Part Two

KEY ISSUES FOR LABOUR MARKET AND SOCIAL POLICIES
CHAPTER 3
The public employment service in Denmark, Finland and Italy

A. INTRODUCTION

The Public Employment Service (PES) is responsible for the placement of job-seekers into vacant jobs, which is often the final step in successful labour market adjustment. It often has, in addition, a key role in ensuring the effectiveness of unemployment benefits and active labour market programmes (ALMPs). A series of reviews by the OECD of national labour market policies has so far led to the publication in 1993 of The Public Employment Service in Japan, Norway, Spain and the United Kingdom, also published, in shortened form, as Chapter 3 of the 1992 Employment Outlook, and The Labour Market in the Netherlands. Following a further review, this chapter summarizes a longer report on the work of the PES in Denmark, Finland and Italy.

The three countries share some important characteristics: they are among the OECD countries with the highest ratios of public spending to GDP; they all closely involve union and employer organisations in the formation and implementation of labour market policy; and they all spend large amounts on subsidising employment. All have relatively high unemployment rates, but the employment rate is high in Denmark and low in Italy. Finland's employment rate was fairly high until the recent sharp recession.

Section B describes some of the labour market features and institutions in the three countries. Section C focuses on the resources of the PES and its role in relation to other labour market institutions. Section D describes the job-brokering function of PES work, including measures of market penetration. Section E describes the main earnings-related unemployment benefits and the ALMPs that have been adopted in attempting to avoid long-term dependence on them.

B. OVERVIEW OF THE LABOUR MARKETS IN DENMARK, FINLAND AND ITALY

1. Labour market performance, institutions and regulations

This section sketches for each country: the cyclical position of the economy and the structure of unemployment, as factors influencing the problems the PES faces; employment protection and labour turnover, as factors influencing unemployment inflows, available vacancies, and the incidence of various types of employment contracts; and some main events in the history of labour market policy.

Denmark

Employment

Three major characteristics of Danish employment are: a relatively high proportion is in the public sector; a relatively high proportion is in small firms; and over a third of women and nearly a quarter of all the employed work part-time, higher shares than in other EC (12) countries except the Netherlands and the United Kingdom. About 75 per cent of the population aged 16 to 64 is in employment, and employment rates for those aged 55 to 59 are 75 per cent for men and nearly 60 per cent for women, figures which are among the highest in OECD countries. Labour force participation rates are nearly 80 per cent for women (equalled only in Sweden) and nearly 75 per cent for youths.

Regulation and turnover

Labour legislation allows employers to dismiss or lay off most manual workers without advance notice. A relative absence of procedural barriers to dismissal and a relatively low potential cost to employers of unfair dismissal proceedings give Denmark a low level of employment protection matched only by the English-speaking countries of the OECD.

Unemployment

Unemployment is rather evenly distributed according to age and sex: in 1993, the registered Unemployment rate was 11.3 per cent for men, 13.7 per cent for women, and 16.5 per cent for 20 to 24 year olds. Regional differences are small and differences by educational attainment are about average or a bit higher than in the OECD area as a whole.

Short spells of unemployment are common: in 1993, although the aggregate registered unemployment rate was 13 per cent, 30 per cent of the labour force were registered as unemployed at some point in
Chart 3.1

Unemployment rates according to several definitions, 1970-1994

Percentage of total labour force

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**Denmark**

- Labour force survey unemployed
- Registered wholly unemployed
- Persons receiving unemployment benefits

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**Finland**

- Labour force survey unemployed
- Registered wholly unemployed
- Persons receiving unemployment benefits

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**Italy**

- Labour force survey unemployed
- Registered wholly unemployed
- Persons receiving unemployment benefits

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**Notes:**

a) Denmark data refer to Arbejdsformidlingen (AF) registered job-seekers available for work as of 30 June of each year. Unemployed persons are not excluded from register during legal holidays or during sick leave. Finland data refer to job applicants who were unemployed, available for work, laid off, or had arranged to start a job but had not yet started on the reference date which is the end of the month since 1981. From 1991 joint lay-off notices are excluded. Italy data refer to registered job-seekers, including part-time employees working less than 20 hours a week and workers in temporary jobs who worked less than four months in the calendar year.

b) Denmark data refer to part-time and full-time insured workers, and people receiving municipal social assistance who are unemployed on a full-time equivalent basis. Finland data refer to persons receiving unemployment insurance or state unemployment assistance. Italy figures refer to persons receiving unemployment insurance or state unemployment assistance. Italy figures are on an approximate full-time equivalent basis, and refer to hours of Cassa Integrazione Guadagni (CIG) paid divided by 2000, to days of Ordinary and Special Unemployment benefits paid divided by 365, and to months of Mobility allowance paid divided by 12.

**Sources:**
- Secretariat estimates for the most recent year in some cases.
- Denmark: Labour Market Authority (AMS), and Statistisk Arbo.
- Finland: Finnish Labour Review.
- Italy: Labour Market Observatory and as for Chart 3.3 for Italy.
the year. Jensen et al. (1992) reported that 40 per cent of all spells between 1979 and 1984 involved unemployment of less than half the week or partial unemployment (i.e. involuntary part-time work), and another 29 per cent were temporary lay-offs which ended through rehiring by the same employer. Only 32 per cent of Unemployment spells represented a period with little or no employment which ended through hiring by a new employer. However, because these latter spells were relatively long, they still accounted for 81 per cent of the average stock of unemployment. The existence of so many short unemployment spells has been attributed not only to low employment protection, but also to the fact that the unemployment insurance (UI) system compensates all hours in unemployment (provided that they exceed a low weekly threshold) [Jensen et al. (1992)]. This makes temporary lay-off and short spells a relatively cost-free method of adjustment for both employers and workers. According to the labour force survey, about one third of the unemployed have been seeking work for over a year, the lowest incidence among EC (12) countries after Luxembourg, but many unemployment spells are interrupted with only brief spells of employment.

As Chart 3.1 shows, Unemployment was very low in the early 1970s, but increased sharply in the mid-1970s and early 1980s. When Denmark subsequently experienced a rapid recovery, trade deficits and bottlenecks in the labour market (particularly for skilled workers) rose. In 1986, the government reacted with an austerity programme, and world recession gave another downwards impetus to growth after 1990. As a result, GDP grew by only 1 per cent per year between 1986 and 1993 and unemployment (as measured by the labour force survey) doubled from 5 to over 10 per cent. In 1994, reinforced by a fiscal stimulus at the beginning of the year, GDP grew by nearly 5 per cent and towards the end of the year unemployment began to fall fairly rapidly. However, unemployment remains a serious problem. Its fiscal cost is an important consideration: reflecting both benefit coverage and active labour market spending, Denmark, for many years, had the highest overall level of labour market spending as a percentage of GDP in the OECD area.

At the depth of the recent recession in 1993 and 1994, the labour force survey-based unemployment rate returned approximately to its peak level in the early 1980s. However, this series has been affected by statistical breaks and the commonly-cited register-based rate – which reflects the number of people receiving Unemployment benefits on a full-time equivalent basis – had increased considerably more.  

Due to growth over the past 20 years in the number of people with unemployment benefits, early retirement benefits and invalidity pensions (Chart 3.3), and some other benefits, in combination with relative stability in the aggregate employment rate, the great majority of people of working age who do not have work income receive income support from the social security system. This is an important part of the background to the political consensus in Denmark for maintaining benefit coverage – including participation in ALMPs – even for the very long-term unemployed.

The availability of benefits for up to a year in cases of parental leave (see Chapter 5), educational leave and sabbatical leave has recently had a substantial impact on the labour market. Following a reform to these Labour Market Leave benefits at the beginning of 1994, by the end of the year about 2½ per cent of the population of working age was receiving one of them. Over half of the entries have been by unemployed people, who as a result temporarily leave the labour force; in many other cases, unemployed people are placed into the job slots that arise when employed people take up one of the options.

Institutions

Before 1969, about 60 state-approved union UI funds, with about 4 000 branch offices in all, administered both placement services and unemployment benefits. There were about 30 public employment exchanges providing only very limited services to the half of the labour force not covered by the UI funds. Following years of negotiations between the social partners, it was decided that UI benefits were to be raised sharply; they were still to be paid via the union UI funds, but were not to be financed by individual fund members at the margin. Employers’ organisations were not in favour of leaving control over the administration of these new benefits with the UI funds and it was agreed that the Ministry of Labour would administer them, albeit via the UI funds. At the same time, a modern PES was created and given a monopoly on placement implying that unions should cease this activity (although the nurses’ union was made an exception). The new PES was responsible for certifying, when people applied for benefits, that jobs were available, and the benefit control function tended to dominate its thinking [OECD (1974)]. However, nowadays this function is not regarded as a principal task of the PES and the UI funds have retained much of their independence.

At the time of the 1969 reform it was also agreed, or tacitly understood, that, as a counterpart to the higher level of benefits, employers would have or continue to have extensive freedom over dismissals. Ever since, the combination of high UI benefits with low employment protection has been widely regarded both as an economically viable strategy, and as the
Chart 3.2

Flows of registered new job-seekers, vacancies and placements
1980-1994
Monthly flows as a per cent of total labour force

Denmark

Finland

Italy

Sources: See sources to Chart 3.1.
reflection of a historical agreement between the social partners which neither party should now renge upon.

State labour market training (AMU) centres offer free training courses for employed workers which, although short (many last only two or four weeks), can—through the addition of co-ordinated modules over a period of years—teach skills similar to those of craft workers qualified through apprenticeships. The participants receive the equivalent of the UI benefit and employers frequently supplement this up to the normal wage, and put their employees into training courses, perhaps in preference to temporary lay-off. This internationally unique, but extensively used, system is focused on the training of semi-skilled workers, and there is some evidence that participation in it increases subsequent earnings. It, thus, appears to contribute to allowing Denmark to combine a compressed distribution of earnings with a high aggregate employment rate.

**Finland**

**Employment**

In the 1950s, a large proportion of Finnish employment was in the primary sector and national income per capita was relatively low. From the 1960s, rapid industrialisation took place: the forests formed the basis for an important wood processing industry and trade with the former Soviet Union contributed to growth in metal-working and engineering. From the beginning of the 1980s, with relatively low unemployment and robust productivity and employment growth, per capita income stayed above the EC (12) average level for about 10 years.

Finland has, to some extent, not had the build-up of public sector employment experienced in other Nordic countries the share in general government employment (not including public enterprises) was 22 per cent in 1989, compared with over 30 per cent in Sweden and Denmark [OECD (1991c)]. The share of manufacturing in total employment was high in the 1970s, but has since declined to OECD average levels. Reflecting economies of scale in the wood and metal-based industries, and considerable state ownership, much industrial sector employment is in large firms—around 65 per cent of employees were in firms with more than 500 employees [Lilja et al. (1990)].

Only 9 per cent of employment in 1993 was part-time compared with around 25 per cent in Denmark, Norway and Sweden. Rates of female participation in full-time work are probably the highest in the OECD area. However the participation rate of older males (the 55 to 64 age group) has fallen to about 45 per cent, which is very low by international standards. It has been reduced by the existence of two early retirement benefits, the “Unemployment Pension” (paid to people unemployed for more than 40 weeks, see Chart 3.3) and the “Special Invalidity Benefit” (paid to people who are assessed as unable to continue in their current occupation). The qualifying age for both benefits has been as low as 55 in some years, whereas for Denmark’s voluntary early retirement pension system the qualifying age is 60.

**Regulation and turnover**

Like Denmark, Finland is highly unionised (the standardised union density rate was 72 per cent in 1990) [OECD (1994a)]. The steep postwar rise in membership seems to have resulted, in part, from the use of an automatic dues check-off system and, as in Denmark, from union involvement in the administration of unemployment benefits. Restraint in central wage agreements has contributed to maintaining competitiveness; the agreement for 1992 and 1993 included a wage freeze, and real hourly earnings declined in both years as a result. However, there remain concerns over relative wage rigidity. Finland’s centralised minimum wage agreements are extended to the overwhelming majority of non-unionised employers, so that collective agreements currently cover as much as 95 per cent of the workforce. Since the mid-1960s, the ratio of the average minimum wage in collective agreements to the average wage has steadily increased. In service sectors, where company supplements to the wages specified in collective agreements are not common, the minimum wage may be a significant constraint, especially in recession years.

In 1966, unions and employers concluded a first general agreement requiring that a “specified valid reason” for dismissal be given. In 1970, earlier collective agreements on redundancy payments and minimum employment contract provisions were taken into legislation. Minimum notification periods and provisions on justifiable dismissal were tightened in both the 1970s and the 1980s, so that Finland continued to strengthen employment protection at a time when in many other countries governments were trying to move in the opposite direction. Dismissals are permitted only if workers cannot be retrained or transferred to other jobs within the firm. Fixed-term contracts were regulated in 1984, permitting their use only when justified by the temporary nature of the work. In practice, however, the incidence of temporary employment in 1991, at 13 per cent, was higher than in other countries of North and Central Europe [OECD (1993a)]. Nevertheless, labour turnover, which used to be high by international standards [OECD
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Per cent of working-age population (15-64)
1970-1993
Unemployment, early retirement and invalidity benefit recipients.

Chart 3.3

Source: Social Insurance Board and Ministry of Labour.
Chart 3.3 (Cont.)

Unemployment, early retirement and invalidity benefit recipients, 1970-1993
Per cent of working-age population (15-64)

Finland

A. Unemployment benefits\(^d\)

B. Invalidity and early retirement benefits\(^e\)

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\(^d\) People receiving municipal social assistance only are not shown in either panel (in some cases they may be unemployed but not receiving State assistance, for example because of the operation of the 3-month waiting period for this).

\(^e\) Figures do not include the front-veterans' pension, old age assistance, and early old age pensions. There were about 50,000 beneficiaries in these categories together in 1970 which declined to about 9,000 by 1993.

Sources: See Finnish Labour Review, 1994 fourth quarter, Table 24; KELA (1994)
Chart 3.3 (Cont.)

