

Labour Market Policies That Work

Introduction

In the 1990s, for the first time since the 1960s, a number of OECD countries made considerable progress in reducing structural unemployment. A good case can be made that – alongside various macroeconomic and other factors – active labour market policies deserve part of the credit for this. A number of OECD countries gave renewed attention to benefit eligibility conditions which require unemployment benefit recipients to actively seek work; many took steps to intervene in unemployment spells, for example by requiring unemployed people to participate in intensive interviews and action plans; and some even brought in general requirements for participation in job creation or training programmes which could, in principle, reduce long-term unemployment significantly. At the same time, advances in information technology, the adoption of modern management methods and a favourable macroeconomic climate facilitated innovation to enhance the effectiveness of the Public Employment Service (PES), and one or two OECD countries have even privatised some of its main functions.

This Policy Brief highlights results from a recent high-level conference on *Labour Market Policies and the Public Employment Service* organised jointly by the OECD and the Czech Ministry of Labour and Social Affairs in Prague. The participants were key actors in active labour market policy – politicians, senior officials from national labour ministries and the PES, front-line managers, and prominent academic experts. ■

Is “the client in the driver’s seat”?

This is the motto of the PES in Flanders. A visible result of this trend in many countries is the use of customer satisfaction surveys. Such surveys are not only used to measure performance of individ-

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Information technology, friend or foe?

How should the PES be marketed to employers?

Which road from welfare to work?

Can compulsory activation be effective?

When should more intensive intervention start?

Can national strategies be implemented through local initiatives?

More cost-effectiveness through contestability?

From effective labour supply to higher employment

How does it all add up?

For further reading

ual employment offices, but also the effectiveness of specific policy interventions (e.g. the New Deals recently introduced in the United Kingdom) or major labour market reforms (contestability in delivering placement and reintegration services in Australia). This service orientation, which originated in the private sector, has penetrated the public sector in many other areas. But in the case of the PES it appears particularly relevant, because losing a job or being unemployed for a long time can be a traumatic experience for the individual job seeker. A friendly reception at the PES office and the impression that everything is being done to help the job seeker can make a real difference.

Clients should be able to identify the services available, and contact them rapidly. The ideal of a so-called “one-stop shop” is to bring access to different services together in a single location. The PES in the United States adopted this approach early in the 1990s, with the federal government acting as a catalyst providing seed funding to cover the set-up costs of co-locating access to services with different management and sources of finance. There is now a federal law which provides a framework for co-operative structures at the local level, but provides no direct and permanent financial support for their operation. In other countries, recent institutional changes have often been promoted in terms of offering one-stop service. Although this covers a variety of situations, the main selling point remains the same: improving customer access to services. ■

Information technology, friend or foe?

OECD countries increasingly have developed nation-wide vacancy databases which job seekers can easily access via touchscreens in local labour offices and other public premises, or consult on the Internet. This is making it easier than ever before for job seekers to review current vacancies and contact employers, either directly or with a minimum of PES involvement. The degree to which information and communication technologies have already increased labour market transparency can be gauged from a Norwegian figure that 3.5 % of the labour force consults the vacancy register every day. Using a different method, which attempts to eliminate repeat consultations by the same persons, Sweden has estimated that 15 % of the labour force consults the vacancy register once a month. Many of these consultations are from persons in employment and many of these may currently not be looking for a new job but simply considering their potential in the open labour market. Still, such enhanced market information is likely to make labour markets more flexible than in the past, thereby facilitating workforce adjustments to structural change.

The rapid development of vacancy databanks, providing improved information on the labour demand side, is matched by a similarly buoyant development on the labour supply side.

Several countries have built up CV-databanks of job seekers that can be accessed by employers electronically. Job seekers can enter their CVs with the help of a placement officer or by themselves, and employers can ask to be regularly provided with incoming CVs that correspond to their recruitment needs. It is also possible for job seekers to receive in their electronic mail-box (based on push-mail or subscription technology) information on incoming vacancies corresponding to their profiles. While there is a risk of over-reliance on self-service technologies, this only becomes a real problem if new technology is used as an excuse for excessive cost-cutting. The employment service of Flanders emphasises that a leading-edge information technology strategy – extending automated service provision into as many areas as possible – has in fact freed staff resources for individualised attention to the hard-to-place unemployed and difficult-to-fill vacancies. ■

How should the PES be marketed to employers?

