfare reform and the EITC on these developments is very difficult. In part the problem is again measurement: Because during the 1990's there was so much variation across states in first AFDC and then TANF programs, it is difficult to control for the nature of the welfare alternative in any sort of time series or cross-state analysis of EITC effects. In my judgement, no available analysis has succeeded in doing so.

Aside from difficulty in characterizing the variation in TANF programs in ways suitable for the usual methods of statistical analysis, there is a dynamic issue. TANF is "temporary" assistance, presumably providing interim support for adults and their children who are expected to make efforts to return to or begin work. Most evaluations of the EITC effects approach the issue in a comparative static framework, attempting to identify the effect of the credit on the prevalence and intensity of labor force participation. For policymakers interested in

accelerating accession to work, it is reasonable to suspect that success involves the dynamic interaction between more aggressive administrative welfare-to-work efforts and the incentive to work created by the EITC. This complicates the parsing of causality.

Analysis of this interaction between EITC expansion and welfare reform is complicated by the general absence of data on welfare accession and termination with detail sufficient to control for state policy choices both in TANF and with respect to taxes and earnings subsidies. Using data from a special federal program of bonuses for states achieving high rates of movement to employment by unemployed TANF recipients, I have found a statistically significant and substantial positive effect of expected income from work on job-taking (Wiseman, 2005). My measure of gain from work reflects local labor market conditions and includes both wage rates and the anticipated supplement from federal and state earned income credits, but it is not clear that the bonus data are adequate for reliably identifying subsidy effects alone.

Whatever the difficulties encountered in econometric analysis of effects, considerable effort is exerted by states to inform TANF recipients of the role of the federal (and, where present, state) EITC in "making work pay."

### Saving

Domestic social policy discussions in the U.S. are currently dominated by debate over the appropriate course for reform of the social retirement system. The outcome of this debate is uncertain, but it has served to focus attention on incentives for encouraging private saving. Politically such initiatives are consonant with President Bush's emphasis on developing an "Ownership Society." Practically, were a larger share of the population to have significant assets, vulnerability to economic dislocation would be reduced.

The ticket to membership in the ownership society is saving. Yet the U.S., like most other countries, defines poverty in terms of income, sets standards with reference to consumption, and focuses much of its policy - from the Food Stamp to the



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Low Income Home Energy Assistance program - on sustaining consumption, not on increasing security through asset accumulation. Despite the difficulties in precise contribution assessment already cited, it is clear that much of the success of American anti-poverty policy in the 1990s was attributable to the role of the Earned Income Tax Credit in encouraging and sustaining labor force participation. Recently various academics and interest groups have focused attention on finding ways of translating part of the new income generated by work into wealth.

As discussed above, while the EITC includes provision for partial advance payment, virtually all households receive it (and any additional state tax credits) after filing their annual income tax returns. A growing body of evidence suggests that saving is best accomplished when arrangements are made to set aside income when received, before opportunities arise for spending. For many low- to moderate-income families the advent of annual federal and state refunds provides a saving opportunity (Beverly, Schneider, and Tufano, 2005). The amounts involved are not trivial, since in addition to the EITC they include various other refundable credits and over-withholding. State refunds add to this.

A substantial portion of all Earned Income Tax Credit refunds are obtained by filers who use the services of tax preparation consultants. There are various reasons for this, including ease of access, the complicated nature of the federal and state tax system, and the opportunity of gaining refunds quickly through short-term ("refund anticipation") loans. In the U.S., the largest of these is H&R Block, Inc. In 2005, Block participated in a randomized trial in which refund recipients were offered various incentives to direct a portion of refunds into Individual Retirement Accounts (Duflo et al., 2005). The results were mixed (an expanded experiment is underway for 2006), but the conclusion of an early evaluation report is interesting: "Our results," the authors write, "suggest that the combination of a clear and understandable match for saving, easily accessible savings vehicles, the opportunity to use part of an income tax refund to save, and professional assistance could generate a significant increase in retirement saving participation and contributions, even among moderate- and low-income

households" (Duflo et al., 2005, 1). Experiments of this nature are being promoted by the growing number of economists unsatisfied with the empirical success of predictions of policy impact that are based on traditional full-information rational choice models of consumer behavior.

Given the security of the EITC as a social policy institution, it is likely that analysts and policymakers will continue to seek avenues for improving its long-term impact.

## Child Achievement

Consideration of "long term impact" may be important. The EITC has now become a permanent part of the economic situation of low-income families in the U.S. It has raised both the expected income of low-skilled adults with dependents and possibly reduced the uncertainty surrounding such expectations. Both consequences could affect other outcomes of social importance.

Social scientists have long been aware of a positive relationship between family income and children's academic achievement. However, it is difficult to be confident about causality in such data, for both family income and children's achievement may be the product of other, difficult-to-observe factors. If such confounding factors are present, it is possible that the observed relationship between income and achievement does not provide a guide for predicting the effects of increasing income through policy intervention. Some analysts have attempted to identify income effects in the context of classical experiments in which randomly selected families are provided exceptional resources or opportunities (cf. Duncan, Morris, and Rodrigues, 2004), since in such experiments at least some difference in income between "treatment" and "control" families is generated quite independently of family characteristics. However, such experiments are typically focused on questions other than the determinants of child development and have a treatment horizon that is too short to expect measurable impact on children.

Given their evident endurance, increases in the EITC offer an alternative opportunity to examine the consequences of income change on child development. In a significant recent paper Gordon Dahl



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and Lance Lochner (2005) report results of study of the relationship between family income and achievement within a longitudinal panel of over 6,000 children five years of age or older for whom data on ability and family circumstances were collected over the period 1986 to 2000. The data include up to five measures of cognitive test scores administered at two-year intervals within the span of the study. The authors use the repeated observations on each child to control for fixed ability and other environmental effects and develop an instrument for expected household earnings to which the contemporary EITC benefit is added. Normalized test scores in math and reading are regressed on the income instrument and various characteristics thought likely to affect achievement. EITC-related variation in expected income comes about because of variation in the EITC schedule over time and across families given variation in predicted income from other sources.

The authors find “modest but encouraging” effects: Translated into effects per dollar of expenditure, their “baseline” estimates imply that the current (2005) maximum EITC credit (\$4,400, for families with two or more children) increases the math scores of affected children by about one-tenth of a standard deviation and reading scores by about a seventh of a standard deviation. These effects are not large, but they are comparable in magnitude to estimates of effects of other direct interventions intended to enhance academic performance. The effects appear to be larger for families most likely to be affected, and the estimates are quite robust.

The Dahl-Lochner results provide significant new evidence that positive change in family economic circumstances does translate into improved child outcomes.

## Conclusions

The Earned Income Credit is a seasoned and generous instrument of social assistance policy, increasingly well understood and appreciated among low-income American families. It is not clear whether its idiosyncratic annual delivery is a virtue or a shortcoming. Its success as an anti-poverty strategy in the short-run is dependent on

the availability of jobs, and thus it works well in the context of an economy in which unemployment is low but many jobs pay low wages. This circumstance is unlikely to change in the near future, in part because of the influence of globalization, and as a result the credit will continue as a major vehicle for income support. Given both the timing of the benefit and the dependence on employment, the EITC cannot serve as the whole of social assistance, and attention would be usefully paid to improving integration with the Food Stamp and TANF programs.

There remain many questions. We need better information on the consequences of the EITC for labor supply. In principle the increase in labor force participation brought about by the EITC should be expected to reduce wages, but such effects have been difficult to uncover (Rothstein, 2005). What are we to infer? That demand is essentially infinitely elastic? Why is it that workers appear to be unwilling to seek advance payment of the EITC? Why do they prefer the forced saving implicit in waiting for collection until income tax filing? Is there a positive role for private tax intermediaries like H&R Block to play in encouraging and facilitating saving? Is such a role contingent on operation of an EITC-type subsidy in the mode observed in the U.S.? Just how significant in practice are the disincentives created by the EITC phase-out for skill accumulation? What policy instruments might be used to offset these effects?

In his keynote address to this conference, Christopher Pissarides (2006) presents a novel argument that expansion of the service sector and in particular of low-skill employment may be essential to expanding women's labor force participation at the upper end of the skill distribution and indeed for raising productivity in general. Clearly the earned income tax credit has facilitated an increase in employment at relatively low wages in the U.S. The magnitude of the indirect effect of cheaper services on aggregate U.S. productivity has yet to be explored.