Unemployment, early retirement and invalidity benefit recipients, 1970-1993
Per cent of working-age population (15-64)

Italy

**A. Unemployment benefits**

- Unemployment benefit agricultural workers
- Unemployment benefit non-agricultural workers
- Mobility allowance
- **Cassa Integrazione Guadagni (CIG)**

**B. Invalidity and early retirement benefits**

- Early retirement benefit
- Invalidity benefit

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1. See note to Chart 3.1 for Italy.
2. Invalidity beneficiary figures refer to the stock on the 31st December of the year. Figures for 1992 and 1993 are estimates.

Sources: For unemployment benefits: advice from MLPS. For CIG and Mobility allowance: Tronti (1991); MLPS (1992); De Luca and Bruni (1993); and Relazione Generale Sulla Situazione Economica Del Po on (1993). For other benefits: OECD (forthcoming); Statistiche Della Previdenza della Sanità e dell'Assistenza Sociale anni 1991, 1992 (ISTAT, 1994, Tavola illustrata n.3) and earlier publications in this series; and MLPS (1995).
(1992a)], has been falling. Average job tenure in the private sector increased from 6.8 to 8.2 years between 1972 and 1988 and average job tenure in the whole economy rose from 8 years in 1989 to 9 years in 1991 [OECD(1993a)].

Unemployment

For many years, there were large regional imbalances in unemployment, with rates being relatively high in the northern, sparsely populated regions. In the 1960s, the northern and eastern parts of the country are estimated to have lost 300 000 persons each to the industrialised South and to Sweden. Regional mobility then declined, perhaps reflecting inter alia the ageing of the labour force, rising female participation making family relocation difficult, declines in wage dispersion and reduced mobility requirements for unemployment benefits. Industrialisation and growth in services kept unemployment low in the southern urban areas until recently, when double-digit unemployment rates have spread to all regions.

After 1990, Finland experienced the largest two-year fall in GDP recorded for an OECD country in recent decades. Recession was provoked by: a fall in exports, following the loss of long-standing special trading arrangements with the former Soviet bloc; debt overhangs in both the corporate and household sectors, following financial deregulation in the period of strong growth; and substantial falls in world market prices for wood and pulp. With staff reductions perhaps being facilitated by the high incidence of temporary contracts, total employment reacted rapidly to the recession, falling to 5 per cent or more below its level of 1973. The unemployment rate, which had been among the lowest in the OECD area in 1990, rose to 18 per cent by 1993 (see Chart 3.1). Aided by a general improvement in competitiveness and a rise in world pulp and paper prices, a strong export-led recovery is now taking place, but unemployment is expected to remain at a relatively high level for the rest of the decade. As in Denmark, the fiscal cost of unemployment is a major concern: in 1993, labour market spending reached 6.8 per cent of GDP, a new record for the OECD area.

Female unemployment in Finland, in contrast to many other countries, is considerably lower than male unemployment. Before the recession, long-term unemployment was low by OECD standards. However, if people receiving Unemployment Pensions were counted as unemployed, the long-term unemployment share over the 1980s would have been close to the OECD average [Lilja et al. (1990)].

Institutions

Offices providing employment services were established by municipalities in the early 1900s. Concerns over the adequacy of these offices led the central government to take over responsibility for them as part of the 1959 Employment Service Act. In 1973, the separate district (local) employment offices that had been handling placement, employment subsidies, income maintenance and vocational guidance were combined. In 1985, responsibility for the payment of unemployment benefits was transferred back to the Social Insurance Institution and the union UI funds.

Finland, like Denmark, has an extensive network of labour market training centres, which in recent years have become independent providers of services, with the PES as their main client. But, as in Denmark, the unemployed are also often allowed to take up training options with a wide range of other institutions.

Italy

Employment

Direct employment in government is about 15 per cent of total employment, but the state also controls about two-thirds of the banking system, three-quarters of transport and communication, almost all utilities (electricity, gas and water), and the industrial conglomerates IRI, ENI and EFIM. A relatively high proportion of private-sector employment is in small firms: in 1988, establishments with fewer than 100 workers accounted for over 70 per cent of non-agricultural private sector employment compared with 45 to 60 per cent in most other OECD countries [OECD (1994a)]. Among the factors accounting for this have been the exemption of firms with fewer than 16 employees from job protection legislation (until recently), and (in the context of the high tax burden) their greater opportunities for tax evasion [OECD (1991b)].

The incidences of part-time and temporary work are 5 and 6 per cent, respectively, among the lowest in the OECD. Italy also has relatively low levels of overtime, shift and night working, although the incidence of Saturday working is moderately high [Grubb and Wells (1994); Gasparini (1995)]. On the other hand, self-employment is relatively important in Italy, accounting for over 20 per cent of non-agricultural employment.

Italy’s overall employment rate, about 53 per cent of the population of working age on average over the 1980s, is low. Employment rates, not only for women of all ages, but also for younger (15-24) and older (55-64) male workers are all well below the OECD average. In contrast, the employment rate for prime-age males is close to the OECD average.

It is estimated that about 20 per cent of national income is unreported [Siesto (1987); OECD (1992b)]. Although much under-reporting of income relates to self-employment earnings and to secondary jobs,
some of it represents concealed employment. According to ISTAT estimates for 1981 and 1982, non-registered employment was about 13 per cent of total employment (or 9 per cent on a full-time equivalent basis). Three components of concealed employment [listed by MLPS (1987)] are: work by “early retirees”; undeclared domestic help which, according to an estimate for 1981, represented 1.7 million jobs; and work by clandestine immigrants. Moreover, many young first-time job-seekers take irregular work. Allowing for this, true employment and participation rates in Italy may be significantly higher than those reported in the labour force survey.

**Regulation and turnover**

The wave of strikes in the late 1960s and early 1970s concerned not only wages but also control over conditions of work, and for some years all larger firms found it very difficult to dismiss workers. The 1975 agreement between Confindustria and the unions formalized this situation, requiring employers to notify planned lay-offs in advance and study them jointly with the unions. Apart from this type of regulation, legislation in 1966 and 1970 and related jurisprudence added to employment protection. Statistics for manufacturing and industry show a sharp fall in turnover in the 1970s, and some revival in the late 1980s.5

A recent increase in turnover may partly reflect some relaxation of employment protection during the 1980s. Although employers cannot generally use fixed-term contracts except for “objective” reasons (e.g. temporary replacement of a worker on maternity leave), in 1984 agreements between employer and worker associations endorsed for trainees the principles of temporary employment and lower wages. Apprenticeships, which mainly concern workers aged 20 or less, and training-and-work contracts, which can last up to two years and are permitted for workers up to 29 years old (recently increased to 32), were also granted exemptions from employer social security contributions. In the latter 1980s, they employed over a million workers.6 In 1986, legislation created the possibility of dismissing individual workers for justified motives. Previously, only dismissals for economic reasons (e.g. plant redundancy or business insolvency) had been permitted. In 1989, an agreement of principle covering the use of fixed-term contracts in private sector industry was reached, although it has not been widely implemented in lower-level collective agreements. The major reform of 1991, as explained below, seems to have facilitated dismissals. However, despite such signs that the rigidities in Italy’s labour market are easing, 52 per cent of all employed people in 1992 reported that they had never had any other employment, and 49 per cent reported that they had been in their current job for more than 10 years, the latter being even higher than in Japan [Casavola and Sestito (1993); OECD (1993a)].

**Unemployment**

The unemployment rates of husbands in families and older workers are both extremely low – 2 per cent in 1992 – while the unemployment rate of youths (under 25 years old) is nearly 30 per cent, higher than in any other OECD country except Spain which has a much higher aggregate unemployment rate [OECD (1994b)]. Highly-educated youths for many years had higher-than-average unemployment rates. Given employment tenure patterns which imply that a first regular job in a large firm or the government sector is likely to become a lifetime job, Reyneri (1994) explained “thanks to financial support from the family and casual jobs, it appeared reasonable to pursue a long-term strategy of waiting for an occupation to come up that conformed to the pattern of aspiration which they and their families had earlier acquired.”

The labour-force-survey-based unemployment rate was 6 per cent in the early 1970s, much higher than in most other European countries, and increased steadily to about 11 or 12 per cent by the late 1980s.7 Registered unemployment, as shown in Chart 3.1, grew increasingly out of line with survey measured unemployment during the 1980s.

The limited coverage of unemployment and related benefits keeps total labour market spending moderately low at around 2 per cent of GDP. As shown in Chart 3.3, many more people receive invalidity than unemployment benefits. A common interpretation of this phenomenon has been as follows: “in a country where there were no unemployment benefits until recently (except for the temporary layoff subsidies), these pensions ensured the granting of public transfers to the unemployed, or (more generally) to entire weak sectors of Southern society, independently of their actual conditions of permanent (total or partial) disability” (MLPS (1992)). A tightening of eligibility conditions has reduced the use of invalidity benefit as a substitute for general social assistance benefits, but the total number of beneficiaries remains high in the South, especially in the light of the, now fairly strict, formal criteria for admission.

**2. Tripartite involvement in labour market policy**

In all three countries, unions and employer associations play a major role in defining the main lines of labour market policy and the legislative framework for PES work in conjunction with the national government. Moreover unions, employers and local government are involved in the detailed management of the PES at local level (see Box 1).
Box I
Tripartism, decentralisation and management by results

All three countries have formal institutions through which employers and unions can influence labour market policies. At the central level, in Denmark the National Labour Market Council (Landsarbejdsradet) advises the Labour Minister and participates in the management and planning of the activities of the PES. In Finland, the Council for Labour Affairs takes part in drawing up the Ministry’s budget and guidelines, action plans and policy targets for regional and local PES offices. In Italy, the National Economic and Labour Council (CNEI) was set up under Article 99 of the Constitution as an advisory body to the Italian government as a whole, and can take part in drafting economic and social legislation and submit its own bills. The Ministry of Labour and Social Security is advised by the Central Employment Commission, which in collaboration with the Ministry lays down annual guidelines for general employment policy, and nine further Commissions cover specific areas such as agricultural workers, co-operatives, and industrial accidents.

Within the PES structure, management decentralisation gives considerable power to tripartite councils at regional level, which decide relatively concrete aspects of strategy such as: how national objectives should be interpreted to assess and reward good performance at the level of individual offices or individual staff; which methods of vacancy diffusion should be adopted; how often unemployed workers should be called to interview; and which groups of unemployed should be targeted for early intervention. The regional bodies also issue decisions or recommendations in individual cases, as when an unemployed person appeals against the content of an Individual Action Plan in Denmark or when a firm applies for Extraordinary CIG in Italy. In Denmark, the director of a regional PES office serves as secretary to the Council, which has 21 members, 7 for each of the social partners and 7 more for local government, and which meets once a month. In Finland, in addition to tripartite bodies advising regional PES offices, there is a tripartite Employment Committee attached to each local office which takes decisions about the labour market situation of individuals for benefit purposes, and may meet once or even several times a week. In Italy, Regional, Provincial and Local Employment Commissions oversee the Regional and Provincial Labour Offices and SCIs. The Regional Employment Commissions are legally defined as “the body for planning, implementing and monitoring active labour policy”.

In Denmark, although decentralisation is mainly regarded as a success, some conflicts with the national policy goals of the AMS and the Labour Ministry have emerged: in one region, the regional Labour Market Council decided early in 1994 to put few resources into providing Job Training for the newly-defined “Period 2” group of unemployed (those who have been on benefit or subsidised work for more than four years), and reversed its position only after the Labour Minister pointed out that this would conflict with the intention of new national legislation. In Finland, since the mid-1970s, decisions concerning placement into subsidised jobs and other selective employment measures have been increasingly delegated from central level to regional and local offices. However, the 1980s were also a time of increasing legislative prescription of placement rights and obligations, culminating in the 1987 Employment Act. In Italy, regional management autonomy is extensive, but, at the same time, staff in Regional and Provincial Labour Offices and SCIs tend to emphasize that their work is driven by duties laid down in detail by legislation.

In the two Nordic countries, management decentralisation goes hand in hand with negotiations between the national and regional levels on national performance targets, expressed in terms of both general objectives and quantitative goals applying to each region. The latter include the number of vacancies registered, the speed with which vacancies are filled, the number of visits to local employers by PES staff and the employment rate of workers after the completion of participation in active labour market measures. In Finland, a small element of pay-by-results has been introduced, much of it attributed by regional management to all the staff in PES offices which have performed well. By contrast, the PES in Italy makes little use of formal policy targets as an internal administrative device. Instead, legislation defines both quotas (e.g. for the employment of protected groups of workers) and objectives (for example, personnel laid off with the CIG benefit should be selected in a way that minimises hardship).

One risk with PES management by tripartite committees is that, because employers and unions typically have two-thirds of the votes, attention may be concentrated on redundant workers more than on groups with no foothold in the regular labour market, such as social assistance beneficiaries and, in Italy, first-time job seekers. There is also a risk that the complexity of tripartite structures, or the emergence of unduly partisan positions, could make them a barrier to change. The main risk with decentralisation arises when unemployment benefits are nationally financed, since regional management may prefer to concentrate on placing the most employable people – as in the case cited above – and be less interested in implementing “activation” obligations or benefit sanctions.
If grants from central government are linked to local registered unemployment, as in Italy, the lack of local incentives for managing the register correctly may also be a problem. When national PES management objectives are expressed mainly in terms of quantitative targets for regional and local offices, distortions may arise. Objectives that are omitted from the list of formal targets, perhaps simply because performance is difficult to quantify accurately – e.g., help to the most disadvantaged or avoidance of unnecessary benefit payments – may increasingly be disregarded. Conversely, regions may direct resources towards measures that maximise measured performance – e.g., by registering vacancies that have appeared in newspapers – while adding relatively little to the final effectiveness of the PES in reducing unemployment or meeting employer needs.

However, for each element in the combination of tripartism, decentralisation and management by results, advantages can be cited. The three parties’ extensive knowledge of the labour market should help in formulating well-informed and balanced policies. Decentralisation, with target-setting, encourages management at regional level to take account of nationally-agreed strategies, obliges it to provide information for monitoring and to accept inspection of its procedures, while allowing flexibility in detailed operational methods. It may also help to motivate staff.