The employer is a key customer for the PES. The Netherlands has developed a set of marketing strategies in order to improve the PES image among employers, to intensify vacancy notification and to improve co-operation with them. The provisions range from a set of basic services free of charge (e.g. vacancy process-

ing) to more intensive services for which a fee has to be paid (e.g. outplacement) to sector services (e.g. help with achieving recruitment objectives for target groups, as designated in sectoral collective agreements). A Finnish delegate to the Prague conference reported that, due to a consistent policy of canvassing and servicing enterprises, the PES was also able to establish an excellent image among private employers. Several speakers mentioned the increasingly complex recruitment needs of enterprises due, for example, to technology-driven changes in work organisation. The PES has to adapt its working methods to be able to assist enterprises in coping with these new challenges. ■

Which road from welfare to work?

The policy objective of “work-first” or “welfare-to-work” or “activation of otherwise passive benefit recipients” was a recurring theme in the conference discussions. The goal as such is not new: in the 1970s the slogan of “trampolines instead of safety nets” was often heard, and in the 1980s much rhetoric emerged about the need to shift public spending from passive income support to active labour market policies. In recent years, however, the political resolve to move ahead in this direction has grown and some of the thorny questions of how to implement such a policy have received a number of relevant answers based on the actual experience of some countries.

One shift in recent years has been towards the use of job-search assistance measures, a trend supported by favourable evaluation results from several countries. A second idea that has gained ground is that a tightening up of benefit eligibility criteria, or simply their stricter application, may raise the exit rate from unemployment registers into jobs. The benefit system can support an “activation” strategy, which involves obligatory “interventions” (enforced, if necessary, through benefit sanctions) in the unemployment spell. Some main examples of “interventions” are requirements on unemployed people to undertake and report on independent job search, participate in detailed interviews, agree to an individual action plan, apply for particular job vacancies, and participate in a labour market programme. This may be combined with the third idea of “making work pay”. Through tax changes or the payment of in-work bonuses, situations where some people who take a job are little better off are eliminated so as to ensure that there is a “carrot” as well as a “stick” to encourage the return to work. ■

Can compulsory activation be effective?

Attention to benefit eligibility conditions and increased efforts to “activate” the unemployed have led to debate in many OECD countries over the degree to

which participation in various measures should be made compulsory. Conference papers brought together some empirical evidence on the impact of some measures: from the United States, concerning the monitoring of job-search requirements of unemployment insurance (UI) recipients; from Denmark, focusing on a tendency for outflows from unemployment to accelerate prior to, and during entry to, the period of full-time participation in labour market programmes; and from the Netherlands, where studies suggest that people who have suffered a benefit sanction have a higher rate of transition to employment. The estimated impacts are often large enough to suggest that the policies could affect total unemployment quite substantially.

At same time, there are some hints of problems which deserve attention. People who are pushed by job-search requirements to find work may end up in jobs with lower wages than might otherwise be the case. Staff, under pressure to implement a strategy of intensive intervention in the unemployment spell, may be stressed and offer rushed advice. Finally, the implementation of a rigorous policy linking benefit receipt to active job-search may require substantial resources if it is to be effective from a placement perspective. For example, success in helping relatively disadvantaged clients was reported from the city of Oslo where, following the introduction of what is called “the working principle”, the number of social assistant recipients dropped by almost 30% between 1990 and 1998. But, the

authors note “in order to set terms, you must have something to offer” (i.e. jobs or training or work experience). ■

When should more intensive intervention start?