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## 4.3.6 Discussion

**Christine Holzer, Ministry of Economics and Labour, A**, asks what role the public employment services play in the United States.

**Michael Wiseman** explains that the financing comes from the state - in Australia on the other hand employment services are all private - and that the services in the U.S. are still very important for the placing of vacant jobs.

**Thomas Mann, European Parliament**, wants to know how the Earned Income Tax Credit is financed and whether one gets the credit immediately when they are in a job.

**Michael Wiseman** explains that most families get the EITC in a single payment after filing their federal tax returns at the beginning of each year. Immediate needs are met with food stamps and TANF, both of which provide monthly benefits. The EITC is more of a long-term benefit.

Furthermore Michael Wiseman mentions that it is extremely difficult to bring discussion about general social assistance to the table in the U.S. He believes that America could learn a lot from studying European best practices in the delivery of special services and the evolution of the EU "Open Method of Coordination" as a mechanism for sharing information among states.

**Jussi Toppila, Swedish Labour Ministry**, remarks that Sweden and Finland have very high employment rates. He believes that is because of a policy that does not promote low-productivity jobs. He thinks that innovation and lifelong learning should be promoted to get a higher quality and productivity. As mentioned before he says, Scandinavia has only a rate of 7percent low-productivity jobs. In Jussi Toppilas opinion the cure would be to promote high productivity jobs.

**Gerhard Huemer, UAPME**, adds that there should be more and better jobs. However, he believes that there are a lot of low wage jobs in the informal sector - it seems that no one wants to transfer them into the formal sector. However, this would be essential as the social system cannot be financed this way in perpetuity. He adds that one of the important questions is therefore how to get people into the legal labour market. In the United States, for example, the

marginal taxes are not too high so it is not as a great deal.

Gerhard Huemer also mentions that a precondition for a low wage policy has also to include a reduction of non-work income to motivate people to come into the labour market and not to stay out. That is a problem in Europe at the moment.

**Another comment from the audience** concerns the question of employability. It is not possible to employ everybody as it is not possible to qualify everybody. There is a group of people, whose employability is rather low. In Europe this is also a question of migrant workers. Many of those workers are going back and forth between employment and unemployment. Detailed knowledge of why people lose their jobs would be of great importance. There will always be a small group of people that can hardly be employed - it should be a target to give those people the possibility to work in the future.

**Christine Holzer, Ministry of Economics and Labour, A**, adds that one has to be aware that one is talking about women's work places when talking about the low income sector. She believes that women have to be taken into account when support for people in this sector is planned (e.g. fertility rate).

**Ulrich Schuh** remarks that one has to accept that there is a group of people that have low skills and that they can hardly be qualified. We have to find ways to support those people to find a job instead of just accept that they are unemployed. Ulrich Schuh adds another question. He wants to know whether the measures introduced today have been successful in reducing unemployment.

**Sabine Desczka** answers that the measures had only a low effect on unemployment but have been effective in keeping people in their jobs. She adds that she sees a tendency to more fiscal measures but that she understands the concern for more schooling. Sabine Desczka thinks that a combination of both measures is important. The labour market changes constantly and therefore the needs of markets and employees are very important over the long run dimensions.

**Michael Wiseman** concludes that skill enhancement is very important in his opinion. In the US

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this all is a political consideration. Generally there is more interest in work subsidies than in out-of-work subsidies, as this causes much more motivation. Therefore it is very hard to reduce those subsidies to pay for something else unrelated to work.



# ROUND TABLE DISCUSSION

## 5.1 Reports from the Workshops

### 5.1.1 Herbert Buchinger, public employment service (AMS), A

In our Workshop, three examples of successful management models of public employment services were presented: namely those of Australia, Denmark and Austria. Let me tell you right away that we, of course, failed to identify the best or ideal management model for public employment services. On the contrary, we have to accept that the most differently organised employment services can all be successful, while similarly organised employment services might have largely varying degrees of success. However, I do believe that we have found evidence for three theses, or rather three success factors, which I will present without claiming to provide a complete picture. We have always identified each of these success factors in at least two of the presented organisations.

Let me describe them briefly:

1st thesis: One factor for the success of employment services is the caseworkers' and clients' orientation, especially the job-seeking clients' orientation, towards labour market dynamics so as to overcome resignation resulting from only looking at the bottom line of labour market developments in times of rising unemployment. It is much more important to look at an economy's capability of creating new employment relationships. In so doing, one gets a much better picture of an individual's opportunities and prospects. This is illustrated by the Danish employment service, where orientation towards labour market dynamics is rooted in the general design of the employment system, where flexicurity and dynamics are built-in factors. Orientation towards labour market dynamics has also been achieved in Australia through a radical reform, one of the most radical reforms of public employment services, under which the public employment service has not only been merged with the administration of all social benefits but has also been relieved of all the duties of placement services. In Australia, the state no longer provides employment

services but only finances them and ensures a certain degree of control.

2nd thesis: Public employment services are all the more successful the faster they have recently been able to bid farewell to monopoly-type attitudes and go over to networking with others. Again the most radical example is Australia, where the public employment service, which is both the employment and the social benefit authority, has confined itself to networking, i.e. to build up and control a network composed of private providers. In Austria, we have found some of this in that the public employment service has a high degree of outsourcing. It commissions private providers to provide a great number of employment services and networks with other non-contracted providers, especially with temporary work agencies, but also with private placement agencies.

3rd thesis: Another factor for the successful performance of public employment services is that politics gives these services sufficient leeway to develop and focus on certain targets and priorities in the medium term and to devise guidance, controlling and measurement systems to constantly improve programmes and priorities. This would be in line with what John Martin suggested yesterday. The programmes and interventions have to be stable in the medium term in order to enable employment services to improve them based on measurements and outcome evaluation. We do not believe that public employment services need stable programmes across ten years or more, but the specified targets and priorities should be for several years at least.



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## 5.1.2 Jos Kester, European Commission

In Workshop II we addressed two groups of people that appear to be very different, but which have one thing in common, namely the need for skill enhancement. The two target groups are young people and migrants. We were told about two highly interesting case studies from two countries, from Belgium and Sweden, and the conclusions of our Workshop would be as follows:

There is the issue of carrots and sticks. John Martin told us yesterday that it is important to combine carrots and sticks. However, the case studies we were told about today gave the impression that we were not so happy with this combination of carrots and sticks. There are many carrots. However, there are a number of policy reservations regarding the introduction of sanctions. We also addressed the issue of quotas, the issue of finding the right focus, the issue of applying sanctions regarding social benefits. Most of the delegates were of the opinion that such sanctions were not really necessary since most subsidy or social benefit systems already include some form of sanction. Some workshop participants even reported that sanctions were counterproductive, especially when it comes to quotas, where this would stigmatise certain target groups.

Another conclusion we arrived at is that if you want to have a productive design of labour market policy, you need both a supply- and a demand-side approach. Supply-side approaches are a matter of qualifications. Skills need to be improved, not only during labour force participation but also prior to entering the labour market, especially so at the interface between education and economic activity. Pathways might be provided by appropriate apprenticeship systems, dual systems or similar arrangements. But the key issue is the link between job-seekers and job-providers (employers). The Swedish example was very interesting in this context. The contacts between both sides have to be improved, and the Swedish example of a very brief workplace induction scheme appears to work well as a kind of bridge and an opportunity for job-seekers and employers to get to know each other quickly.

## 5.1.3 Ulrich Schuh, Institute for Advanced Studies (IHS), A

In our Workshop we discussed the issue of supporting the low-income sector. This is not really a key issue of labour market policies. However, it is closely connected with what we were told yesterday about growth and employment, and it is also related to other policy areas, such as taxation and social policy.