In Denmark, the “September compromise” of 1899 between the newly formed Employer Association (DA) and the trade union confederation (LO) defined their main rights and duties in their collective relations. This early emergence of well-defined social parties allowed collective bargaining to become a mechanism for regulating labour policy areas which, in some other countries, are governed by law, such as overtime, shift work, notice of redundancy or lay-off, and maximum working hours. At the same time the state has intervened in pay determination, particularly in the 1970s, through parliamentary wage indexation and tripartite incomes policies. Following a change of government in 1982, the systems of consultation among the social partners and central-level bargaining were weakened, but there are still strong “corporatist” traits in the Danish welfare state. The social partners are, for example, represented in the Labour Ministry’s “Special Committee on the Labour Market and Social Issues” which discusses policy drafts and proposals for legislation [Ministry of Labour (1994a); for the Danish tradition of corporatism in employment regulation, see Boje and Madsen (1993)].

In Finland, the periodic involvement of government in central wage negotiations has led to bargaining over taxation and social policy, in which the government facilitates the conclusion of collective agreements by offering fiscal concessions, establishing a tradition of negotiated incomes policy. Central collective agreements have also covered areas such as job security, employee representation (shop stewards), sick pay, working time, technical change, company restructuring and training, in line with a tradition where the collective bargaining parties have sought to find voluntary solutions as an alternative to state intervention [Kauppinen (1990); EIRR (1992)]. As many public policy decisions are also taken following consultation with the social partners, many observers have classified Finland as one of the most “neo-corporatist” societies in the world [Lilja et al. (1990)]. Although employers recently withdrew from some of the formal tripartite negotiations at central level, extensive consultation and discussion still takes place. Recently, government proposals for reform of the unemployment benefit system have been withdrawn or modified several times, after running into heavy union opposition.

In Italy, after the period in which industrial unions were unable to control the actions of shop-floor militants, formal union structures were re-established and employers, individually and through their national organisations, made major concessions to the unions in the search for stability. From 1977 to 1984, a series of agreements between employers and unions had a determining role in formulating national economic policy. National-level tripartite agreements consisted “of two distinct parts. The first one [notably concerning wages] was among the two social partners directly, and, because of this, was immediately enforceable. A second part, instead, bound the Government to legislate on issues such as fiscal and insurance policy, health care, public deficit cuts, labour policies” [MLPS (1987)]. In the 1980s, employers in the private sector tended to regain control within the workplace and some implemented policies intended to shut unions out. However, agreements between employers and unions, and their subsequent incorporation by the government into laws, have continued to be very important for labour market policy [MLPS (1988, 1993)].
C. THE LABOUR MARKET ROLE AND RESOURCES OF THE PUBLIC EMPLOYMENT SERVICE

1. The tasks of the PES

In all three countries, the Ministry of Labour has overall responsibility at the national level, not only for job broking, but also for most ALMP spending, except for some technical and vocational training, where the Ministry of Education is involved.

The situation as regards unemployment benefits is more mixed. In Denmark, the Ministry of Labour's Directorate for Unemployment Insurance supervises the administration (by UI funds) of UI, while the Ministry of Social Affairs supervises the administration (by municipalities) of social assistance benefits. However, the PES itself administers the Labour Market Leave benefits (see Section B). In Finland, the Ministry of Social Affairs supervises the administration (by UI funds, the Social Insurance Institution and municipalities) of all the insurance and assistance benefits paid to the unemployed, although the PES retains responsibility for assessing the availability of claimants for jobs. In Italy, benefits and placement both come under the Ministry of Labour and Social Security (MLPS). Unemployment and other benefits for most private sector workers are administered primarily by the National Institute for Social Security (INPS), but the PES is involved in the application and granting procedures for all types of unemployment benefits and handles the actual payment of the "Ordinary" unemployment benefit.

The status of the PES varies considerably between countries. In Denmark, a quasi-autonomous body under the Ministry of Labour, the National Labour Market Authority (AMS), was formed in 1989. Its two main subdivisions are the employment service (Arbejdsmarkedsuddannelse, AMU), which manages the employment offices, and the labour market training service (Arbejdsmarkedsuddannelse, AMU), which manages the 24 state-owned training centres. In Finland, the network of employment offices is a branch of the Ministry of Labour. In Italy, laws define the functions of specific bodies within the Ministry of Labour. Thus, Law 675/1977 defined the role of Regional Employment Commissions (which manage Regional Labour Offices) and Law 56/1987 (and associated decrees) instituted and defined the role of local employment offices (Sezioni Circonscrizionali per l'Impiego, SCI), as well as Regional Employment Agencies. Insofar as the allocation of some important functions to particular levels of the administration is explicit (e.g. the Provincial Labour Offices are responsible for conciliation in labour disputes), there is, in effect, a multiplicity of employment service bodies. The Regional Employment Agencies, which have concentrated on providing placement services for the unemployed on the so-called "Mobility" lists (these cover mainly people receiving the CIG benefit or the "Mobility" allowance, after a collective dismissal according to specific procedures), remain outside the civil service hierarchy in some respects, such as their hiring policy. Another complication is that Sicily manages its employment service independently (it has never introduced SCIs according to the terms of the 1987 law) and in four other autonomous regions (Aosta, Trentino-Alto Adige, Friuli-Venezia Giulia, and Sardinia) the Regional Employment Agencies are managed by regional authorities. Regions can take other initiatives in labour market policy and the province of Trento has even created some unemployment benefits that do not exist elsewhere. Labour Inspectorates, at the regional and provincial levels, have broad responsibilities which lead them to be closely involved in some aspects of PES work. While labour inspectorates in Denmark and Finland deal mainly with health and safety and the working environment, the inspectorates in Italy have broad responsibility for enforcing all labour legislation.

Most ALMP spending in Finland and more than half in Denmark passes directly through the PES in the form of payments to training providers (including state training centres run on commercial lines) or employment subsidies paid to private or public sector employers. In Italy, most of the hiring grants and subsidies, although they are actually paid by INPS, are authorised by the local employment office network. By contrast, the running of vocational training activities was transferred from the Ministry to regional authorities in 1972. The MLPS has only an information, coordination and policy analysis role in this area. The European Social Fund acts as another managing authority insofar as it finances a substantial proportion of the labour market training that is undertaken.

2. The office network, staff resources and workload

The PES has 14 regional offices in Denmark, 13 in Finland and 19 (20 including Sicily) in Italy. As shown in Table 3.1, the proportion of staff employed at the two intermediate levels, regional and provincial together, is relatively high in Italy, reflecting the specific allocation of various tasks to the Regional and Provincial Labour Offices. It would be even higher if the Labour Inspectorates were counted as part of the PES. The average number of local-level staff per local office district varies by country from 12 to 18.

Given that Italy's population and labour force are about 10 times greater than Denmark's or Finland's, the 12,000 staff and 516 local employment offices within its PES (excluding Sicily) represent a relative lack of resources. An average staff member in Italy
Table 3.1. Employment office networks, staff numbers and indicators of workload

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>PES office districts</td>
<td>97</td>
<td>183</td>
<td>516</td>
</tr>
<tr>
<td>Average number of local office staff per district</td>
<td>18</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>PES total staff</td>
<td>2,250</td>
<td>2,893</td>
<td>12,084</td>
</tr>
</tbody>
</table>

Percentage distribution of staff numbers

<table>
<thead>
<tr>
<th></th>
<th>Local offices</th>
<th>Intermediate-level offices</th>
<th>National headquarters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>77</td>
<td>15</td>
<td>8</td>
</tr>
</tbody>
</table>

Stock per PES staff member

<table>
<thead>
<tr>
<th></th>
<th>Population</th>
<th>Registered job-seekers</th>
<th>Benefit recipients</th>
<th>Notified vacancies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,306</td>
<td>183</td>
<td>155</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>247</td>
<td>159</td>
<td>2.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>na</td>
</tr>
</tbody>
</table>

Monthly flow per staff member

<table>
<thead>
<tr>
<th></th>
<th>New registrations of job-seekers</th>
<th>Inflow of notified vacancies</th>
<th>Placements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30e</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>

serves about 1,500 members of the labour force, compared with about 1,000 in the two Nordic countries. The imbalance would be less if employed wage and salary earners only were considered, since Italy has a large number of self-employed (who are not normally users of PES services), but it would be increased if only local office staff were considered. Italy also has the largest number of job-seekers, registered unemployed and had, until 1991, a higher rate of placements (as defined in Table 3.3) per PES staff member, but it has the lowest number of unemployment benefit recipients per PES staff member.

3. Quantitative indicators of PES strategies

Statistics of labour market flows, as shown in Table 3.2, give an initial impression of how the actions of the PES influence the labour market. Recorded placements of job-seekers into pre-existing vacant jobs by the PES account for only a rather low proportion of the outflow from the job-seeker register, ranging from about 10 per cent in Denmark, 10 per cent in Finland at the depth of the recession to 30 per cent before the recession, and 30 per cent in Italy before it abandoned compulsory placement procedures in 1991. In Denmark and Finland, for the years 1991 to 1994, the total of entries into subsidised jobs and training was two to four times higher than the flow of placements into unsubsidised jobs. In Italy, the authorization of hiring subsidies (involving placement or not) has, since 1991, been a more common operation than placement (with or without hiring subsidies).

Outflows from the register, placements and entries into labour market programmes differ in character between the countries. In Denmark, outflows
Table 3.2. **Outflows from the job-seeker register, placements and entries into the main labour market programmes**

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outflow from the PES job-seeker register</td>
<td>.. 2.10</td>
<td>2.23</td>
<td>2.02</td>
</tr>
<tr>
<td>PES placements in pre-existing jobs</td>
<td>0.25</td>
<td>0.20</td>
<td>0.22</td>
</tr>
<tr>
<td>Entries by unemployed to subsidised work</td>
<td>0.20</td>
<td>0.28</td>
<td>0.31</td>
</tr>
<tr>
<td>Entries by unemployed to training</td>
<td>0.11</td>
<td>0.14</td>
<td>0.17</td>
</tr>
</tbody>
</table>

**Derived indicators**

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>PES placements into pre-existing jobs as percentage of outflow from the register</td>
<td>.. 0.10</td>
<td>0.11</td>
<td>..</td>
</tr>
<tr>
<td>Entries to subsidised work and training as percentage of outflow from the register</td>
<td>.. 0.23</td>
<td>0.28</td>
<td>0.29</td>
</tr>
<tr>
<td>Placements into pre-existing jobs as percentage of placements into pre-existing jobs plus entries to subsidised work and training</td>
<td>0.44</td>
<td>0.33</td>
<td>0.31</td>
</tr>
</tbody>
</table>

.. = Data not available

a) In Denmark and Italy, outflows from the job-seeker register are estimated from the inflows in Table 3.1 and changes in the stock.

b) PES placements into pre-existing jobs are placements as recorded administratively, described in note b to Table 3.3. In Denmark and Finland they exclude placements into subsidised jobs, which are regarded as ALMP places which by definition are at the disposal of the PES. In Italy, hiring subsidies are conditional on characteristics of the hired worker but not on PES involvement in the matching process, and PES placements into pre-existing jobs and placements into subsidised jobs are overlapping categories.

c) In Denmark, entries to subsidised work and training include entries by assistance beneficiaries (managed by municipalities), and include entries to educational leave (see Section B) in 1994. In Italy, entries to subsidised work refer to training-and-work contracts only (flows of apprenticeship contracts, which involve mainly workers aged under 20, have been greater in recent years). Some other forms of subsidised hiring, omitted from the statistics, may nevertheless be significant. Training refers to entries by unemployed adults to regional programmes which fall outside the control of the PES, estimated very roughly at 100,000 for 1991.

Sources: See Table 3.1 (for register flows), OECD database on labour market spending and programme participation and MLPS (1993, Table 4.18).

Despite such complications, in general terms the PES in these three countries does appear to be carrying out more operations of granting employment subsidies or placing unemployed workers into training, than of matching job-seekers to ordinary vacancies. By contrast, in Japan, Norway and the United Kingdom in 1990, ordinary placement was the most common type of operation, and by a large margin except in Norway [OECD (1992a)].

### D. THE JOB-BROKING FUNCTION

#### 1. Legal restrictions and registration requirements

In Denmark and Finland, the PES for many years had a monopoly on placement in the sense that it was illegal, except with special authorisation, for other bodies to maintain registers of vacancies and

from the job-seeker register may often reflect return to the former employer after a temporary lay-off. About 30 per cent of the Italian job-seeker outflow concerns agricultural hirings. It should also be noted that people placed into a job or a labour market programme do not necessarily leave the job-seeker register, so that there is some difficulty interpreting statistics such as “placements as a percentage of all outflows from the register”. In Denmark, only about 60 per cent (over 1990 to 1993) of the listed entries into subsidised work were managed principally by the PES, the others being hirings of assistance beneficiaries financed by the Ministry of Social affairs and managed by municipalities. For Italy, the statistics for subsidised hirings include: training-and-work contracts, but not apprenticeships; and among the measures introduced in the 1990s (see below), grant-aided hirings of workers from the Mobility lists, but not subsidised hirings of the long-term unemployed (for which statistics are not available).
job-seekers in order to provide a matching service. These restrictions were abolished in Denmark in 1990, and at the beginning of 1994 in Finland. However, temporary work agencies (TWAs) had been authorised or tolerated before the PES monopoly was formally abolished. In Italy, the PES still has a full legal monopoly on placement. Most commercial services provide temporary workers in violation of social security, tax and labour standards, and exist despite efforts by the Labour Inspectorate to suppress their activities. However, in recent years there has been lively debate over the PES monopoly. In July 1993, employers and unions agreed in principle to allow TWAs to operate, but this change has not yet been followed by legislation.

The 1987 Employment Act in Finland introduced a requirement on employers to notify all vacancies to the PES. This remains in place despite the recent abolition of the PES monopoly on placement. Because there are no sanctions for non-compliance, the legislation is only partially respected.

In Italy, there is no legal obligation on employers to notify vacancies: instead, all labour movements must be registered under the Employee’s Pension Act supplied by T Santamaki-Vuori, and MLPS (1993, p 318).