Some countries favour *early* intervention in the unemployment spell, especially in the case of disadvantaged job seekers. This concerns, in particular, countries which use statistical “profiling” methods to identify those who are unlikely to find work quickly without assistance and then refer these individuals immediately to job-search assistance or longer-term measures. Nevertheless, it is probably fair to say that the great majority of OECD countries do not, or not yet, favour making participation in longer-term labour market programmes compulsory early in the spell, prior to say six months of unemployment. The case against an early use of longer-term labour market programmes was set out in some detail by experts from Denmark and Finland who referred to a “dead-weight loss” or “retention” effect. Putting people into labour market programmes can lock them into support during a period when many of them would, in fact, have searched for and found a market job relatively easily. This risk is particularly relevant during the early stages of an unemployment spell, when the rate of job-finding remains relatively high. So the

new activation strategies tend to be selective and voluntary early in the unemployment spell, but become universal and compulsory later in the spell. ■

Can national strategies be implemented through local initiatives?

It is often claimed that decentralisation will make active labour market policies more effective. Based on the conference discussion, the main benefits of decentralisation might be summarised as follows. The involvement of additional partners positively affects the pool of knowledge and expertise in implementing PES policy; it makes it possible to adapt the mix of labour market programmes and the way they are implemented to the needs of the local labour market; and it favours the willingness of the parties involved to co-operate and smooth out the political acceptability of certain operations. The latter might be particularly important for the implementation of necessary, but unpopular policies.

However, these potential advantages of decentralisation must be weighed against some disadvantages. There is some evidence from the Netherlands and Sweden that the involvement of too many players may result in uneven service provision as local policy objectives are pursued, and

even a lack of basic information on a nationally consistent basis about operations. A more general consideration is that unemployment insurance is often financed at national level, while social assistance is in varying degrees financed at local level, and labour market programmes can be managed in such a way as to shift costs onto the unemployment insurance fund or substitute for other municipal spending. Therefore, both at the policy-making and the operational level, the right balance has to be found between the “voice” to be given to the various partners and the overall policy responsibility of the central government. In Austria, the decentralised PES offices continue to co-operate with the centre, but they also form partnerships at their own discretion and initiative at the local level, and at the same time accountability and control have been facilitated by modern information technologies. ■

More cost-effectiveness through contestability?

By now, it is generally accepted that private placement agencies should coexist with the PES, and ILO Convention No. 181, 1997 revised Convention No. 96, 1949 in this direction. In recent years, however, some countries have gone further (or intend to do so) by requiring the delivery of PES services to be contracted on a competitive basis. The idea of

“contestability” has gained ground in several areas of public management, notably in the health sector, with a view to ensuring that public money is spent in the most cost-effective way. Initially, since a market price normally does not exist for a public service, there is no objective benchmark against which the cost-effectiveness of alternative methods of delivering the services can be compared. Currently, some governments are seeking to create such benchmarks, as a means of checking costs and improving outcomes for job seekers. Other governments are committed to safeguarding the public service concept for core employment services, but manage important specific services in a contestable way, indicating that the acceptability of contestability is a matter of degree. Training for the unemployed, in particular, is often purchased from a variety of outside providers, preferring those with the lowest costs and the best results.

Two countries have recently established the principle that providers can compete to provide general long-term case management or reintegration services for disadvantaged unemployed people. In Australia, job seekers who are expected to have particular difficulties in finding work are required to choose an “Intensive Assistance” provider, who may assist them for up to 21 months: these providers can choose their own strategies of service provision – such as job-search assistance and training – and are paid fees on the basis of employment outcomes achieved by their clients.

The potential benefits of contestability were evident in the results of the second tender round in 1999, when – against a background of widely-varying performance in the first tender round – poorly-performing providers were replaced by better ones. The Netherlands is introducing contestability in a somewhat different way: the funds for employment services are handed over to bodies which pay unemployment benefits (in the Netherlands, this is often the municipality) and these bodies are no longer obliged to purchase employment services for their beneficiaries from the public agency. Under this arrangement, a direct link between placement work and the monitoring of eligibility for benefit is maintained, but many benefit agencies might settle into long-term relationships with one employment service provider.