Let me first address what was said yesterday in a very interesting discussion, from which I have gathered that the European Union expects the Lisbon Strategy to provide more and better jobs. We heard a very provocative statement by Christopher Pissarides on this issue, which I would like to summarise as follows: the European Union needs more and poorer jobs. One could ask: Is this the long-term development of the Lisbon Strategy? This is what we discussed in our Workshop. We agreed that it would be necessary to support the low-income sector, as unemployment primarily affects the low-skill segment of workers. However, it is not unemployment but rather inactivity that poses a problem, as a major part of the people from this segment has never been economically active. This means that we are not talking of reducing unemployment but of promoting employment, raising the employment rate. The problems are generally known: the demand for low-skilled workers is declining; this has an impact on social insurance contributions; the burden is shouldered by employment participants, while there is still the problem of interaction with public transfers. We discussed two possible solutions and listened to two case studies, which illustrated the benefits and drawbacks of programmes. We heard about a Dutch system, under which low-wage earners are subsidised, and we learned about the intricacies of the Earned Income Tax Credit in the United States. What are the conclusions we can draw from all this? We have concluded that there is a need for major incentives for these people if one really wants to generate some impact on employment. Such an impact on employment can certainly be generated. It was quite significant for the Netherlands, but the price was high. There was a dead-weight loss of roughly 80 per cent, and the programme was discontinued



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for financial reasons, i.e. this was a success story with a not so happy ending.

A more promising model seems to be the Earned Income Tax Credit used in the United States of America, an idea that is 31 years old. This programme is available to low-income earners and appears to work well. However, the system also shows that the resources needed to achieve these outcomes are relatively high, i.e. \$ 40,000 per person compared with just \$ 110 spent on the Austrian tax-based support scheme. This signifies that we need a lot of money to be successful, but it will work. The EITC is particularly successful for single parents.

By way of conclusion, I might say that there is some reason for hope that such programmes also have employment effects. This leads me back to carrots and sticks. The carrots must be very sweet and big enough to show some effect, while the sticks are still needed in the background. In this context one has to take a closer look at the interaction with tax concessions in general. This requires substantial funds and the political will to espouse such systems. We have agreed that there is a need for carefully tested instruments and for programmes targeted on certain groups, while such instruments and programmes have to be designed with due regard to their interaction with tax credits.

## 5.2 Short Statements

### 5.2.1 Thomas Mann, Vice-Chairman of the Committee on Employment and Social Affairs, European Parliament

Minister Bartenstein, on 18th of January 2006 you sat next to Federal Chancellor Schüssel in our European Parliament in Strasbourg. You learned about the great hopes we had in a Council Presidency that would give new impulses to the EU. This is one of the reasons why I gladly accepted the invitation to the innovations conference and in my capacity as Vice-Chairman convey the greetings of the Committee on Employment and Social Affairs of the European Parliament. I will report to the Members of the European Parliament that a conference of substance has taken place here in Vienna.

The Austrian Council Presidency has put the topic of “flexicurity” centre-stage, i.e. the combination of flexibility and security at work. The Scandinavian countries have shown us how reforms can be implemented without renouncing to the social dimension. Social dumping must not become the main feature of globalisation.

This is also a message regarding the European Parliament’s resolution on the Services Directive. Yesterday in Strasbourg we voted for two-and-a-half hours on 400 motions. The resolution was adopted by a decisive majority. 394 voted in favour, 215 against, with 33 abstentions – a major success for the Members of Parliament. In fact, the European Commission and the Council have waited for our decision and announced that, if there was a great majority in the European Parliament, they would revise their proposal and use our suggestions for orientation. Commissioner Špidla, please motivate your colleague Mc Creavy to lend his support to this compromise! Minister Bartenstein, you will discuss the outcome of the European Parliament’s vote in the Council, and I hope you will do so positively! By the way, I have every reason to remind you that a dyed-in-the-wool Viennese was involved in the compromise, my group colleague Othmar Karas.

It is not easy to win people for change as change always means bidding farewell to things fami-

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liar. We need transition periods and more time for dialogue and debate. But there is a basic need for more market, less protectionism and fewer national trade barriers. And workers, through appropriate social protection systems, have to be taken on board for maintaining our course of a social market economy.

Before we try to correct aberrations by labour market policies we must undertake every effort to create proper labour markets. Let us stop trying to produce products others have long since managed to produce cheaper and in the same quality. Our strengths are top performance and innovation. We have to target our investments on research and development, on education and training. Employers have to step up rather than reduce continued in-house training. Illustrative material is provided by a report of my Committee entitled "Corporate Social Responsibility". This document is not top secret and should be much better known.

Education and training are within the remit of the Member States and will remain so. The European Union sees to it that schoolchildren, young people and students gather international experience. Various "lifelong learning" programmes cover these policies, such as Comenius, Leonardo and Erasmus. It is alarming that the Council wants to cut back on these programmes rather than enhance them. This led the European Parliament to reject the financial perspective for 2007 to 2013. The European Parliament did not do so to create any additional billion-level burden on European citizens but to ensure a better distribution of existing funds in favour of proactive projects.

We do not need less Europe but more Europe! This also applies to labour market policy.

## • European Employment Strategy

Thanks to Luxembourg's Jean-Claude Juncker there has been a European Employment Strategy since 1997. It calls for investment in human capital – for greater employability and adaptability, entrepreneurship and equal opportunities. Once a year, Member States have to put their cards on the table and present their NAPs, i.e. their National Action Plans, to show what they have done to fight un-

employment and create new jobs, and also to admit to what they have not done.

## • Lisbon

Since 2005 we have had Lisbon II, a revision of the 2000 Lisbon Strategy, with a new focus on growth and jobs. The two can only be enhanced if the Member States step up efforts of reforming their social systems and labour markets. For Lisbon to be successful they must be ready to assume co-responsibility rather than staying aloof. There is a need to increase the employment rate. There is a need to ensure a more effective involvement of the social partners. SMEs, which provide roughly 80 percent of all jobs and more than 70 percent of all training places in the EU, have every right to claim a better framework. President Leitl, you know the great importance the European Parliament attributes to SMEs and does not tire of supporting them.

## • European Social Fund

The ESF is the EU's most important financial instrument for supporting employment policies in regions and industries at risk. Between 2000 and 2006 the ESF spent EUR 60bn on various programmes, inter alia, on pilot projects for testing new ideas. It also supported local employment schemes to help the unemployed and long-term unemployed find access to the labour market and to help youths remedy their training deficits. More can be found in the Social Agenda for which Commissioner Špidla bears responsibility.

## • Best practices

Europe is an immense teaching and learning workshop. Best practice examples should be published and imitated. I am thinking of such policies as supporting the low-wage sector, as exemplified by the "Lower Saxony combined wage" model supported by the ESF and providing incentives for employers and employees alike. Partnerships for growth and jobs should receive greater assistance. Government subsidies should make low-wage jobs more attractive.



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## • Demographic change

The Green Paper “confronting demographic change”, which addresses the issues of an ageing society, calls for a new solidarity between the generations. In labour market terms, this also means addressing the issue of social pension systems. Financially sustainable pension systems can only be ensured if people work longer. But what does this look like in practice? Workers aged 50+ are accused of being “too old”, they are subject to mobbing and marginalisation. It is about time for employers to see the value of experience and qualification. Workers with such know-how and expertise are definitely capable of adjusting to change and are usually very loyal to their employers.

## • Conclusion

Globalisation is a non-reversible process that can and must be influenced. Let us bid farewell to purely national thinking and join forces across Europe to progress through innovation and creativity!

We have to succeed in substantially improving the adaptability of workers and enterprises. In so doing, we have to strike a balance between flexibility and security, i.e. ensure flexicurity.

We have to implement labour market strategies for different target groups: proactive training for the young; halve the number of school drop-outs; enforce the European Youth Pact; ensure a better work-life balance; optimise women’s career prospects; find new methods for creating a more humane world of work; take measures to promote active ageing.

In fact, we have added value to Europe! It is only too well-kept a secret. I hope the Austrian Council Presidency will be shameless enough to blurt it out everywhere!

## 5.2.2 Vladimir Špidla, Commissioner for Employment, Social Affairs and Equal Opportunities

Thank you. I will not make a long speech but rather a few brief remarks.

I believe that Europe absolutely needs labour market policy. It is clear that growth alone will not suffice to create jobs. Creating jobs without growth will not work either. Let me stress the relevance of the priorities set by the European Commission, namely to seek a life-cycle approach to employment and increase flexibility on the labour market while ensuring workers’ security.