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Table 3.3. Flows of hirings, vacancies and PES placements, 1990, 1993 and 1994

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>PES administrative data</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual vacancy registrations² (000s)</td>
<td>122 241</td>
<td>156 615</td>
<td>203 867</td>
</tr>
<tr>
<td>Annual placements³ (000s)</td>
<td>85 900</td>
<td>82 430</td>
<td>126 000</td>
</tr>
<tr>
<td>Labour market data</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependent employment (000s)</td>
<td>2 395</td>
<td>2 340</td>
<td>2 350</td>
</tr>
<tr>
<td>Monthly new hires as a percentage of dependent employment (approximate)⁴</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Derived indicators</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Placements as a percentage of vacancy notifications</td>
<td>70</td>
<td>53</td>
<td>43</td>
</tr>
<tr>
<td>Monthly vacancy registrations as a percentage of dependent employment</td>
<td>0.43</td>
<td>0.56</td>
<td>0.72</td>
</tr>
<tr>
<td>Monthly placements as a percentage of dependent employment</td>
<td>0.30</td>
<td>0.29</td>
<td></td>
</tr>
<tr>
<td>Vacancy registrations as a percentage of all hirings</td>
<td>14</td>
<td>19</td>
<td>24</td>
</tr>
<tr>
<td>Placements as a percentage of all hirings</td>
<td>10</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

Data not available

a) For Denmark, registered vacancies include open vacancies (not all of which are actively notified by the employer), which were few in 1990 but increased to become about a third of the total in 1993.
b) For Denmark, placement statistics do not include any hirings resulting from PES advertising of "open" vacancies (see previous note). For Finland, placements refer to PES-registered vacancies which have been filled by PES-registered job-seekers. For Italy, placements refer to rank-order hirings (see box for definition), which were abolished after 1991.
c) The estimates for the hiring rate are based on the following considerations: in Denmark, 852 000 external hires into jobs lasting more than 1-2 weeks took place in 1989, implying a total hiring rate of 3% per month, while according to the same source 26% of employees had a job tenure of less than a year (Vejrup-Hansen and Pilegaard Hansen, 1994). The hiring rate has been assumed unchanged for later years given relative stability in total employment and evidence that hirings did not greatly vary over the period.
d) For Italy, total hirings were estimated as the sum of rank-order, nominative and direct referrals as recorded by the PES.

requirements were removed in 1984 and 1991 (see Box 2).

Although Law 223/1991 allowed employers to freely choose who they would hire in the majority of cases, several quota and list systems remain in existence and are the main instruments used by the PES – except for the Employment Agencies – to influence hiring decisions. Under Law 482/1968, 15 per cent of the workforce in private firms with more than 35 workers must belong to one of a number of lists of “protected” workers held by the PES. Individual unemployed persons can apply, providing medical certificates or other documentation as proof of disability, for admission to these lists. Firms make annual

---

**Box 2**

**The regulation of hiring in Italy**

Three main forms of hiring can be distinguished, following the classification used for statistical purposes between 1984 and 1991:

- “Direct” hirings and “direct transition” were, until recently, the only types of hiring permitted without prior notification to the PES. Direct hiring is allowed for the employer’s family and relatives up to third cousins; top management; workers paid entirely on a basis of profit sharing; home and family workers and apprentices; and generally for firms with less than fifteen employees. Except in the case of managers, direct hiring must be notified within ten days. Hiring by direct transition arises when an already-employed worker moves from one job to another with no intervening unemployment. In this case the employer must notify the SCI one month in advance or during the first working day when the previous job has already ended;

- “Numeric” (also called “rank-order”) hiring, when the employer notifies a vacancy to be filled from the priority lists held at the SCI; and

- “Nominative” (also called “by name” or “individual”) hiring, when the employer provides the name of the person to be hired. This procedure did not formally exist before 1984.

Implementation of the numeric procedure was based on a priority list. To establish this list, Local Employment Commissions (attached to local PES offices) gave a “score” to each unemployed worker, taking into account such factors as the number of dependents, duration of enrolment on the register, the financial situation of the family and other elements of need. These scores determined ranking of priority for placement, which by law had to be made public. However, these numeric procedures could be circumvented. A large firm could, for example, arrange for a small firm to engage a preferred person as a direct hire, and then transfer this person by the “direct transition” procedure [Padoa Schioppa Kostoris (1993)].

When the nominative hiring procedure was first permitted in 1984, employers were still required to reserve half their hirings for the numeric procedure. However, this rule could only be effectively applied to larger employers, and local employment offices usually accepted that single hires could be nominative. In practice, from 1984 onwards two-thirds of all hirings were made nominatively. Even large employers, who were still obliged to make numeric hirings, concentrated these on the lowest qualifications in order to obtain the “right” to make nominative hiring into higher-grade posts (MLPS (1987)). Law 223/1991 allowed nominative hiring in all normal cases, although some quota systems still exist.

Nominative as well as numeric hirings required prior authorisation until 1994. The employer (in theory, but often in practice the employee to be hired) had to come in person to the SCI with appropriate forms, concerning the vacancy and the person hired, to obtain an “nulla osta” (authorisation) stamp. An employment relationship without this authorisation would be illegal. Grounds for refusing a nulla osta today include the following: paperwork not done correctly; the person to be hired is not registered with the SCI; the enterprise has laid off employees with the same skills within the past year (in this case, the enterprise may be required instead to re-hire the laid-off employees); the employer has not respected the 12 per cent quota for hiring the long-term unemployed and workers on the Mobility list; and the employment office considers that there is another worker who is more suitable for the vacancy. In 1994, it became possible to notify “nominative” hiring retrospectively and by post, within ten days, or within 5 days if the job lasts less than ten days. However, the nulla osta is still needed (subject to these delays).

Under normal conditions, the only document required for hiring is the job-seeker’s pink registration card. In the case of hirings which give the employer a right to reduced social security contributions or grants, additional documents are required. Depending on which subsidy is used, these may include proof of the job-seeker’s work history and status (i.e. unemployment duration, social security situation, inclusion in the Mobility list), certification that the employer complies with obligations, for example, compulsory hiring of protected categories of workers, or a “declaration of responsibility”, whereby the employer undertakes not to dismiss other workers.
declarations to the Labour Inspectorate and those not meeting the quota can be required to declare vacancies which will, in most cases, be filled according to priorities established by the PES [Demekas (1994)]. However, the quota does not appear to be binding in reality as only about 2 per cent of employees are in the covered categories [MBPE and MT (1994)]. Another quota, created by the 1991 law, reserves 12 per cent of the flow of hires by firms with more than ten workers for “weak” unemployed, those unemployed for more than 24 months or on the Mobility list. Other categories can be included, and the quota itself increased, through decisions of the Regional Employment Commissions. This quota is also relatively ineffective: local offices cannot apply it when an employer is hiring only a few workers, and even employers making multiple hires may split them between several offices.

2. Job-broking devices and methods

**Denmark and Finland**

In both Denmark and Finland, employers who notify a vacancy to the PES can specify whether they want a pre-selection service (whereby the PES provides a specified number of candidates for interview), and this is the most common choice. There are two methods of pre-selection. The “active broking” procedure involves the PES using the computerised data base to select suitable candidates according to the employer’s specification in terms of occupation, qualifications, experience, etc., supplemented by the placement officer’s judgement. The PES then contacts those selected directly (by telephone or letter), asking them to come to a placement interview after which they are referred to the employer for an interview. Under this procedure, vacancies are usually “closed”, in the sense that they are not publicly advertised, because the initial search through the register rapidly identifies the desired number of suitable Candidates. Alternatively, pre-selection services can be provided by first advertising the vacancy on a “semi-open” basis. A description of the job, giving the PES address or telephone number rather than that of the employer, is put on display in the PES offices and perhaps advertised in other ways. Interested job-seekers then contact PES staff to ask for application details. The placement officer “screens” the candidates to decide who should be sent to the enterprise for an interview. Screening is fairly light, typically involving a few questions about experience and qualifications, without necessarily referring back to the information held in the unemployment register. Placement officers dissuade any candidates who are obviously not qualified, and turn down applicants when a sufficient number have already been sent to the employer for an interview.

PES offices in Finland use mainly the “closed” rather than the “semi-open” technique. One reason for this may be that the speed with which vacancies are filled is a PES performance target, monitored at regional and local levels, and the active broking procedure allows suitable candidates to be identified rapidly. Also, when vacancies are kept “closed”, job-seekers living far from the local PES office are not at a disadvantage compared with those who can visit it regularly. Finland has, however, experienced some problems related to its use of these procedures:

- Employers complain that, although many PES officers are skilled, others are inexperienced or temporary staff and, thus, the selection of candidates is sometimes inadequate;
- Some PES staff report that workers are reluctant to take short-term jobs, but unemployed workers cannot explicitly refuse them because this would put their benefit entitlement at risk. Some employers complain that applicants turn up for job interviews but convey little motivation and these employers may, in turn, be discouraged from using the PES; and
- With vacancies “closed”, the quality of the notice-board display of openings suffers. In 1994, only unusual vacancies (e.g. for a sales post paid on commission or a temporary mother’s help) were typically on open (or semi-open) display. Vacancies for “ordinary” jobs either were not put on display or did not remain there for long.

In Denmark, the use of semi-open procedures for pre-selection seems to have expanded considerably in recent years. This may reflect a finding that this provides a better service for employers, since under this procedure only candidates who want the job on the basis of the advertised description will apply. One disadvantage of this procedure may be its slowness, since applications for advertised vacancies are likely to come in over a period of time. The “closed” procedures probably remain essential for rapid filling of some short-term vacancies (slightly over half the vacancies notified for PES pre-selection in 1993 were for jobs to last less than a week). A second disadvantage is that the semi-open procedure does nothing to ensure or to test the availability of unemployed workers for the notified vacancies. In 1994, a year with a record level of unemployment, there was, in many occupations, a floor to wages at the level which qualifies workers for the ceiling level of benefits (in subsequent unemployment). Given that the percentage rate of benefits is 90 per cent, this level can be calculated as 10/9ths of the benefit ceiling, i.e. approximately Dkr 12 200 per month (which is high relative to minimum wage levels in most countries). This wage floor manifested itself at PES offices in the fact that, although some vacancies with wages close to or below this floor level exist, they are considered rela-
tively difficult to fill. In this situation, there are many unemployed who apparently could qualify for some of the “hard-to-fill” vacancies on display in PES offices, and could be sanctioned for any explicit refusal to take the work, but since they are rarely instructed to apply for them the risk of benefit sanctions is low.

Thus, both techniques for providing employers with preselected candidates have advantages and disadvantages. That said, it seems particularly important that a display of vacancies should be maintained by the PES. If not, a view that job-search initiatives are futile could gain ground, with negative effects on the effectiveness of PES work. A larger and more varied display provides job-seekers with information on what they should look for when searching through other channels. In recession, it allows a hard-pressed job-seeker who is willing to visit the office every day and accept relatively low wages to still have a chance of finding work quickly. If vacancies are filled by “closed” methods, job-seekers may typically wait months between job interviews. Such considerations suggest that it may be preferable to restrict the use of closed procedures to short-term jobs (as used by temporary work agencies, which dominate the commercial market) while using semi-open procedures for permanent jobs (where newspaper advertising is the main commercial procedure). Availability for work among benefit recipients should be encouraged and tested through interviews, job-search training, and requirements on beneficiaries to provide evidence of their job applications, for non-PES vacancies as much as for PES vacancies. The PES can maintain powers to require people to apply for specific vacancies if it uses these only occasionally when, based on a knowledge of the unemployed person and the employer, this seems particularly necessary. The adoption of such a strategy in Finland would require a change of policy stance to encourage more use of semi-open procedures. In Denmark, it would require clarification of the principle that the PES should work to detect actively and sanction insufficient availability for work.

Enterprises in Denmark and Finland can also report vacancies for “fully-open” display at the PES office. In Denmark, where this procedure has only been in use since 1990, many of the vacancies on display are in practice drawn by the PES from advertisements in local newspapers. In such cases, PES staff first seek the employer’s approval, often obtaining a general agreement under which the PES can, until further notice, reproduce all the employer’s advertisements. The fully-open vacancies tend to get a light re-advertising service, often based on displaying photocopies of the newspaper advertisements. However, basic information from the vacancies is generally entered into the national computer system. Such vacancies now account for about one-third of all those registered, and, indeed, since about half the ordinary vacancy notifications are for very short-term jobs (of up to a week), about half the registered vacancies for permanent jobs are probably fully-open. This service probably helps some employers, and contributes to the reduction of “frictional” unemployment, but it provides little feedback from employers to the PES about the nature of their staffing problems and the employability problems of the rejected applicants.

**Italy**

In Italy, although employers now generally have the right to pre-select employees and do so, some matching of job-seekers to notified vacancies is still done by the PES. This takes a variety of forms:

- The quotas discussed in Subsection D.1, mainly the 15 per cent quota for “protected” categories insofar as they are enforced, lead employers to notify vacancies to be filled from the appropriate list;
- SClS still maintain priority lists (with priority determined by duration of registration in the list and other factors, such as family responsibilities) for unemployed workers who wish to apply for the lowest-level positions in the public sector (this may concern perhaps the bottom five per cent of posts in the North, and rather more in the South); and
- Some employers still notify vacancies to SClS.

Some Regional Employment Agencies also make effective efforts to place workers on the Mobility lists. For example, in 1993 the Employment Agency for Lombardy prepared catalogues, for distribution to employers, organised by five professional levels (unskilled, skilled, professional employees, etc.) and by place of residence, with information on workers’ availability, educational background, professional skills, previous work experience, etc., and a newsletter for users. Many Employment Agencies have computerised matching services, which will select candidates who not only have the appropriate characteristics, but will also qualify for relatively high hiring subsidies. Nevertheless, in 1993 hiring from the Mobility lists was less than 1 per cent of the total outflow from the ordinary job-seeker register, and the Employment Agencies probably played a role in only some of these cases.

**PES work with employers**

In Denmark, for a better knowledge of the labour market, PES staff carry out regular visits to firms. Regional offices had a target for 1994 that PES staff should visit 17 per cent of the employers in the region during the year. These visits allow PES officers to keep in better touch with employers’ needs. Considerable emphasis is being given to the systematic monitoring of labour markets at regional level in order to
detect and rapidly correct skill shortages, in the light of the bottlenecks which arose in the cyclical upswing of the mid-1980s. In Finland, a recent innovation in the larger PES offices has been to allocate an individual contact person for each employer.