Competition and financial incentives may fail to improve overall performance of the PES if the output of employment services cannot be measured accurately. Switzerland has developed a sophisticated methodology for measuring the relative placement performance of local placement offices, taking into account the stability of job placements and differences in local labour market conditions. The federal system of performance assessment encourages cantons to improve the performance of the local placement offices under their control, through potential financial penalties on cantons whose offices perform poorly and bonuses for above-average performance. ■

From effective labour supply to higher employment

The general case for a broad range of microeconomic interventions – accelerating return to work by the short-term unemployed, maintaining employability among the long-term unemployed, and attracting marginal groups into the labour force – is that increased *effective* labour supply allows individual businesses to expand their operations and allows macroeconomic expansion to proceed in a non-inflationary way. This can support a virtuous circle, such that a broad range of microeconomic interventions are accompanied by a trend improvement in the general economic climate. Different aspects of the micro-economic strategy may be opportune at different times: when unemployment is falling, it may be politically more difficult to raise public spending on labour market programmes, but easier to implement institutional changes or revise regulations such as eligibility criteria for benefit receipt. ■

How does it all add up?

Most of the conference participants were experts speaking about their own country, and the conference illustrated the quite dispar-

ate nature of policy concerns for the PES and the effectiveness of labour market policies. Where one paper focused on information technology, another was concerned with decentralisation, and yet another with the importance of keeping unemployed people constantly in contact with jobs. This disparity illustrates that one of the biggest challenges for PES

strategic management is to pay attention to quite a wide range of topics all at once. It also emerges that placing people in jobs, although a very important aim of PES work, is not the only aim. The stability of job placements, service to employers, empowerment of the unemployed and other local actors, the delivery of training, equity across regions and

fairness in administering benefits, for example, are valued in themselves, to varying degrees. Yet reported successes in reducing unemployment significantly in certain OECD countries generally reflected an implementation, in one way or another, of the OECD's longstanding recommendation for an active labour market policy. ■

For further reading

- **Labour Market Policies and the Public Employment Service: proceedings of the Prague conference, 2001**, ISBN: 92-64-18597-6, € 69, 416 p.
- **Innovations in Labour Market Policies: the Australian Way, 2001**, ISBN: 92-64-18735-9, € 46, 210 p.
- **Benefit Systems and Work Incentives, 2001**, *forthcoming*
- **Pushing Ahead with Reform in Korea: Labour Market and Social Safety-Net Policies, 2000**, ISBN: 92-64-17685-3, € 25, 180 p.
- **Series: The Public Employment Service in the United States, 1999**, ISBN: 92-64-17011-1, € 33, 232 p.
- **The Battle against Exclusion, Volume 3: Social Assistance in Canada and Switzerland, 1999**, ISBN 92-64-17108-8, € 25, 184 p.
- **OECD Education, Employment, Labour and Social Affairs Internet Site: www.oecd.org/els/**.

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Where to contact us?

FRANCE

OECD Headquarters
2, rue André-Pascal
75775 PARIS Cedex 16
Tel.: 33 (0) 1 45 24 81 81
Fax: 33 (0) 1 45 24 19 50
E-mail: sales@oecd.org
Internet: www.oecd.org

GERMANY

OECD BERLIN Centre
Albrechtstrasse 9/10
D-10117 BERLIN
Tel.: (49-30) 2888353
Fax: (49-30) 28883545
E-mail:
berlin.contact@oecd.org
Internet: www.oecd.org/deutschland

JAPAN

OECD TOKYO Centre
Landic Akasaka Bldg
2-3-4 Akasaka, Minato-Ku
TOKYO 107
Tel.: (81-3) 3586 2016
Fax: (81-3) 3584 7929
E-mail: center@oecdtokyo.org
Internet: www.oecdtokyo.org

MEXICO

OECD MEXICO Centre
Av. Presidente Mazaryk 526
Colonia: Polanco
C.P. 11560
Mexico, D.F.
Tel.: (00.52.5) 281 3810
Fax: (00.52.5) 280 0480
E-mail:
mexico.contact@oecd.org
Internet: www.rtn.net.mx/ocde

UNITED STATES

OECD WASHINGTON Center
2001 L Street N.W.,
Suite 650
WASHINGTON D.C. 20036-4922
Tel.: (1-202) 785 6323
Fax: (1-202) 785 0350
E-mail:
washington.contact@oecd.org
Internet: www.oecdwash.org
Toll free: (1-800) 456 6323

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