Regarding the employment of young people I would like to mention the Commission’s proposal that, by 2007, every young person who has left school or university should effectively be offered a job or additional training within six months of not finding a job. This period should be reduced to 100 days by 2010.

Another important factor is that greater labour market flexibility will only be possible if we provide for sufficient security. The examples from Denmark and Australia have shown us that this also requires active and preventative labour market policies and a modern management of public employment services.

Another important issue is the low-wage sector. I believe that promoting jobs in the low-wage sector is part of a modern social security system. We have to create and improve job openings. Reducing non-wage labour costs and introducing wage subsidies can be important tools for achieving this. Of course there are many different models, some of them quite successful, others less so. There is no doubt about that. Still it is a question to be addressed by the European labour market, and it is important and expedient to compare the countries’ various programmes and experiences.

Let me add one thing: when talking of the concept of flexicurity, i.e. flexibility through security, we talk of striking a balance between security and flexibility. We must not forget that maintaining the status quo would signify renouncing to solidarity in the long term. This is

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what I firmly believe. Hence insisting on the status quo will be of no good to solidarity and the balance between efficiency and social security. This is also the reason why we have to carry out many reforms, prepare a great number of ambitious projects and learn from each other's experiences to facilitate this process.

I thank you for your attention

## 5.2.3 Christopher Pissarides, London School of Economics (LSE), UK

Prof. Pissarides refers to Commissar Spidla who has mentioned that it seems that there is some confusion between the terms low-wage jobs and bad jobs. Low-wage jobs can be good jobs and are in any case better than the alternative - namely unemployment, Pissarides says. Low wage jobs are good jobs for less qualified people and they can be further improved through the lowering of non-wage labour costs, through fiscal incentives and so on. The alternative to those jobs is unemployment and social benefits and that for sure is much worse. He surely did not mean that we should go and create bad jobs to meet the Lisbon objectives, Pissarides says. Everybody wants good jobs; that is not the question. He wanted to say that the high productivity sectors that normally are the focus of our policy-makers still have a competitive advantage - also in comparison to Asia. However those are not the sectors that need the encouragement from the government, Pissarides thinks. The high-productivity sectors are important because they are the drivers for growth, but in order to fulfil the Lisbon goals jobs need to be created primarily in the low-wage sectors.



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## 5.3 Statements by Social Partners

### 5.3.1 Christoph Leitl, President, Austrian Economic Chamber (WKÖ), A

For Austria, 2005 was a record year, at least in labour market terms: never before did Austria have so many unemployed people, namely 252,654 on average plus 40,000 participants in training measures. This coincided with another all-time high: never before in the history of the Second Republic did Austria have so many dependent employees; the 2004 figure of 3,200,500 is expected to have risen by almost 40,000 employees in 2005.

12.1 million people were unemployed in the twelve countries of the euro zone in November 2005, 18.4 million were unemployed in the EU-25. The unemployment rate in the euro area was 8.3 percent in November 2005. This was a slight decline compared with the 8.8 percent of November 2004, whereas in the EU-25 it dropped from 9 percent to 8.5 percent over the same period. At 5.2 percent, Austria has the fifth-lowest unemployment rate within the EU-25.

It is important to stress the role of Austria's public employment service in this context: the AMS, as it is called in Austria, participated in a benchmarking project, together with five other European employment services, and was ranked first or second for most of the indicators measured. The participating countries were Austria, Germany, Sweden, the Netherlands, Switzerland and Belgium.

Austria's public employment service is committed to a continuing process of improvements. Based on the targeted use of pilot projects, it tests new approaches, processes and services within a restricted area and, provided the outcomes are good, applies them throughout Austria (example: follow-up phone calls after the successful filling of vacancies frequently result in new placement orders by companies for the AMS). The AMS also participates in quality assessment projects for the non-profit sector, such as the Austrian Quality Award 2005 (AQA 2005). It also cooperates with private employment service providers, such as

temporary work agencies, and with other private-sector partners, thus using the strengths of other market participants - i.e. their knowledge of additional vacancies available to registered job-seekers - in terms of a joint win-win situation. Nevertheless, there is a need for improving the efficiency of the use of active labour market policy resources.

If we compare Austria's spending on active labour market policy between 1998 and 2003 with that of the EU-15, we learn from a current Eurostat study that Austria spends 64 percent of its active labour market policy funds on skills training, whereas the EU-15 only spend some 40 percent on it (declining tendency). The second most important category of active policies, namely employment incentives, accounted for roughly 20 percent (rising tendency) of ALMP budgets in the EU-15, whereas in Austria they only accounted for 13.2 percent in 1998 and dropped to 13.1 percent in 2003.

Active labour market policies should be aimed at getting the unemployed back into employment as soon as possible. Long absences due to training measures often prevent fast reintegration into the labour market. Austria should spend much more on employment incentives, such as integration subsidies or (since 1 February 2006) combined wages, as integration subsidies appear to be a very efficient tool of helping the unemployed re-enter the labour market according to a WIFO evaluation (for combined wages no evaluation is available yet as they have only just become operative).

Structural changes and globalisation result in increasingly keen competition in the labour market and in more vulnerable groups being out of work for longer periods of time. Such groups at risk would be younger and older workers with insufficient training or skills and/or with personal or family problems. This concerns in particular job-seeking youth and "young adults" who are pushed to the margins of society already at the beginning of their "career", where they cannot prove their merits and will thus have no prospects of being accepted by our social system.

The youth unemployment rate (15- to 24-year-olds) was 18.4 percent for the entire European Union in November 2005. In Austria it was 10.4 percent. Austria thus ranks fourth after Denmark, the Netherlands and Ireland. Around 41,600 young



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people on average were out of work in Austria in 2005, i.e. up 2,820 young people on the year before.

Almost 1,500 young people between 15 and 25 years are unemployed for more than six months in Austria. The fact alone that somebody is out of work for more than half a year is a placement problem. This is why such young people need special assistance as they will not benefit from participation in standard AMS training courses.

Together with the public employment service, the Austrian Economic Chamber has launched a job coaching and placement project called *Der Jugend eine Chance* ("give youth a chance"). Every young project participant will be provided with a personal coach available for guidance and assistance. This coach will help these young people find a job. For this purpose coaches will offer intensive customised assistance to improve young people's self-assurance and enable them to enter the job market. The Economic Chamber uses enhanced public relations to motivate employers to recruit project participants and also provides financial support to assistance costs.

Our employers are often pictured as coolly calculating people, but this is not the whole picture. They are people who know about the importance of balance sheet figures but they also know about the importance of social commitment. They train people, they encourage young people. This is why I am convinced that employers are also prepared to meet this challenge if we assist them with an appropriate toolkit.

Participants are introduced into the project with an eight-week induction module that will prepare them for actual work. This will be followed by the actual placement phase. The key function of coaches within this project is to keep in touch with their young clients, canvass for jobs and reduce existing skill gaps through training. If needed, coaches will even collect project participants from their homes and accompany them to job interviews in line with the project's "active outreach and support" policy.

The *Der Jugend eine Chance* project has a very pragmatic and targeted placement focus. If required, vocational integration will be accompanied by in-house internships. In addition, partici-

pants may acquire further qualifications through assignment to AMS training courses. Employers may rely on the entire ALMP toolkit for recruiting young project participants. Once they have taken up a job, young people will continue to be assisted by personalised coaching to ensure sustainability of the employment relationship.

The objective of this innovative project is to find jobs for as many of the currently 1,500 long-term unemployed youths as possible. If Austria succeeds in doing that, it will be a masterpiece of successful Austrian social and labour market policy, it will be a best practice example for the EU, and it will be a model for European social policy under Austria's EU Presidency.