**Other types of contact with the unemployed**

For many job-seekers, the first contact with the PES is registration as unemployed for benefit purposes. In Italy, registration must be renewed twice a year, in May and November. In Denmark and Finland, the minimum frequency of contacts needed to maintain registration is not legally regulated and, under current decentralised arrangements, regions or local offices can adopt their own norms. However, benefit claimants must regularly report any work and earnings to the benefit administration. In Denmark, a plan was developed in 1990 to provide through the PES a guidance and counselling interview at 3 months, an "inspiration course" lasting one or two weeks some time during the next 6 months, and another guidance and counselling interview at 9 months (CEDEFOP, 1992). But these arrangements never became fully operational and were partly supplanted, from 1994, by Individual Action Plans (IHP) (see Box 3). In Finland, before the recession a personal interview with an offer of training was commonly made after 4 months. Recently, there has been a drive to introduce group counselling sessions. In Denmark, the UI funds also are expected to review the availability for work of beneficiaries at intervals.

The PES in Denmark and Finland provides vocational guidance services, which are particularly well developed in Finland where around 250 psychologists

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**Box 3**

**The Individual Action Plan in Denmark**

In Denmark, procedures for IHPs (individuel handlingsplan, individual action plans) were defined in the legislation as part of the 1994 labour market reform. Currently, after 6 months of unemployment, workers can request an IHP. One must be established whenever the PES offers Job Training (subsidised work) to a UI beneficiary, and usually also when such a person is offered formal training. In other cases, the UI funds notify the PES that a UI spell has a cumulated duration (net of temporary jobs, etc.) of 20 months. At that point, the "activation" obligation makes the IHP procedure obligatory, and the PES takes the initiative in contacting the worker. Regional Labour Market Councils also establish special target groups for early application of the IHP procedure.

The procedure starts with an interview providing advice on the ALMPs available and analysing the individual's problems in the labour market, leading to agreement on particular measures to be taken. A summary of this, normally written by the PES officer, becomes the first draft of the IHP itself. The worker can, after taking advice from his or her UI fund for example, propose changes to the draft plan.

In general, there is a strong emphasis on the objectives of encouraging the unemployed to take initiatives and finding a consensus. Legislation, decrees and guidelines state that a worker cannot be forced to sign an IHP with a content that he or she does not like, but also that the PES is responsible for ensuring that it is realistic and that the worker must cooperate in trying to find a solution which is compatible with the needs of the labour market as well as personal desires. If a worker is not cooperative in developing or revising an IHP, he or she is considered as voluntarily unemployed. If this occurs an appeal can be made to the Regional Labour Market Council, which must take a decision within a fortnight, against the inclusion of a particular activation offer. However, conflicts are usually avoided, and user studies show that 90 per cent of the unemployed are satisfied with the PES's handling of Action Plan work. Once the Plan, with a commitment to participation in an activation measure, has been signed, it becomes binding and the worker cannot later refuse to cooperate in its implementation, although people are always free to quit measures in order to enter a job in the open market.

Entries to subsidised work declined in 1994, and the IHP procedure relatively often leads to entry to some form of training. Another possible form of activation in connection with an IHP is entry to self-employment with an allowance, which is first possible after 5 months of unemployment. A total of 120 000 IHPs (including revisions) were signed in 1994, when the average stock of insured Unemployed was about 290 000. It is too early to judge the overall success of the plans in terms of their objectives such as maintaining their consensual character and flexibility, enforcing activation obligations, and contributing to the effectiveness of the "activation" measures themselves.

Source: Arbejdsmisteriet et al. (1994a, Bilag 4), and further advice from the Ministry of Labour.
are employed and provide services in two-thirds of the employment offices. Larger offices in both Denmark and Finland also maintain information centres, which are libraries with information about specific education and training courses, and both written and (in Denmark) video material on the skill and training requirements, salary and career prospects, etc., in different occupations.

3. Measures of market penetration

Registration of job-seekers

In Denmark and Finland, most of the unemployed are claiming benefit and are registered with the PES for this reason. However, in Denmark some municipalities do not require unemployed social assistance beneficiaries to register. In Denmark, few job-seekers on the register are employed, but in Finland about a third of them are, perhaps because many notified vacancies are filled by closed methods and people have to register in order to hear of them.

In Italy, as already seen from Chart 3.1, registered unemployment far exceeds unemployment according to the labour force survey. A first reason for this is that, since the PES makes few placements except in relation to workers on special lists (protected categories, low-level public sector jobs, the Mobility list), there is little to prevent people out of the labour force or in concealed employment from registering as unemployed. Other reasons include:

- Unemployment is still often used by local administrations as a criterion for granting housing benefits and travel concessions, creating an incentive to register;
- Historically, the PES has tended to use duration of registration as an important determinant of priority for placement. Although the main priority list for placement has fallen into disuse following 1991 legislation, since 1990 there has been a specific subsidy for employers who hire people registered for more than 24 months. Some hiring practices continue to favour the long-term unemployed (for example, when public sector organisations hold lists of suitably qualified applicants, and hire those who have been longest on the list). For such reasons, “tenure” on the register is still often thought to increase rather than decrease employment prospects; and
- Various legislation links government grants (as well as entitlements to Mobility allowance, described below) to regional or local-area registered unemployment rates. As a result, the local population as a whole (and PES management strategy is to a large extent determined at local level) may lose out if the register is “tidied up”. e.g. by rapidly excluding people who do not renew their registration at 6-monthly intervals or actively checking that addresses remain valid.

Registration of vacancies and placements

Table 3.3 shows some estimates for registered vacancies and placements as a percentage of all new hires. Subject to provisos over the accuracy of the estimated hiring rates, which are particularly affected by the limitations of the available data and uncertainty as to their precise coverage, the data suggest that the ratio of total vacancy registrations to total new hires in Denmark increased from 14 per cent in 1990 to 24 per cent in 1994, and fell in Finland from 50 per cent in 1990 to 28 per cent in 1993, followed by a slight recovery in 1994. These shares need to be seen in the light of the nature of the vacancies: in Denmark, about half the “ordinary” vacancies are for jobs expected to last less than a week, and since the PES share in this market is relatively high, the shares for longer-term vacancies must be below those just cited. It should also be noted that “open” vacancies, which rose from less than a tenth of the total in 1990 to over a third in 1993, account for much of the growth in total vacancy registrations. However, some of them come from newspaper advertisements rather than from the employer directly.

The placement statistics also deserve careful interpretation. The statistics for Denmark and Finland relate to unsubsidised placements only (cf. Table 3.2) whereas in Italy subsidies were often involved. In the first two countries, subsidised jobs are considered to be ALMP places at the disposal of the public authorities, with the corollary that no statistical distinction is made between vacancies for them and placements into them. In Italy, entitlement to a hiring subsidy does not depend on the subsidy being first agreed by the PES or on the subsidized work place being filled by the PES. In Denmark, the placement statistics relate only to “ordinary” vacancies (those filled by pre-selection, using closed or semi-open procedures) and they, therefore, to the extent that workers find jobs thanks to PES advertising of “open” vacancies, understate the role of the PES. In Finland, the placement statistics relate to notified vacancies which have been filled by PES-registered job-seekers. This again is not an exact measure of PES-mediated hires, e.g. a registered job-seeker may fill a registered vacancy through other channels, and a non-registered job-seeker may find work via the PES open vacancy display.

In Finland, the low proportion of vacancies filled by the PES probably reflects the notification obligation in that some employers report vacancies even when they do not expect the PES to be able to help in filling them. In 1993, 95 per cent of vacancies notified were filled overall, but only 52 per cent were filled by
PES-registered job-seekers, and only 30 per cent by registered unemployed. This latter flow represented only 4 per cent of the outflow from registered unemployment, whereas 43 per cent of this outflow went into jobs not registered with the PES. From 1990 onwards, employers appear to have sharply reduced notifications of vacancies suitable for the unemployed, other than in the form of proposals for the creation of subsidised jobs.

Together, rates of vacancy notification and the proportion of vacancies leading to placements determine the PES share in new hires shown in Table 3.3. The overall PES shares shown, around 10 per cent in Denmark and about 20 per cent in Finland, are subject to the qualifications mentioned above. In Italy, the rank-order placement procedure covered 31 per cent of hirings shortly before its abolition in 1991.

Routes of access to employment

Table 3.4 indicates, for Finland and Italy only, the relative importance of a range of other routes into employment. Only about one-third of all hirings in Finland and one-fifth in Italy in recent years have been achieved either through the PES or through newspaper advertisements, the two most public forms of vacancy announcement. Over half involved either information about jobs from friends and relatives or direct contact (where workers contact firms unsolicited, or employers contact former employees, job applicants or other acquaintances). The use of such sources of information was equally high in Norway, but significantly lower in Japan and the United Kingdom in the late 1980s (OECD (1992a)).

For both Finland and Italy, the PES share in hirings is higher than the share of newspaper advertising in one of the tabulations and lower in another. In Finland, the share of newspaper advertising fell sharply with the recession. In Italy, the tabulations show a lower PES share for employees who entered work in 1992, as might be expected given the abolition of compulsory rank-order placement procedures in 1991. However, for retrospectively reported accessions to employment occurring before 1992, the PES share was only 8 per cent, well below the incidence of rank-order hiring over the years 1984 to 1991 according to administrative statistics. One reason for this difference is no doubt that rank-order methods, especially after 1984, were used mainly for lower-level jobs with relatively high turnover.

E. THE MAIN UNEMPLOYMENT BENEFITS AND ASSOCIATED ACTIVATION MEASURES

This section describes the main system of wage-related unemployment benefit and attempts at reduc-

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<table>
<thead>
<tr>
<th>Table 3.4. Access routes to employment, Finland and Italy</th>
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<tbody>
<tr>
<td></td>
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<tr>
<td>Employees</td>
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<td></td>
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<tr>
<td>PES</td>
</tr>
<tr>
<td>Studying newspaper advertisements</td>
</tr>
<tr>
<td>Connections, friends and relatives</td>
</tr>
<tr>
<td>Direct contact with the firm</td>
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<tr>
<td>Schools and participation in courses</td>
</tr>
<tr>
<td>Private agencies</td>
</tr>
<tr>
<td>Other</td>
</tr>
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</table>
Entitlement to a spell of Assistance benefits paid to the unemployed, which workers are only covered if they have contributed to a collective lay-off. Renewed, following a minimum of 6 months’ insured employment. Insurance is voluntary in principle and workers are only covered if they have contributed to an UI fund (see Box 4). By contrast, in Italy CIG benefits and the Mobility allowance are paid only when the firm applies for these benefits in connection with a collective lay-off.

Box 4

Unemployment insurance funds and the management of benefits in Denmark and Finland

Denmark and Finland are two of the three OECD countries (Sweden is the third) to have a voluntary UI system. UI funds are organised principally along industry and occupational lines. Employees have a legal right to join a union UI fund without joining the union itself. This right is rarely exerted, but Denmark has one independent fund (the “Christian” fund) whose membership has become quite substantial, no doubt because it provides the easiest route to obtaining benefit coverage without paying union dues, and Finland also has a smaller but rapidly growing independent fund (“ILO”). In Denmark, self-employed workers can also take insurance. Some main points of comparison are summarised in Table 3.5.

In both countries the total membership of the funds grew rapidly between 1970 and 1980. Employees who are uninsured are a heterogeneous group, including both higher-paid non-manuals and public sector employees who face little risk of unemployment, and casual employees and part-time workers with low hours. Coverage of dependent employees in Denmark remains lower than in Finland, probably because UI contributions are fairly high.

In both countries, funds are responsible for assessing whether claimants meet the contribution conditions for benefit and whether they have income from work which should be deducted. In Denmark, although benefit claimants should normally register with the PES, the funds may grant benefits for up to 3 months even to someone who is not registered with the PES if it is the PES’s fault that he/she is not registered. Funds are responsible for assessing availability for work after 20 and again after 44 months of unemployment and in relation to specific events such as voluntary quits or refusals, as reported by an employer, to accept a particular job after referral by the PES. While appeals against a refusal of benefit by UI funds can be made to the Directorate for Unemployment insurance, and next to the Labour Market Appeal Board and beyond this to the courts, there has, until recently, been no mechanism allowing Ministry of Labour staff to contest any decision to continue paying benefit. The PES had no feedback on whether any particular notification was followed by a benefit sanction or not. However, in November 1994, in conjunction with new rules concerning availability for work, Denmark’s ruling political parties agreed to introduce a requirement that the funds should inform the Directorate for Unemployment Insurance of the decision taken and the legal basis for it, and this year, electronic links have been set up to allow the PES to rapidly notify any negative outcomes to the UI funds. In Finland, since the function of benefit payment was separated from PES offices in 1985, a single communication from the PES office to a fund called a “statement of labour market situation” allows or disallows payments of benefit until a further communication occurs. Availability-for-work conditions for UI benefits have, in recent years, described in some detail the type of work that should be accepted, as well as reasonable behaviour in responding to contacts from the PES and offers of job interviews. For example, beneficiaries in Denmark should accept work involving up to 3 hours per day of commuting, and beneficiaries in Finland who have been unemployed for more than 3 months should accept any full-time job as long as pay is in accordance with collective agreements and pay minus travel expenses exceeds unemployment benefit.

In both countries, funds are supposed to inform the PES if a beneficiary reports starting work, but this link is not fully effective and people registered as unemployed can at least briefly be at work according to a fund’s records. Use by the funds of a variety of computer systems makes direct PES access to their information difficult to implement. Immediate information on the duration of UI spells would be useful since this, rather than the duration of registration, often determines the timing of entry to ALMPs.