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### 5.3.2 Fritz Verzetnitsch, President, Austrian Trade Union Confederation (ÖGB), A

Let me characterise the role of Austria's social partnership by saying that it is more sustainable than the current economic policy we are witnessing in Europe. Your topic is innovations in labour market policies. Well, may I ask a provocative question? When did you last have to apply for a job? And what would you experience if you did so now? A carrots and sticks policy? 32 million people are currently seeking a job in Europe. Your answer is a debate on flexicurity, which is right, but which tends to forget that flexicurity must involve opportunities. And this, I believe, is the greatest challenge of labour market policy: although you discussed a number of innovations yesterday and today, it will be impossible to solve problems outside the triangle of growth, European domestic demand and labour market policy. I am convinced that even the best labour market policy, which I presume all of you want to achieve, will fail unless economic policy and EU domestic demand create appropriate opportunities. And this is where Europe is definitely lagging behind. We need a much greater coordination in economic policies, as formulated by the Lisbon Strategy. We need a much greater focus on European domestic policy. We are still world champions in exports. Europe's export performance has not sagged. But what Europe is really suffering from, as highlighted in recent Commission documents, is lack of demand on Europe's domestic markets. I believe that for an active labour market policy, no matter how difficult, it is also necessary to have business and industry make greater efforts in defining which way education and training are supposed to go. Which direction is to be pursued by skills training and upskilling? This is where sustainability is needed more than ever before in conjunction with appropriate generation programmes. Let me quote two contradicting examples: in huge ads covering half a newspaper page the Austrian Federal Railways are currently seeking new staff under 35 or 30 years to reduce the average age of their workforce, while at the same time they are trying to shed 9,000 of their employees. What kind of a signal is that for our labour market? Two more exa-

mples from Austria: owing to staff ageing a steelmaker, VÖEST, and a car engine factory, BMW Austria, are heading towards a complete renewal of their key workers within the next five to ten years and have already introduced anticipatory programmes. They have to provide for a future scenario wherein they need to retain older workers for an extended period of time beyond their 50's and 60's or even longer and attract and train younger workers in due time. I truly believe that sustainability is one of the preconditions for an active labour market policy. This is why I also believe that in this concrete example we need close cooperation between industry and employment policy to identify such problems far in advance because "just in time" approaches will not work for employers who want to get skilled workers for sustainable operations.

I also believe that it is important to acknowledge one of the major challenges of labour market policy, namely that Europe's employment growth in the past five years did not involve full-time jobs but rather part-time and marginal part-time jobs. The issue has also been addressed by you in these two days. However, we should not mix this up with the – in my opinion – wrong notion that a job, once taken up, will be available for a person's whole working life. This cannot be our objective, not any longer. What we should ask ourselves is whether the objective is to introduce part-time jobs as a typical form of work. Shouldn't full-time employment be the key factor in labour market policy? I agree with all those who say that non-wage labour costs are a problem that needs to be overcome. But I also tell you quite bluntly that whoever wants to ensure a social Europe and solidarity between the generations does not have many options. If you reduce non-wage labour costs without considering tax-based or other financing models you actually do not want a social Europe. What you really want is to discard one of its problems. Whenever we address the issue of non-wage labour costs at European level we also have to discuss European tax policy and ask ourselves how we can finance Europe at all. One of the previous speakers mentioned it: just take a closer look at the EU's budget as it now stands and compare it with the EU's objectives. You will realise that the two do not match. But they ought to. Or think of the debate on

# ROUND TABLE DISCUSSION

low-wage jobs. In my eyes, this is a multi-faceted issue. As President Leitl already mentioned, we are currently experimenting with combined wage models. However, I do believe, and I am seconded in my belief by a number of other speakers, that low-wage jobs can also be a trap or a means of keeping certain population groups in low-wage sectors. I would even venture to say that this policy will primarily affect women who are temporarily or more or less permanently assigned to these low-wage sectors. This is where we need other policy responses. Also, it must be possible to earn living wages for full-time work. I am not talking of maximum wages, what I am talking about are wages that enable people to really exist on them wherever they happen to live.

In conclusion, let me draw your attention to another aspect: if it is true that, for reasons of demographic ageing, social services are a promising avenue for employment growth in Europe, Austria's Federal Ministry of Economics and Labour was right in organising a short while ago a motivation, innovation and information campaign encouraging people to enter these professions. However, this advertising campaign is only a half-hearted attempt at tackling the issue if we are told at the same time that soon we will not be able to afford these social services, no matter whether this concerns local communities, regions or countries. For every motorcar mechanic's man-hour we pay quite a sum, though grudgingly, but as soon as people are asked to finance personal care services we are told that they are too expensive and have to be bought on the black market.

This cannot be the aim of a European employment policy. I believe that the Lisbon target of achieving an employment rate of 70 percent of the working-age population is essential for designing a social, economically successful and knowledge-based future for European society. This will only be possible if innovations are intended both for labour market policy and for economic policy, with the two pursuing and supporting common targets.

## 5.4 Short Statement and Discussion

### 5.4.1 Martin Bartenstein, Federal Minister of Economics and Labour, A

I believe that we have come full circle in the last 24 hours from the keynote speakers to their discussion partners and back again. Professor Pissarides participated in today's discussion; John Martin raised his eyebrows when Christoph Leitl spoke of shortly evaluating the combined wage model. He had told us yesterday that we could do so only after ten years. We will see what will happen, but I believe that we will have the first outcomes in one year. This circle is beautifully supplemented by our social partners. Mr. Mann, a Member of the European Parliament, has joined us after having witnessed and participated in a historical vote on the Services Directive, while just now we have listened to the Presidents of our social partner organisations, Christoph Leitl and Fritz Verzetnitsch, who have told us that social partnership is intrinsically innovative. In my view the vote on the Services Directive was also a decisive moment in the history of European social partnership, as the achieved compromise certainly also has social partnership traits.

I fully agree with President Verzetnitsch who said that labour market policy could not replace growth. I believe we need growth and should do our best to generate growth. However, I also agree with Commissioner Špidla who said that growth alone was no labour market policy and would not suffice to address labour market problems. We need both. This analysis is correct. Europe and especially Germany and certainly also Austria have no problems with competition in international markets. We are faring exceptionally well, but we are lacking in domestic demand, which has resulted in very moderate growth rates in recent years.

The mentioned employers, who are cooperating with their employees in finding new working time models and answers to the question of "where will I get tomorrow's workers, how can I retain my current workers?", are in excellent sha-



## ROUND TABLE DISCUSSION

pe in terms of operating results. There is no need to worry about BMW or VOEST. Other companies have much greater difficulties.

Subsidising non-wage labour costs is all right, but still not so easy, even when proposed by the President of a social partner organisation. Whoever wants a reduction in non-wage labour costs will have to tell us where and how this should be done as we cannot tighten the screws of social pension and unemployment insurance contributions indefinitely. We need the money from these contributions. If they are reduced, we will have to provide for other forms of funding. However, our room for manoeuvre is limited. I am very much in favour of reducing non-wage labour costs where possible, but only in a targeted manner.

Targeting such measures to older workers and apprentices, as we have done, appears to be appropriate. We will need other policies to progress in the low-wage sector. Since no taxes are paid by the low-wage sector, we will have to target the non-wage labour costs and social insurance contributions. We cannot introduce such changes abruptly, as they cost much money. But I do believe that this policy approach could be a sensible contribution to helping the low-income sector. Wherever the alternative would be unemployment, we could opt for combined wage models, although for a limited period of time only. I have also been told by one Workshop that in other countries subsidisation has been limited to wage levels of 115 percent of minimum wages, whereas our ceiling is at 1,000 Euro. We certainly do not want any dead-weight losses or other effects that would put other full-time workers at a disadvantage. Here, too, I believe that our social partners will come up with a solution under which we start with a limited target group of around 5,000 people.

This is all I wanted to say about the low-income sector. Let me stress once again that we cannot and will not ignore this problem. It also exists in Austria, and we should address it. I will certainly not contradict Austrian employees' representatives telling me that the final objective should be full-time employment with wages people can live on.

However, we must not overlook those areas where both supply and demand will not meet the-

se expectations. This is where both political and social partnership support is needed.

The topic of Workshop II was the situation of young people, something that is of concern to all of us. There is a lack of skills among quite a number of young people. How can we address this problem? The message is clear, i.e. the key issue here is the time of intervention. If intervention is too late, it will cost much money and be of little efficiency. This is what we were told yesterday and what we can also observe in Austria. We have to target our efforts on the interfaces between labour market policies, available financial resources and education systems. We should not ignore migrants' realities. I gather from the Workshop reports that the issue of youth is more centre-stage than the issue of migrant youth. There are insufficient policies for young migrants. Perhaps we in Austria are confronted with this issue to a greater extent than other Member States.

Long-term unemployment is to be avoided, and we have to join forces with the social partners to address it. Commissioner Špidla, if the European Commission now proposes that Member States commit themselves to offer every young person who has left school or university a job or additional training within six months of becoming unemployed by the end of 2007, and within 100 days by 2010, such a policy is as important to me as the objective of raising R&D spending to 3 percent of GDP or employment rates to a certain level. And I am convinced that you all agree with me.

# ROUND TABLE DISCUSSION

## 5.4.2 Discussion

**Ronald Janssen, European Trade Union Confederation (ETUC)**, says that Professor Pissarides had posed a provocative question when he said that he asks himself what the Italian women do, as they neither work nor have children. Janssen himself would like to ask a similar question that does not relate to Southern Europe, but rather, to Northern Europe. The question is if the Scandinavians are the only ones in the European Union who are really clever? Employment rates in Scandinavia are high but so is growth and productivity and the majority of jobs in Scandinavian countries are good quality jobs. It is because Scandinavian countries have massively invested in education, training of workers and childcare facilities. If so, Janssen asks himself why does this conference seem so obsessed with expanding and promoting the low wage/low productivity sector. He also asks himself, if we really think that only the Scandinavians should be intelligent enough and that the policy model of investing in skills is only applicable over there and not for the rest of European workers? And Janssen last question is if our approach should not be to place the first priority on “learnfare” and limit the ‘workfare’ approach to those and only those workers for whom upgrading of skills is really unattainable?

As a supplement to what the colleagues from DG Employment said, **Eleonora Schmid, European Centre for the Development of Vocational Training (CEDEFOP)**, wants to remind delegates that European cooperation in vocational training also addresses these issues, and that CEDEFOP contributes to such efforts. She believes that the link between education, training and labour market is an important issue.

# CLOSING SPEECHES

## 6.1 Vladimir Špidla, Commissioner for Employment, Social Affairs and Equal Opportunities

Minister Bartenstein, Ladies and Gentlemen,

The discussions in these two days have shown that in view of globalisation and demographic changes we need innovations in labour market policies more than ever before. This is why I am grateful to the Austrian EU Presidency for having organised this conference, as we have to take forward innovative approaches in this policy area in light of the Spring Council Summit.

One month ago, we were able to provide a strong impetus to this debate at the Informal Council Meeting of Labour and Social Affairs Ministers:

- in terms of a new balance between flexibility and employment security, the so-called flexicurity approach,
- and also in terms of having a greater focus on the social policy dimension within our EU strategy of growth and jobs.

Combining economic output, employment and social justice is key to the modernisation of Europe within a globalised world. Such an inclusive approach is one of Europe's basic values despite a great variety of national systems and traditions. This was also emphasised by the Heads of State and Government at Hampton Court.

Hence our quest for suitable labour market policies and tools has to revolve around the following three aspects:

1. The tools should serve the competitive strength of our economies.
2. They should also help people in Europe to adjust to rapid changes in the labour market and make the best possible use of their skills.
3. Finally, we have to sophisticate labour market policies in line with the modernisation of social security systems.

The challenges are obvious:

- It is unacceptable that 19 million people in the European Union are out of work. Add to that the

13 million currently inactive Europeans who say they want to be integrated into the labour market. Special problem groups are young people, older workers, migrants and also women, although the female employment rate has risen in recent years.

- Improving the adaptability of workers and enterprises is urgently needed for better anticipating and tackling change and restructuring. The announced shedding of 20,000 jobs at Volkswagen in Germany is the most recent example. Although networking in a global world is basically good, we have to keep an eye on its impact on labour markets. We have to address widespread fear.
- Full use of our employment potential is all the more urgent in view of demographic change: by 2030 the EU's working-age population will have declined by 21 million people. This might decelerate potential economic growth, especially with soaring costs of maintaining an ageing population.

If we advocate innovations today, we must not give the impression that we start from scratch. We build upon the European Employment Strategy and the Integrated Guidelines.

As you know, the European Commission recently published its assessment of the National Reform Programmes, which are the first to be based on these Integrated Guidelines. According to the Commission, some progress has been made but not everywhere:

- Regarding employment, the Reform Programmes give preference to policies that attract and keep more people on the labour market. However, their effectiveness is hampered by the fact that these measures are often too piecemeal and only targeted to specific groups.
- There is much emphasis on investment in human capital in the Reform Programmes. However, the efficiency of such investment must be improved.
- Too little room is given to the policy of improving the adaptability of workers and enterprises.

Against this backdrop, the Commission requests that European leaders move up a gear, with certain actions having priority over others. Let me highlight a few points.



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It is necessary to adopt a life-cycle approach to employment:

- Special emphasis is being placed on the integration of young people into the labour market: this is supported by ambitious targets for providing active labour market measures for every unemployed youth and incentives for employers to offer them work practice.
- Another focus is gender equality and family-friendly policies. This includes the provision of better childcare. Soon I will also consult with the EU social partners about promoting a work-life balance.
- Thirdly, we have to step up our efforts to implement active ageing strategies. We need more financial incentives to promote later retirement. However, this is also a question of gradual retirement through part-time work, of improving the quality of work and of investing in lifelong learning with more training for those over 45.

Another part of this Priority Action Area concerns the introduction of a new balance between flexibility and employment security ("flexicurity").

The social protection systems of all Member States have so far provided country-specific safety nets for those becoming unemployed. Active labour market policies in this context are primarily intended to help the temporarily unemployed re-enter the labour market quickly.

I have repeatedly stressed that it is more important to offer workers security and a new start into working life than to secure individual jobs. In other words: employment security rather than job security. This requires more flexibility and also new forms of security. For this purpose we have to strengthen the coherence between social protection systems and employment policies. A number of Member States have already begun with this reorientation in recent years.

However, we can promote such a flexicurity concept only with a broad-based approach in association with the Member States and social partners at all policy levels. Flexicurity involves several dimensions of employment and social policies: labour law including wage setting, active labour market policies, lifelong learning, modern forms of social protection and social dialogue. All these aspects will influence the incidence, duration and

cost of inflows to, and outflows from, employment, the switching of jobs and between different forms of employment.

Active labour market policies will thus continue to play a key role in our attempts at striking a proper balance between flexibility and security. Today's three specific topics have addressed important aspects of such policies:

- Firstly, the central role of public employment services in the development and implementation of active labour market policies. Many initiatives have been taken to improve their management models, for instance through cooperation with social insurance institutions. EURES now enables all job-seekers to look for available jobs throughout Europe - a concrete success in the European Year of Workers' Mobility.
- Secondly, the integration of certain target groups into the labour market: I have already referred to the need for more committed action for young people. But also the integration of immigrants, including second and third generations, is a pressing problem in many countries, not only for employment policy but also for social policy reasons. Unfortunately, this issue has not been adequately addressed in the National Reform Programmes.
- Thirdly, strategies for supporting the low-income sector. We have heard that many countries have already developed such strategies, especially through the reduction of taxes and social security contributions.

Based on the exchange of good practices, this conference has enhanced our understanding of the innovative potential available on the labour market.

At this point let me refer to an initiative planned at European level: I will present a Green Paper on developments in labour law by summer this year to provide fresh impetus for "flexicurity".

I would also like to stress the role of the European Social Fund. Based on the new Financial Perspective, the European Commission will now cooperate with the Member States to allocate more money from the structural funds to initial and advanced training in order to effectively support the Lisbon Strategy. To support the retraining and



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job search of workers who have lost their jobs because of structural changes in the world economic order, the Commission proposal of establishing a European Globalisation Adjustment Fund will now be implemented. Both funds will try to equip workers with the required skills and qualifications, i.e. to make them fit for future challenges.

In these two days we have had many discussions about challenges and innovations. However, we should also see the opportunities offered by a consistent implementation of our reform agenda, such as the opportunity to modernise Europe in times of globalisation and demographic change in such a way that it combines economic efficiency with social justice and regains the trust of its people. Thank you.

### 6.2 Martin Bartenstein, Federal Minister of Economics and Labour, A

After Commissioner Špidla's impressive and consistent speech, I believe there is no need for any closing address. I would like to thank all of you for your cooperation, especially those who have come from abroad - thank you for coming to Austria and Vienna. I hope that these days have been a good mix, a combination of exchanging experiences with learning new things and enjoying a visit to the capital of the current EU Presidency country. Vladimir Špidla said that an unemployment rate of 19 million is unacceptable for the European Union. The current annual average number - 18.3 million unemployed - is ground for hope that we are on the right track. I think that targeting a number below 18 million by year-end would be a very desirable goal for 2006. Although this is still a large number, it is quite considerably below the previous peak of 20 million.