One advantage of managing UI through funds rather than the PES may be that they give more effective help to unemployed workers: for example, shop stewards in Finland often help their members fill out the necessary forms, and act as intermediaries if bureaucratic problems of benefit administration arise. Also, funds may have a better knowledge of real conditions in a firm or an industry than an large national benefit administration, so that the link with the unions helps avoid misuses of the system. One disadvantage is that, because fund members pay much of the cost of administration (all in Denmark) and little of the cost of benefits at the margin (none in Denmark), funds have little incentive to use staff time on the detection of fraud, and may more generally administer the system in favour of members rather than cost containment.
Table 3.5. Unemployment insurance funds in Denmark and Finland

<table>
<thead>
<tr>
<th>Links with unions</th>
<th>Denmark</th>
<th>Finland</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fund central administration is often in the same office as the union and some staff may be shared (e.g. a receptionist). Some funds have offices at local level, others have a single office and work by mail. About 5% of members are in the non-union “Christian” fund and 8% are in self-employed funds.</td>
<td>Central administration is often in the same office as the union and some staff may be reallocated between fund and union functions, depending on workload. In some industries, local shop stewards assist members with applications for benefits and other practical problems. Members pay 5.5% of benefit costs and 50% of administration costs, with individual contributions determined as a percentage of salary (the paper industry fund rate, 0.3%, was one of the lowest in 1994). Contributions are checked off by employers together with the union membership fee and transferred to unions each 3 months.</td>
</tr>
<tr>
<td>Determination and payment of contributions</td>
<td>Fund members pay a fixed amount (in 1994, 3 564 Dkr/year) which is the same for all funds, set to cover one sixth of UI costs, plus the fund’s administration costs and union fees (e.g. about 7 000 Dkr/year for HK, the office workers’ union). People who are members of the fund but not the union pay only fund costs, as determined by audits (e.g. 1 200 Dkr/year).</td>
<td>For paper workers’ fund, 1.8% of benefits paid.</td>
</tr>
<tr>
<td>Administrative costs</td>
<td>About 5.1% of benefits paid.</td>
<td>Funds assess contribution record and income situation; PES assesses availability for the labour market.</td>
</tr>
<tr>
<td>Total staff</td>
<td>About 2 000.</td>
<td>Fund offices have a PES computer terminal through which the PES provides ‘statements of labour market situation’, which allow benefits to start or order a stop. Funds may inform PES when a member recommences work.</td>
</tr>
<tr>
<td>Activities in determining eligibility for benefit</td>
<td>Funds assess contribution record, income situation, and availability for the labour market, though see below.</td>
<td>Ministry of Social Affairs and KELA, the Social Insurance Institution.</td>
</tr>
<tr>
<td>Links with PES</td>
<td>The PES supplies information about the outcome of placement efforts. Funds inform the PES when individuals approach the benefit duration leading to obligatory activation measures or passage into benefit Period 2. Funds advise the PES and individual members on whether an Individual Action Plan can be rejected or modified.</td>
<td>Ministry tells each fund the contribution level it must implement. A ministry official in each region supervises the link between the PES and the funds.</td>
</tr>
<tr>
<td>Supervisory body</td>
<td>The Directorate for Unemployment Insurance of the Ministry of Labour.</td>
<td></td>
</tr>
<tr>
<td>Supervisory activities</td>
<td>Administration of appeals procedures for individual claimants. Sample auditing of individual cases and audit of administration costs.</td>
<td></td>
</tr>
</tbody>
</table>

Statistics

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of funds</th>
<th>Percentage of employees covered</th>
<th>Number of funds</th>
<th>Percentage of employees covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>60 (circa)</td>
<td>42</td>
<td>77</td>
<td>48</td>
</tr>
<tr>
<td>1993</td>
<td>37</td>
<td>73</td>
<td>68</td>
<td>91</td>
</tr>
</tbody>
</table>

1. Unemployment insurance and activation in Denmark

The main features of the current UI system in Denmark were introduced in conjunction with the creation of the modern PES in 1969. Although the percentage rate of benefit, at 90 per cent, is the highest among OECD countries, it is subject to a ceiling (DKr 2 545 per week in 1994, about 60 per cent of the average wage of full-time workers). The proportion of employees contributing to UI has increased through time. Taking account of coverage, the duration of UI which was 30 months, and also of developments in social assistance benefits, OECD (1994b) estimated that the “summary measure of benefit entitlements” for Denmark increased throughout the 1970s, becoming the highest in the OECD for a while in the 1980s.

In response to the increase in long-term unemployment, the “Job Offer” scheme was introduced in 1977. Job Offers were temporary jobs, 7 months in the public sector and 9 months in the private sector, long enough to generate entitlement to a new period of unemployment benefit. From 1979, workers nearing
the end of a 2½ year benefit spell had the right to receive such a lob Offer. Over 1982 to 1985, about 2 per cent of the labour force and up to 3 per cent of all insured workers entered the scheme annually.

By the late 1980s through to 1992, about two-thirds of the lob Offers consisted of work in municipal government [Bruniche-Olsen (1990); Statistical Yearbook 1994]. County governments were legally obliged to act as the employer of last resort if private sector employers and municipalities did not create enough jobs.

The lob Offer scheme was little changed throughout much of the 1980s. However, over half the participants did not enter durable employment afterwards, and a pattern of repeated circulation between long periods (nearly 2½ years) on benefit and shorter periods (usually 7 months) in subsidised work gave rise to increasing concern.16 To make the scheme more effective in increasing employability, and to limit repeated use of it, the 1988 Job Offer regulation (arbejdstilsbudsordningen) limited the unemployed to two Offers, which were sufficient to bridge the gaps between at most three consecutive periods on UI. The second Offer was to be given only if the worker had participated in a “Training Offer”, which often involved training at labour market training (AMU) centres, and which intervened about 6 months after the beginning of the second benefit period.

As part of a major reform package, which also modified the “activation” system for assistance beneficiaries and reformed Leave benefits (see, for example, Annex 3.A and Section B), from 1 January 1994 the UI and “activation” systems were changed as follows:

- The maximum duration of UI was increased from 2½ to 7 years, probably the longest generally-applicable duration in the OECD area. However, the possibility of requalifying for benefit through Job Offers was abolished and time spent in ALMPs is now counted as part of the benefit period;
- Periods of obligatory participation in “activation” measures (which can be either subsidised work or training) were defined. The 7-year period is split up into “Period 1”, the first four years, and “Period 2”, the last 3 years.17 During Period 1, the unemployed are obliged to spend at least a year in active measures starting no later than the end of the second year of unemployment. In Period 2, the worker can be obliged to participate continuously. With full implementation of these obligations, it would not be possible for anyone to spend more than two years in continuous passive receipt of benefit; and
- The Individual Action Plans (IHP), which offer the unemployed flexibility and choice across the range of ALMPs, were introduced. The procedures are described further in Box 3.

Important differences between the previous system and the present system are that:

- Benefits can now be maintained through participation in education and training-oriented measures, as well as subsidised work;
- Within the 7-year period, if the PES does not create enough ALMP places to implement the “activation” commitments, the payment of UI continues; and
- Prior to the reform, the municipalities had an additional incentive to create subsidised jobs for the long-term unemployed in their locality, because upon exhaustion of UI many workers would become eligible for assistance (paid by the municipality). Following the reform, municipalities which do not provide sufficient subsidised workplaces bear no such costs.

Reflecting these factors, entries by UI beneficiaries into subsidised work fell by 50 per cent between 1993 and 1994. Municipalities switched many more of their subsidised workplaces to the hiring of assistance beneficiaries (see Annex 3.A) and, at the same time, entries by UI beneficiaries into education and labour market training programmes increased sharply.

The impact of the 1994 reform will depend upon how effectively the activation obligations are enforced, since these have become the only factor preventing people from receiving passive benefit for up to 7 years. In the first half of 1994, the PES was not able set up IHPs fast enough to meet “activation” commitments in respect of Period 1 unemployed, although things speeded up in the second half of the year. More seriously, political and strategic difficulties have prevented the implementation of activation commitments in respect of Period 2 workers. In order to ensure that an incentive for seeking market work would remain, it was foreseen that Period 2 workers would participate continuously in “Special lob Training” for 20 hours per week, with no increase in income (except for an allowance for travel expenses) as compared with continued payment of unemployment benefit. These conditions are less favourable than those of temporary Job Training for Period 1 workers, which pays collectively-agreed wages on a full-time basis, so that earnings normally exceed the benefit level. It has proved very difficult to generate sufficient Special lob Training projects; unions have advised their members not to accept such work and opposed (through the municipal unions) implementation of the scheme by municipalities.

Overall, the new system involves increased strains on the administrative capacities of the PES. Experience elsewhere suggests that plans for limiting
the duration of passive benefit receipt through PES “activation” of the long-term unemployed are difficult to implement, especially in recession, and that, when not enough places are created, entry to the programmes often becomes optional. However, unless this part of the package is effectively administered, the switch to a 7-year benefit duration risks increasing measured long-term unemployment in the longer term. It will be essential to monitor the empirical duration of passive benefit spells (which is not well documented at present) and the content and effectiveness of the training used to meet activation obligations, and to make sure there is sufficient spare capacity to ensure implementation through a future recession.

2. Unemployment insurance and activation in Finland

Finland has changed entitlements to UI benefits many times over the past 30 years. With most benefit costs covered by central government and employer contributions, most of the union UI funds fixed benefit rates and duration at the maximum level permitted by legislation as early as 1962. The rates increased during the 1960s, with a notable jump in 1971. Subsequently, however, benefit ceilings were raised less than average earnings, and during the late 1970s and early 1980s replacement rates were much lower than in Denmark. Following a major reform in 1985, initial benefits were calculated as a “Basic Amount” (which was also payable, on a means-tested basis, to uninsured people), plus 45 per cent of earnings above this Basic Amount up to a second break-point (which is close to average earnings), plus 20 per cent of earnings above this, with no upper limit. Even though benefits were made taxable, the change sharply increased the net replacement rate for the insured unemployed, especially single people and secondary earners.

Up to about 1975 around half of the unemployed had neither insurance nor assistance benefit, but the proportion without benefit has since dwindled. After the 1985 reform, it remained quite common for the insured unemployed to temporarily or permanently exhaust their benefit; benefits were restricted to 200 days (40 weeks) in any one year, and the level of benefit fell after the first 100 days. However, in 1987 it became possible to pay 500 days (100 weeks) of benefit without interruption and in 1989 benefit became payable at the full rate over the whole period. Thus, by 1989 Finland’s system had become rather similar, in terms of duration and the replacement rate for workers with an average levels of earnings, to that in Denmark between 1971 and 1993. An importance remaining difference is that benefit is related to earnings even in central parts of the range, so that the replacement rate for low-paid workers is lower than in Denmark, but for other groups, such as industrial workers who have lost a long-tenure job, it can be markedly higher.

There has been some further reform in the 1990s. In 1991, as unemployment rose, limits on UI duration were removed for all workers aged over 55; in 1993, concern over the cost and incentive effects of benefits led to a reduction in the earnings-related part from 45 to 42 per cent; and in 1994, as exhaustion of the wage-related benefits was rapidly becoming more common, the benefit duration was extended by 180 days, but without the earnings-related component.

Selective employment programmes, with the majority of the jobs created by municipalities, were first extensively used to tackle long-term unemployment in the late 1970s. The guarantee of a programme place was introduced in 1984 for youths who had been unemployed for more than 3 to 6 months in the previous year, and in 1987 for adults who had been unemployed for 12 months in the previous two years. The 1987 Employment Act also stipulated that unemployment in any commuting region must not “importantly exceed the average in the country”, which was interpreted as requiring action when the unemployment rate exceeded 1.8 times the national average. These commitments, coming in to play much earlier in the unemployment spell than in Denmark, were practicable because the unemployment rate was fairly low and by 1990 they were almost completely implemented. The incidence of registered long-term unemployment fell to only 3 per cent, much the lowest figure for any OECD country. However, as unemployment rose sharply in the early 1990s, it soon became impossible, in spite of major financial and administrative efforts to create enough jobs, to maintain these commitments, and in 1993 the legal right to a subsidised job was abolished. The number of subsidised jobs actually created nevertheless continued to increase throughout 1993 and 1994 (see Table 3.2). Instead of being offered after one year of unemployment, such jobs are still, in the great majority of cases, offered to UI beneficiaries before the end of their benefit period.

The principal form of subsidised job lasts precisely 6 months. Subsidies correspond to the basic unemployment benefit, Mk 116 per day, often augmented by 40 per cent (with a total subsidy of about Mk 3 500 per month) and sometimes by 70 per cent (with a total subsidy of about Mk 4 200 per month) [Skog(1994)]. In the private sector, the higher rate is usually reserved for employees hired as trainees or as replacements for workers in training. When municipalities offer work, the higher rate of subsidy is common in either case. Often, hours of work are about 75 per cent of a normal working week, yet the hiring subsidy is paid for a full week. In the first half of 1994, just over 30 per cent of subsidised jobs (apart from
some special categories) were offered by private employers, 50 per cent were in municipal works and some 20 per cent were run by the state.

Temporary subsidised work in the 1990s has expanded to such a point as to have a major impact on the labour market. As shown in Table 3.2, nearly 7 per cent of the labour force entered it in 1994. Some large state and municipal employers even have separate personnel divisions to manage the internal placement of temporary workers. In some tasks, additional labour is always welcome, but in others managers find that almost as soon as people have acquired the necessary experience they must be replaced with another long-term unemployed person. Most government sector bodies create places, despite these problems, because the subsidy is large and budgetary constraints have imposed reductions in permanent staffing.

In the private sector, as Skog (1994) describes, problems in the functioning of the job subsidy system became acute in 1993 and 1994. Statistics for the outflow from unemployment by destination, cited in Section D above, suggest that by 1993 the majority of PES placements into private sector jobs were subsidised. Many employers had ceased to notify open vacancies and instead were “speculating”, to use the Finnish term, with the system. Well-informed employers were: keeping in touch with the local PES office to find out when a new budget allocation for subsidised hiring was coming; choosing unemployed job applicants themselves (press advertisements appeared asking for unemployed applicants) often preferring a relatively “employable” person who had perhaps been unemployed not much more than five months (the minimum period of eligibility for subsidised work); and contacting the local PES informally to propose the creation of a subsidised job, but making it clear that this offer would stand only if preferred candidates were put into the subsidised job. PES staff, under pressure to create such jobs, often abandoned the power they were supposed to have to allocate them according to labour market policy objectives.

Problems arising from the Finnish system have been exacerbated by some of its specific features. First, after a temporary job lasting up to 6 months, benefits restart at the same level as before the subsidised work. As a result, for workers who have lost a well-paid job, perhaps in sectors such as construction where wages have fallen, a 6-month subsidised job may actually offer a higher secure income than a longer-term, higher-paid, unsubsidised job. It can even offer higher income than a permanent job. Second, subsidised jobs could not be offered to the short-term unemployed (unemployed for less than 5 months). Duration was evaluated according to PES records. When a long-term unemployed person enters labour market training or an unsubsidised job of less than 6 months in duration, the duration of his or her unemployment spell in the PES records goes back to zero upon re-entry to unemployment, in some cases making it impossible to later obtain a subsidised job before exhaustion of UI. Thus, from the workers point of view, a 6-month temporary job from the PES is often perceived as more advantageous than many other types of placement that might be proposed. No doubt such factors have contributed to the tendency for placement into subsidised work to drive out other forms of placement.

3. The CIG and Mobility allowance in Italy

Italy had 2.32 million unemployed in 1993 according to a strict labour force survey definition, counting only people who have undertaken an act of job search within the last month, and 3.23 million according to a wider definition where job search within the past six months is taken into account. Yet only 0.5 million people on average were receiving the Mobility allowance, Special or Ordinary Unemployment benefits. On the wide definition, only one-sixth of the unemployed were receiving an unemployment benefit. If the narrower definition is used and the 0.3 million workers receiving the CIG (Cassa Integrazione Guadagni Straordinaria, Wage Supplementation Fund) benefit are also counted as unemployed (which is not how they are counted in most unemployment statistics), about one-third of the unemployed would have a benefit. However, given that more than half the unemployed are first-time job-seekers or labour market re-entrants, who rarely have any benefit entitlement, it follows that among workers who entered unemployment due to job loss, a fairly high proportion have some form of benefit.

The CIG has been the most important of the benefits. It started as a system providing compensation for short-time working in a limited range of industries, which was extended in 1947 to cover temporary lay-offs of up to 3 months’ duration. Over the years, its industry coverage has been increased in a piecemeal way. In 1968, the introduction of CIGS (Cassa Integrazione Guadagni Straordinaria, Extraordinary Wage Compensation), payable in cases of industry-wide or local economy crises or restructuring of production, made it possible to pay CIG during long-term lay-offs. Legislation in 1977 clarified the principle that CIGS could, in socially relevant cases, be paid even when there was no expectation that the firm’s business might recover. Special arrangements were introduced for the INPS to pay benefits directly to workers, instead of employers, in cases where the company formally employing them had effectively ceased to exist.

The rate of wage compensation for hours not worked started at 75 per cent and was increased to 80 per cent in 1968. In 1980, the hourly rate of compensation was subjected to a ceiling, which was to be
partially indexed, with the result that by the end of the 1980s, the average hourly benefit paid out in real terms had declined by nearly a third. Partial experience-rating of firms using CIG also reduces the net rate of subsidy for hours not worked below 80 per cent of the normal wage rate.

Until recently, official statistics reported only the total number of hours of benefit paid, giving no indication of what proportion of CIG payments was being made to workers whose lay-off had in effect become permanent. At least since 1977, a large proportion of CIGS payments appears to have been made to workers who were never recalled and should, therefore, be described as unemployed, e.g. in the 1980s there were many cases of workers receiving CIG for 5 years or more. Nevertheless, CIG was also in many cases paid to workers on short-time or laid off in rotation (e.g. lay-off every second or third month) and eventually recalled. Hours compensated peaked in 1984 at about 7 per cent of total industrial hours worked, but they nearly halved over the following four years, indicating that the CIG had suffered less “hysteresis” in beneficiary numbers than the long-duration UI benefits of many other European countries.

Law 223/1991 clarified the rules governing the CIG. General coverage is limited to workers affected by collective lay-off in industrial firms with 16 or more employees and other commercial enterprises with 200 or more workers. Lay-offs are recognised as collective when five or more workers are laid off by a given firm within a given province over a period of 4 months or less. Ordinary CIG (CIGO) can now be paid in respect of periods of contraction or suspension of productive activities, due to transitory causes independent of the employer and the worker, for up to 3 consecutive months (up to 12 months by successive three-month extensions). Extraordinary CIG (CIGS) can be granted for up to one year in cases of “company crisis”, and for up to two years in cases of “restructuring, reorganisation or conversion” with the possibility of two subsequent one-year extensions.

The legislation governing the CIG specifies constraints on administrative practices, rather than entitlements of firms or their workers. Actual granting practices reflect how applications are assessed by the PES and related bodies (see Box 5). Although the procedures appear to be effective in curbing abuse, it has always been found difficult to limit the duration of CIG payments in cases when workers have, in fact, become permanently redundant. Reforms attempting to impose such limits are a constant theme in the history of labour market policy in Italy. One approach has been direct legislation, as in Law 223/1991, setting time limits on CIG duration. However, later decrees, extending the duration in special cases, have tended to undermine the effectiveness of these limits.

A second approach has been the creation of distinct benefits for workers who are recognized as being permanently redundant. The 1968 legislation, which established the CIGS, also set up Special Unemployment benefits, paying dismissed workers two-thirds of their former net wage (excluding irregular payments) for up to 6 months, provided the dismissal was a result of the closure of a company, plant or department, or of a reduction in the workforce. Those with seasonal, casual or fixed-term contracts were excluded. But this benefit was little used: days of benefit paid annually were always below 10 million until 1983, implying an average stock of beneficiaries below 25 000. Receipt of either the CIG or the Ordinary Unemployment benefit (which was very low, but was available to job losers and leavers not qualifying for anything else) was much more common. This suggests that, in most situations where eligibility for Special Unemployment benefit might arise, workers were able to successfully resist any moves to declare permanent redundancies and usually obtained the more favourable CIG status.

Law 223/1991 replaced Special Unemployment benefits with a new Mobility allowance. This is initially paid at the same rate as CIG, and reduced by 20 per cent after one year. Workers in qualifying firms may receive this allowance after a period of CIG lay-off, or “enter Mobility” directly “when it is impossible [for the firm] to continue its activities, even by the sale of the company or parts of it, or when it is not possible to maintain the entire staff” [MLPS (1993)]. Its coverage by firm size and sector, and its limitation to collective lay-offs and the guidelines for the selection of laid-off workers, are aligned with the CIG. An innovation, as compared with the former Special Unemployment benefit, is that firms must pay to INPS, in the absence of agreement with the company union, the equivalent of 6 months of benefit for each worker put into Mobility. In the North of Italy, the duration of the allowance is one year for workers aged less than 40 years, 2 years for workers aged 40 to 50, and 3 years for workers aged over 50. In the South, each of these limits is extended by a year. For older workers in regions with high unemployment, the allowance is paid through to retirement.

The number of workers with the Mobility allowance has grown rapidly since 1991, approaching 300 000 by the end of 1994, reflecting the sharp decline in industrial employment during the latest recession. Patterns so far suggest that this benefit is or will soon become larger, in terms of cost and beneficiary numbers, than the CIG itself, and also that beneficiary numbers will stabilize only at a high level and with a long average duration of unemployment. Factors which may account for this include: the time limits imposed on the duration of CIGS; the increased
duration of the Mobility allowance, as compared with the previous Special Unemployment benefit, which has reduced worker resistance to lay-offs; and the definition in the 1991 legislation of procedures which, although slow and expensive, give firms the assurance that they will eventually be able to make lay-offs.

A third policy approach to limiting the duration of CIG benefits has been to try to improve the mechanisms reallocating redundant workers to other employment. Law 675/1977 created "Mobility lists", designed to place workers on CIG (with priority over the "regular" unemployed) into another job, close to the previous one in geographical and/or economic terms. The aim was to transfer workers on CIG to another firm, without any intervening period in unemployment.

Law 223/1991, as well as creating the Mobility allowance, introduced subsidies for the hiring of workers receiving it. These subsidies take the form of exemptions from social security contributions, supplemented by direct grants if the employer hires the
worker on a permanent contract. The recently-created Regional Employment Agencies have, as described in Section D, focused much of their work on the placement of workers entitled to the subsidies. In early 1994, hires from the Mobility list were running at nearly 7 000 per month, indicating some success in reallocating redundant workers [MLPS (1995), although the outflow remained far below the inflow.

The 1991 legislation viewed in its totality is helping to avoid the use of CIG as simply a long-term benefit for redundant workers and encouraging their reallocation to more productive uses. The growing importance of the Mobility allowance brings Italy’s labour market slightly closer to that of some other European countries, where there are long-duration UI benefits and the beneficiaries are the focus of significant PES placement efforts and subsidy programmes.

**F. SUMMARY AND CONCLUSIONS**

Although the matching of job-seekers to vacant jobs is often considered to be the primary function of the PES, the registration of job-seekers (often supplying an authorisation for the payment of an unemployment benefit) tends to be a more frequent operation. Moreover, in the three countries covered in this chapter, the PES in recent years has also been placing workers into subsidised work or training, or authorising the payment of subsidies to employers who hire them, more often than placing them into registered vacancies. Hence, the PES has become a key instrument for the implementation of active labour market policy in addition to its traditional role as an employment exchange.

However, improving performance in the traditional placement function continues to be a major objective. Notifications of vacancies to the PES as a proportion of all hires in the economy in 1994 are estimated at about 20 per cent in Denmark and about 30 per cent in Finland. Such fairly low percentages need to be seen in the light of evidence that only roughly half of all vacancies may be publicly announced, the rest being filled by informal methods. Although Finland’s performance in terms of vacancy notifications is comparatively quite good, in a low proportion of notified vacancies, less than a third in 1993, are filled by the registered unemployed. This may be because some employers, especially in the public sector, closely respect the legal obligation to notify vacancies, with the result that many for which the unemployed are not qualified for are, nevertheless, notified. In Denmark, the total of vacancies registered nearly doubled between 1988 and 1994, but part of this was due to the introduction of “fully-open” vacancies, sometimes picked up from local newspaper advertisements.

In Denmark and Finland, the frequency with which the longer-term unemployed are required to attend interview or counselling sessions is decided at regional and local office level, but it often seems to be low. In the light of evaluation results from other countries suggesting that job-search counselling is a relatively cost-effective form of intervention, some switch of resources towards this activity may be desirable. For that to be meaningful, Finland should consider measures to improve the display of vacancies at PES offices, especially the use of semi-open methods of filling them, and Denmark needs to clarify the principle of PES responsibility for ensuring that the unemployed with benefits are available for existing vacancies.

An important task for the Danish PES, since the labour market reform of 1994 is the elaboration of “individual action plans” (IHP). Finland’s “employment plan” procedure is similar. Both should, in principle, involve the joint elaboration with the unemployed person of an overall and longer-term strategy for re-entering employment. However, currently these procedures are commonly invoked only when entry into an ALMP has become obligatory (or, in Finland, necessary to prevent benefit exhaustion). This may detract attention from the possibility of finding a regular (i.e. unsubsidised) job, which should be the main focus of intervention.

In Italy, the PES has historically regulated the labour market, registering not only all hires but also all separations from work and the status of people not in employment, and placing people into vacant jobs according to legally defined priorities. These latter have, however, been relatively ineffective for many years and in 1991 were mainly abandoned. This has left the local employment offices as bodies whose main work is in registering labour market movements and checking the documentation for various hiring subsidies and grants; they have little capacity for providing job-broking services or checking the availability for work of people registered as unemployed. The Regional Employment Agencies, which in many regions have only become fully operational since 1991, now provide services of information, placement, and promotion, but they have few staff in relation to the size of the labour market. There is a clear need to reform procedures at the local office level, abandoning those which are unnecessary, streamlining and computerising the rest, and providing job-broking services.

Denmark and Finland have vigorously implemented active labour market policies targeted on the long-term unemployed, particular by subsidies to employment in the public and private sectors to guarantee a temporary job to all. Some lessons of use to other countries emerge from their experiences. Temporary employment subsidies can play a role in improving the prospects of the long-term unem-
ployed, but the Danish and Finnish experiences suggest caution. From the point of view of many of the unemployed, it is possible that the renewal of eligibility for UI benefits will come to be seen as the main function of subsidised work. Subsidies to private sector employers at levels which create significant numbers of temporary jobs are also likely to lead to significant displacement of unsubsidised work. When instead subsidised jobs are within the public sector, there appears to be little impact on the future employment prospects of participants, and there is a risk that some workers and even the PES will come to see rotation between unemployment and public sector work as a normal labour market career.

An examination of the actual history of labour market policy and unemployment in Denmark and Finland helps greatly in assessing to what extent such potential problems are important in practice. In Denmark, where UI entitlements reached high levels early on, the system of Job Offer guarantees towards the end of 30-month spells of UI benefit was introduced in 1979. This policy package proved to be sustainable for nearly a decade, but it did become increasingly common for workers to have a history of repeated circulation between short periods in subsidised work and longer periods on passive benefits. In a first attempt at reform in 1989, the unemployed were limited to two Job Offers, sufficient to bridge the gap between at most three 30-month UI periods. New peaks in the unemployment rate measured on a beneficiary basis were nevertheless attained, and in 1994 a more radical reform was introduced. The possibility of renewing UI entitlement through participation in subsidised work was abolished, and the formal benefit duration was increased from 30 months to 7 years, but periods of obligatory participation in ALMPs within the 7 years were specified.

The 1994 reform gave participation in training the same status, from a benefit point of view, as participation in subsidised work: during the first 4 years of an unemployment spell, either can meet the “activation” obligations. To the extent that training is more effective than work experience in improving employability, this is a positive development. However, since the insured unemployed may now enter training simply in order to meet activation obligations for unemployment benefit, the PES may find it harder to ensure that the content of training is appropriate from a labour market point of view.

The reform also reduced the incentives for Danish municipalities to hire the insured unemployed, since this no longer has the effect of preventing claims for municipal social assistance upon re-entry to unemployment. This has increased the difficulties facing the PES in attempting to create sufficient ALMP places through the payment of employment subsidies. A shortage of appropriate ALMP places has already made the legislated activation obligations in respect of Period 2 workers, those unemployed for more than 4 years, rather ineffective. From April 1995, a number of adjustments to the 1994 reform have been implemented or announced. Among these are: clarification of the principle that the PES can impose an “Individual Action Plan” whose content runs counter to the wishes of the person concerned if it considers this necessary for labour market reasons; the abolition of “self-found” Job Training, an option which permitted the long-term unemployed to identify an employer who would provide a temporary subsidised job; a tightening of the terms of the Labour Market Leave benefits; and the strengthening of the legal obligation on Period 2 unemployed workers to accept full-time work. As these latest policy adjustments indicate, the 1994 reform has not provided an easy solution to the problems it was intended to tackle.