The tendency is in the right direction, the number of unemployed persons is declining and the growth curve is climbing. However, these developments are not fast enough; we need a faster decline of unemployment and a higher growth rate. This requires the implementation of reforms.

Vladimir Špidla spoke about the necessity to accelerate reforms in many respects, but as we can observe in Austria, people are beginning to worry about reforms.

This is not the way it should be. I believe we should definitely pursue this new political strategy of flexicurity, i.e. combining reforms with increased security. Involving the social partners is a crucial factor. I am convinced that the future of Europe and the European social model, the European life model, or - according to Vladimir Špidla, of the "European Way of Life", is closely linked to finding a middle way and arriving at a consensus that is borne by social partnership, at least for the major part. Austria, Finland and Germany with their long traditions of social partnership can pave the way.

We cannot but realise that the economy is also subject to ongoing structural changes and re-en-

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gineering efforts. Alterations affecting large enterprises find their way onto page one of the Financial Times or other important and widely-read newspapers. VW minus 20,000 - and we are glad if we do not find the increase of the share price in the same line, as these facts are all too often linked. Of course, such things also happen in the USA, but then it is a case of minus 30,000 instead of minus 20,000; General Motors and Ford are in serious trouble. But we must also be aware that these sectors feature good performers as well, and that it is for the responsible employers and employees to find out why Toyota does so much better - or, for that matter, BMW or Audi in Germany.

Instead of trying to stem the tide of structural change, we and all responsible policy-makers and institutions in Europe should focus on finding the right way of following this tide of change. We should do so in general, but also from the employees' perspective and, to some extent, also from the employers' perspective. The problems of entrepreneurs in small and medium-sized firms are frequently very similar to those of employees, in particular if they lose their means of existence. Sweden has a good flexicurity model for employers in the form of unemployment insurance for self-employed persons. Insurance means paying first to claim something at a later date.

Flexicurity should be filled with life at all levels - at the company level, with respect to pay scales, collective agreements, at the federal and European level - there are many examples. Of course we want to maintain social standards; it would be absurd to talk about the European social life model while calling social standards into question. But did you know that in the last years, social expenditure in Austria accounted for over 29 percent of the gross domestic product, up by one percentage point, which is above European average.

If we fail to take appropriate action in some areas, such as pension systems and, to some extent, public health systems, the share of this expenditure in GDP will rise by several percentage points, which means that we will reach the limits of financial feasibility. I am sure that our current expenditures for the environment and social services are still financially feasible - perhaps we can even afford a little more. The point is that these expen-

ditures must be scrutinised time and again and examined in the context of affordability. No one here wants to emulate US indicators; I have never heard any European say so.

Ladies and Gentlemen, we have come back to the same kind of challenges: although we have heard different attitudes to promoting the low-income sector, I believe that we have a common goal: addressing this area, setting priorities and primarily doing everything possible to promote skills enhancement. Wage subsidies should be left as a last resort if skills training fails to improve the situation and unemployment is the only alternative.

As demonstrated by John Martin, we need to do more for young people, perhaps spend more money and intervene earlier. Vladimír Špidla presented the Commission's assessment of Member States' performance, as included in the Annual Progress Report. If, as we are told, the Commission feels that Member States do pay a lot of attention to youth issues but not enough to those of young migrants, I consider this to be a clear outcome of this Conference on Innovations in Labour Market Policies.

Thank you very much for your cooperation and readiness to participate in the discussion, for your consensual approach and also for your disputability. In particular, I should like to thank Commissioner Špidla for his excellent cooperation with the Presidency and for coming to Vienna. We will meet again next Monday in Brussels to discuss mobility of labour. I would very much appreciate if the Commission, the Presidency and the European Union as a whole managed to take things forward, reduce unemployment to less than 18 million by year-end and increase growth by a few percentage points. Thank you very much.

# LIST OF SPEAKERS

## List of speakers in alphabetical order<sup>30</sup>

Karl Aiginger: Austrian Institute of Economic Research (WIFO), A, Karl.Aiginger@wifo.ac.at

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Jos Kester: European Commission, Johannes.Kester@ec.europa.eu

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Michael Wiseman: The George Washington University, USA, wiseman@gwu.edu

<sup>30</sup> E-mail addresses are published with the delegates' approval.

# SHORT BIOGRAPHIES

## Short biographies of speakers

### **Karl Aiginger, Austrian Institute of Economic Research (WIFO), A**

After his economic studies at the University of Vienna and Purdue University, Indiana, USA, Karl Aiginger began his career in 1970 as an economic researcher at the Institute of Economic Research (WIFO). In 1984, he became deputy director of WIFO. From 1993 to 2000, Karl Aiginger was a member of the supervisory board of the Austrian Industrial Holding (ÖIAG). Since March 2005, Karl Aiginger has led the Institute of Economic Research. Apart from his activity at WIFO, Karl Aiginger taught as visiting professor at various institutions, such as the Boston MIT, UCLA, and Stanford University. Aiginger is professor of industrial economics and economic policy at the University of Linz and editor of the Journal of Industry, Competition and Trade.

### **Martin Bartenstein, Federal Minister of Economics and Labour (BMWA), A**

Martin Bartenstein is a graduate of chemistry from the University of Graz. Having begun his career at Lannacher Heilmittel GmbH, a pharmaceutical company owned by his family, he assumed sole managing authority in 1980. From 1991 to 1994, Martin Bartenstein was a representative of the National Council and industrial spokesman of the Austrian People's Party (ÖVP). From 1994 to 1995, he was State Secretary at the Federal Ministry of Public Economy and Transport; in 1995, he became Federal Minister for the Environment. From 1996 to 2000, he was Federal Minister for Environment, Youth and Family. Since 2000, Martin Bartenstein has been Federal Minister of Economics and Labour.

### **Herbert Buchinger, Chairman of the Board of the Austrian Public Employment Service (AMS), A**

Herbert Buchinger, born in Mauthausen (Upper Austria), studied law at the University of Linz. After working as official and department head at the Upper Austrian Provincial Employment Office, he was transferred to the Federal Ministry of Labour and Social Affairs in 1991, where he served as secretary for labour market policy at the office of federal minister Josef Hesoun. Since 1 July 1994, he has

been Chairman of the Board of the Austrian Public Employment Service.

### **Sabine Desczka, ECORYS Research and Consulting, NL**

Sabine Desczka, born in Germany, studied economics at the universities of Osnabrück and Hamburg, Germany, and at the University of Hull, United Kingdom. She is currently studying law at the University of Leiden, Netherlands. From 1998 to 2001, Sabine Desczka worked as a researcher at the Institute for Research on Public Sector Economics in Den Haag and as economic advisor at the Dutch Ministry of Social Affairs and Employment; since January 2006, she has been Senior Researcher at ECORYS-NEI.

### **Alison Durbin, Department of Employment and Workplace Relations, AUS**

Alison Durbin has over 15 years experience in labour market policy and employment service delivery. She was involved in establishing the policy framework for Job Network in Australia, and has worked on its ongoing development. She has been involved in tenders and contract management for Job Network services, operational policy and the introduction of the Active Participation Model in July 2003.

### **Georg Fischer, European Commission**

Economist - studied at the University of Vienna in Austria as well as the University of Warwick in the United Kingdom. Georg Fischer is currently Head of Unit for "Social Protection: Pensions and Health" in the Directorate General for Employment and Social Affairs at the European Commission in Brussels. His responsibilities include, among others, the Open Method of Coordination on pensions and health and long-term care.

### **Antonis Kastrissianakis, European Commission**

Antonis Kastrissianakis is Director in Directorate General for Employment, Social Affairs and Equal Opportunities in the European Commission and is responsible for Employment and European Social Fund Policy Coordination, including the Lisbon Agenda, the European Employment Strategy, EU-wide employment analysis, employment ser-vi-



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ces and local development. He joined the European Commission in 1981.

## **Jos Kester, European Commission**

Jos Kester is policy coordinator in Unit A2 (European Employment Strategy), Directorate General for Employment, Social affairs and Equal opportunities, European Commission. He is seconded by the Ministry of Social Affairs and Employment of The Netherlands. Mr. Kester deals with labour supply issues and issues regarding modernisation of social protection systems.

## **Tony Killeen, Minister of State for Labour Affairs, IRL**

Tony Killeen was appointed 2004 as Minister of State at the Department of Enterprise, Trade and Employment with responsibility for Labour Affairs. He is a full-time Public Representative and was first elected 1992. He was re-elected in 1997 and 2002.

Minister Killeen has a wide range of political experience at both local and national level. He served as Vice Chairman and Chairman of Clare County Council and has been a member of various Parliamentary Committees.

## **Doris Landauer, Federal Ministry of Economics and Labour (BMWA), A**

Doris Landauer has been active in the field of labour market policy since 1974; first as a vocational counsellor, later in a regional employment office, organising counselling and job placement services. Her subsequent activities included the Austria-wide planning of the organisation model and personnel deployment of the employment service; for ten years, she was in charge of the IT-based upgrading of the Public Employment Service. Since devolvement of the Public Employment Service from direct federal administration in 1994, she has led the supervisory division of the services area of the Public Employment Service at the Federal Ministry of Economics and Labour. Since 2000, she has been deputy member of the administrative board and government representative in various committees of the administrative board of the Public Employment Service.

## **Christoph Leitl, President of the Austrian Economic Chamber (WKÖ), A**

Christoph Leitl studied social and economic sciences at the University of Linz. From 1977 to 1990, he led the family enterprise, Bauhütte Leitl-Werke. From 1990 to 2000, Christoph Leitl was a member of the Upper Austrian provincial government; in 2000, he assumed the office of the deputy provincial governor in Upper Austria. Since 2000, Christoph Leitl has been President of the Austrian Economic Chamber.

## **Thomas Mann, Vice President of the Employment Committee, European Parliament**

A trained industrial clerk, Thomas Mann has been a member of the European Parliament since July 1994. From 1999 to 2004, he was Deputy Coordinator of the group of the European Peoples Party (EPP); since July 2004, Thomas Mann has been Vice President of the Committee on Employment and Social Affairs.

## **Roberto Maroni, Minister of Labour and Social Policies, I**

Born in Varese, Roberto Maroni studied law at the University of Milan. In 1992, he was elected to the House of Representatives and was Minister of the Interior and Vice President of the Council of Ministers under Prime Minister Berlusconi from 1994-1995. Since June 2001, Maroni has been Minister of Labour and Social Policies.

## **John Martin, Organisation for Economic Cooperation and Development (OECD)**

John P. Martin is Director for Employment, Labour and Social Affairs at the OECD; his curriculum vitae also cover OECD work on health and international migration. He is an Irish citizen. John P. Martin joined the OECD in 1977 and has held several posts in his current directorate and in the Economics Department. He was the founding editor of the OECD Employment Outlook from 1983 to 1986, and he also edited the OECD Economic Outlook in 1992-93.

## **Jesper Hartvig Pedersen, Arbejdsdirektoratet, DK**

Jesper Hartvig Pedersen, born in Copenhagen, studied history and economics at the University of



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Copenhagen. Since 1977, he has worked at the Danish Ministry of Labour. From 1984, he was personal secretary to the minister, from 1989 section head, from 1995 Deputy Permanent Undersecretary. He has been Director of the National Directorate of Labour since 2001.

## **Christopher Pissarides, Professor, London School of Economics (LSE), UK**

Christopher Pissarides graduated with a PhD in Economics from the London School of Economics. After brief spells at the Central Bank of Cyprus and the University of Southampton, he returned to LSE, where he is currently a Professor of Economics and the director of the research programme on Technology and Growth at the Centre for Economic Performance. His main research interests are in macroeconomics and the theory of labour markets. He has written extensively on unemployment and labour market policy issues.

## **Joseph Remy, Ministry of Employment and Labour, BE**

Joseph Remy, born in Leuven, Belgium, is general advisor at the Federal Public Service for Employment, Labour and Social Dialogue DG Employment and Labour Market, MISEP correspondent for Belgium. Ministry of Employment and Labour, Belgium

## **Anna Santesson, Ministry of Industry, Employment and Communications, SE**

Anna Santesson, born in Jönköping, Sweden, began her career at the Institute for Applied Psychology at the University of Stockholm. From 1980, she worked at the County Labour Market Board, Stockholm, and was department head at the National Labour Market Board from 1981 to 2001. Since 2001, Anna Santesson has been deputy director at the Ministry of Industry, Labour and Communication.

## **Ulrich Schuh, Institute for Advanced Studies (IHS), A**

Ulrich Schuh, born 1969 in Vienna, studied economics at the University of Vienna. After successful completion of the postgraduate course at the Ins-

titute for Advanced Studies, he began his career at the division for economic policy and international affairs at the Federal Ministry of Finance. Since 1999, Ulrich Schuh has worked at the Institute for Advanced Studies. His activity focuses on empirical labour market research, evaluation of labour market policy and analysis of social insurance. In 2002, he graduated from the University of Vienna (doctor of social and economic sciences), with a dissertation on Evaluation of Labour Market Programmes. Since 2004, Ulrich Schuh has led the department for economics and finance at the Institute for Advanced Studies.

## **Johannes Schweighofer, Federal Ministry of Economics and Labour (BMWA), A**

Johannes Schweighofer, born 1961 in Hof near Salzburg, graduated in economics (including sociology/political science). His thesis was entitled "On the determination of wages and employment in models with negotiations between enterprises and trade unions - Theories and empirical/econometrical evidence for the Austrian industry, 1967-1988". Career: 1979-1984 engine fitter at Porsche, Kärnten and Mirabell in Salzburg; 1991-1992 economist in the department of foreign trade, EC integration and international relations of the Vienna Chamber of Labour (focuses: foreign trade and EU integration); since 1993 economist in the division of basic issues and international labour market and employment policy of the Federal Ministry of Social Security and Generations/Federal Ministry of Economics and Labour, and since 1997 head of this division (focuses: basic and research issues of employment policy; implementation of the National Action Plan for Employment (NAP; since 2005: National Reform Programme (NRP)) in Austria; international employment policy within the EU framework (EU employment strategy/Luxembourg Process; member of the Employment Committee and of the Macroeconomic Dialogue/Technical Level).

## **Vladimir Špidla, Commissioner for Employment, Social Affairs and Equal Opportunities**

Vladimir Špidla is responsible for employment, social affairs and equal opportunities in the EU Commission. Before he entered politics, the Prague-born historian worked as a dairy and sawmill



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worker and as a scene shifter. Later on, he led the regional employment office of Jindřichův Hradec. In 2001, he became chairman of the Social Democratic Party (CSSD), in 2002 Prime Minister of the Czech Republic. Since May 2004, Vladimír Špidla has been a member of the European Commission

### **Robert Strauss, European Commission**

Robert Strauss, born in Redhill (UK), 1958, studied economics at Cambridge, Bruges (College of Europe), and Oxford. In 1985 he joined the European Commission. In 2001 he joined the Directorate General Employment as head of unit for the Knowledge Society. From January 2004 he has been head of the unit for Employment Strategy. Mr. Strauss is involved in the re-orientation of the Lisbon Process and the adoption of its Integrated Guidelines.

### **Fritz Verzetnitsch, Austrian Trade Union Federation (ÖGB), A**

Fritz Verzetnitsch, born in Vienna, completed a plumber's apprenticeship. From 1963, he served as a youth functionary in various functions of the plumbers' technical committee, of the trade union for metal, mining and energy, and of the Austrian trade union youth. In 1970, he began to work at the youth department of the Austrian Trade Union Federation, whose president he became in 1987.

### **Michael Wiseman, Professor, George Washington University, USA**

Michael Wiseman is Research Professor of Public Policy, Public Administration, and Economics at The George Washington University and a Visiting Scholar in the Office of Policy of the U.S. Social Security Administration. He has served as consultant on public assistance management and program evaluation for various U.S. government agencies, the World Bank, several American states, and various program evaluation contractors. His publications include *The Welfare We Want: The British Challenge to American Reform* (co-authored/edited with Robert Walker) (2003).

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