Finland introduced UI benefits with level and duration similar to Denmark's in stages after 1985. In 1987, it also introduced a general guarantee of subsidised work for the long-term unemployed which could renew benefit entitlements, which, however, came into effect after a year rather than 30 months as in Denmark. By 1990, when this policy package was fully implemented, it was successful in that both the aggregate unemployment rate and the incidence of long-term unemployment were extremely low by European standards. Yet, by 1993, with the Finnish economy in deep recession, the job guarantee had become impossible to maintain. It became common for benefits to be received on a passive basis for nearly two years before placement into subsidised work occurred. This experience suggests that the intensive use of active labour market policies can keep unemployment low. However, the risk is that, in recession, it often becomes impossible to maintain the intensity of the interventions in the face of declining effectiveness and escalating fiscal costs, and a new equilibrium with higher unemployment can become established.

In both countries the majority of subsidised jobs have been in the public sector. When Finland in 1994, in a context of high unemployment, increased the private sector share in subsidised jobs to nearly a third, displacement of unsubsidised work became a very acute problem. Employers largely ceased to notify vacancies on an unsubsidised basis for any job that they considered suitable for an unemployed person. A widespread consensus emerged that the subsidy options for private sector employers could not be maintained. These are now restricted to permanent hirings, which is expected to sharply reduce their number. It remains to be seen to what extent exhausted options of the wage-related UI benefit will be avoided thanks to the current rapid emergence from recession, prevented through the creation of additional
temporary public sector jobs, or allowed to occur more frequently.

Overall Denmark and Finland have, through their combination of relatively high and long-duration UI benefits with placement of the long-term unemployed into temporary jobs, provided a high degree of protection for the unemployed. But the active element in the policy package has not been enough to keep unemployment permanently low and budgetary costs have consequently become very high, with overall labour market policy expenditure in both countries recently peaking near 7 per cent of GDP. Denmark, is to some extent, able to afford this, because of its relatively high employment rate. It is arguable that the policy package has also had important advantages, since high unemployment benefits help to pull many potential workers into the labour force and active labour market policies – even if not entirely successful – do much to keep most of this extra labour force in work. In Finland, such positive offsets to the high budgetary cost of labour market spending are less apparent, because the unemployment rate is now much higher than in Denmark and the employment rate is lower not only for cyclical reasons, but also because of policies which tend to reduce the effective retirement age.

In Italy, the dominant active programmes since the mid-80s have been apprenticeship and training and-work contracts for youths, although participant numbers in the latter have recently fallen a lot. Both programmes entitle employers to reduced social security contributions. PES decisions to accept hiring with such contracts are made in a quasi-automatic manner, related to the paperwork that takes place in connection with all recruitments. In the case of training-and-work contracts, the effective subsidy element is moderate, and their attraction for employers resides not only in the subsidies but also in the fact that they permit some extra flexibility in hiring and firing, and perhaps also in wage setting. Unlike the Nordic job subsidies, however (and no doubt largely because long-term unemployment is not a condition for qualifying) these schemes often lead eventually to permanent employment. Because the main qualifying criterion is age, these subsidies create relatively few distortions in the functioning of the labour market. But, although both programmes remain important in terms of gross participant numbers, their net impact on employment is probably limited.

The Italian system of CIG and Mobility benefits seems to be effective in preventing collective redundancies arising when firms have only temporary difficulties. It also does much to restrict the payment of high unemployment benefits to workers who have lost jobs involuntarily. Current procedures, developed after many years of experience, involve considerable PES involvement in the decisions on whether to grant the benefits or not. These procedures are relatively effective in ensuring that an assessment of the real situation of companies applying for lay-off benefits is made, thereby, preventing abuse of the subsidies through collusion between workers and employers.

It has, however, always proven difficult to terminate the payment of CIG in cases where it is clear that the workers on lay off will never be recalled by their original employer. The 1991 reform simultaneously imposed legal limits on the duration of CIG payments, created an alternative benefit called the Mobility allowance for workers affected by collective lay-off but who are recognized as being permanently dismissed (see Box 5), and introduced special measures to encourage the reallocation of Mobility workers to other employment. The number of workers benefitting from the Mobility allowance has grown rapidly since 1991 and this benefit may soon become larger, in terms of cost and beneficiary numbers, than the CIG. Given the low rates of hiring of workers receiving the mobility allowance, there is a risk that its costs may outweigh its advantages in terms of facilitating labour reallocation.

In addition, the long-standing problem of inequalities in the Italian benefits system, with relatively few "privileged" unemployed having high benefits and others having low or no benefits, persists. The anticipated increase in Ordinary Unemployment benefits to 40 per cent of the previous salary, limited to six months, will reduce these inequalities slightly, but will not directly change the situation that only about a third of the unemployed have any benefit whatsoever. Overall, the major reform of 1991 has both reduced the direct regulation of hiring and facilitated the reallocation of redundant labour. As such, it was in the right direction. But further reforms to improve the availability of job-brokering services within the Italian economy and to limit the emergence of new forms of long-term dependence on benefits are needed.
1. One estimate suggests that the relative minimum wage and early 1980s. 2. Denmark’s register-based labour market statistics (RAS) are constructed by matching information from several registers which all use the same personal identification numbers, providing data at relatively low cost. They have been published since 1980. In determining labour force status, the main sources used are returns by educational institutions, data from the supplementary pension scheme (ATP), and the central register of the labour market (CRAM). The ATP data contain information on total work and earnings for every person who has been employed during the year. The CRAM contains information based on unemployment benefit cards, which show the number of hours an unemployed person has received UI benefits each week. This is used to measure the “degree” of unemployment. The widely-cited “registered unemployment” figures are based on these data, with part-week insured unemployed people counted on a full-time equivalent basis, supplemented by information from municipalities concerning people with social assistance benefits who are considered to be unemployed. The RAS unemployment figures count as employed all people who worked at least one hour in a reference week, and thus report considerably lower levels of unemployment.

3. One explanation for divergence between survey and registration figures in Denmark is that the survey may classify workers claiming unemployment benefits as employed or out of the labour force. The survey for the second quarter of 1994 incorporated changes which may have sharpened the distinction with registered unemployment, and reported that there were 219,000 unemployed on the ILO definition (44,000 of whom did not have benefit) and 114,000 people who had benefit but were not unemployed on the ILO definition, 50,000 because they said they did not want work and 22,000 because they could not take it (Nyt fra Danmarks Statistik, No. 26, 1995).

4. One estimate suggests that the relative minimum wage for the metal, trade and local government sectors in Finland increased by two-thirds between the mid-1960s and early 1980s (Lilja et al. [1990]).

5. ISTAT statistics relating to larger firms in industry show that annual labour turnover in manufacturing fell from 29 per cent in 1971 to 13 per cent in 1975, and to 11 per cent in the early 1980s, a relatively low level (OECD [1991a]). Voluntary quits in the industrial sector, which had been about 20 per cent of employment per year in 1965, fell steadily through to 1976 and then remained at only 3 per cent from 1975 to 1984 (MLPS, [1987], p. 153). However, overall turnover in the industrial sector picked up from about 7 per cent per year in the early 1980s to around 10 per cent in the early 1990s.

6. In the 1980s, training-and-work contracts were used mainly in the North, where they offered a relatively high effective rate of subsidy. A general employment subsidy covering all dependent employment and not only new hires, which cannot be cumulated with the subsidy for training-and-work contracts, is available in Basilicata, Campania, Calabria, Puglia, Sicily and Sardinia. Owing to the recession as well as a reduction in the effective rate of subsidy in the North, annual hirings on training-and-work contracts by 1994 had fallen to less than a third of their 1989 peak.

7. Especially in Italy, any single figure for “the” unemployment rate is liable to be misleading. In the statistics from the 1987 labour force survey, 45 per cent of the people reported as unemployed had not undertaken an act of job search in the past month, implying that the comparability of Italian labour force survey unemployment data with that of many other countries was questionable (MLPS [1988]). Recent survey statistics distinguish between “wide” unemployment, which includes people who say they have undertaken an act of job search (such as participating in a competition whose results they are awaiting) within the past 6 months, and “narrow” unemployment which applies the conventional one-month cut-off for job search.

8. Padoa Schiopppa Kostoris (1993, p. 134) reports that “absenteeism is now treated much more severely than in the 1970s and is in fact far lower than it was then, without any changes having been made in the Workers’ Statute” (main law governing employers’ ability to discipline the workplace).

9. In Denmark, before 1990 TWAs were allowed to operate in the office and shop-work sectors. In 1989, 15 per cent of male and 25 per cent of female unemployed reported that their main method of job search was through private employment agencies [Eurostat (1991)]. Possibly this term was understood to include search through other types of agencies (e.g. unions), because, according to other sources, Denmark had a relatively low incidence of TWA work. In Finland, TWAs accounted for 1 per cent of all employees in 1988, which is a fairly high incidence in comparative terms, but in the recession their business collapsed. Many unemployed workers are said, as explained in Section E, to be discouraged from seeking TWA employment because they prefer to wait for a 6-month subsidised job. In Denmark, one result of the abolition of the PES monopoly has been that a few unions (not usually their associated UI funds), notably the metal workers, construction workers and academic trade unions, have set up job

Notes

1. The full report (to be published) will give more detail and cover additional topics.

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banks (information services on an fully-open basis, rather than devices for active placement) and organised the replacement of workers going on Labour Market Leave. In Finland before 1994, some unions had permission to operate employment services (Lilja et al., 1990, p. 156), and the impact of the removal of restrictions has been small to date. In both countries, municipalities may also keep track of possible openings in the market sector for their social assistance clients.

10. In Italy, the Labour Inspectorate appears not to control public sector employment practices and workers with civil servant status may fall out of the system of hiring by authorisation (nullaosta).

11. The 15 per cent quota for hiring disabled workers can be overridden, where it is strictly necessary for technical and safety reasons, in collective agreements. However, in many cases, unions in the bargaining process have conceded broadly-worded exceptions to the obligation. Also, firms often prefer to pay the low fines for non-compliance.

12. Given that many unemployed in Italy have no benefit (see also the discussion in Annex 3.A), the reservation of some low-level public-sector jobs for priority allocation by the PES can be seen as a form of social assistance provision. It is of interest only to those unemployed who have little prospect of finding higher-paying work.

13. According to the labour force survey, nearly a fifth of the people who registered with the PES as a means of job search in 1991 were employed (Casavola and Sestito (1993)).

14. In Denmark, new hires have been defined to include external hires only (i.e. excluding renewals of contract with the same employer), excluding very short-term jobs, and probably include temporary subsidised jobs in both the private and public sectors. For Finland, the data on new employment contracts cover only the private sector and it is not known how such important practices as renewals of temporary contracts and TWA work are treated. Labour force survey data for employees with less than a year of tenure indicate a slightly less sharp but still acute fall in the hiring rate between 1989 and 1991. For Italy, although the agricultural sector accounts for only 5 per cent of dependent employment, PES data show about a third of all the hirings here, which is believed to be an overestimate [MLPS (1992)]. In 1990 and 1991, checks by INPS on employment in the farming sector showed that as much as 65 per cent of reported employment in several agricultural regions was fictitious [INPS (1991)]. Declarations of 51 to 65 days of employment are commonly made in order to qualify for agricultural employment benefit [MLPS (1992)].

15. Schouten (1994) suggests that employers normally use channels other than the PES when the level of vacancies is high, *inter alia* because in peak periods employers more often expect to hire an already-employed person.

16. Some evaluation results concerning Denmark’s Job Offer system are discussed in Mørkedahl and Thaulow (1992). Studies have examined, although without using experimental methods, the post-programme performance of participants. For example, Kongsbø Madsen (1992) found that about 25 per cent of participants in a first Job Offer had work immediately afterwards. Interviews conducted between one and two years later showed that the figure had then risen to 29 per cent (including people who in the meantime had also participated in training), while an additional 20 per cent had had a job but then become unemployed again. Less than one-fifth of all JobOffers were in the private sector, but these led to permanent work in 44 per cent of the cases. The latter result, however, does not prove that JobOffers were more effective in the private sector; jobs there may have been offered to people whose job chances were better on average in any case.

17. Under transitional arrangements (concerning the initial calculation of unemployment duration, for workers with a history of participation in Job Offers) for Denmark’s 1994 benefit reform, no cases of UI exhaustion can arise before July 1995. In 1994 about 35 000 unemployed, one-eighth of all insured unemployed, were in “Period 2”, i.e. had been either on UI or in a subsidized job or another labour market programme for more than 4 years. This figure confirms that, on a labour-market-programme-inclusive basis, unemployment duration in Denmark is relatively high.

18. Italy’s Ordinary Unemployment benefit is paid for a maximum of 6 months to workers who have at least one year of employment in the two years prior to entering unemployment. The benefit was for many years prior to 1988 fixed at L 800 per day, an extremely low amount. It was raised to L 1 200 per day or 15 per cent of previous earnings in 1988, 20 per cent of previous earnings in 1990, 25 per cent in the first half of 1994 and 30 per cent in the second half, with plans to raise it to 40 per cent in the future. The number of benefit-days paid grew considerably from 1990 to 1993, reaching 67 million, which corresponds to a stock of nearly 200 000 people on a full-time equivalent basis.

19. From the mid-1970s until 1989, the CIG alone cost more than all other unemployment benefits combined. In many years it cost about 0.2 or 0.3 per cent of GDP, making it much cheaper than many UI benefit systems in central and northern Europe, but probably rather expensive as compared with most other benefits for short-time work and temporary lay-off.

20. In 1975, following an agreement between unions and employers, the duration of CIGs was limited to 12 months [de Luca and Bruni (1993)], but this rule was not applied in later years.
An analysis of labour market policy focusing solely on people who have unemployment insurance (UI) benefits, as in Section E of this chapter, can overlook other crucial elements. Assistance benefits, and the institutional arrangements for managing these benefits, vary greatly between the review countries.

Finland, following the introduction in 1972 of state unemployment assistance benefits of potentially indefinite duration, had in some years more registered unemployed with assistance benefits than with UI. After 1985, assistance beneficiaries declined to about 40 per cent of the total, probably reflecting increasing membership of UI funds, an increased level and duration of UI benefits, and an intensification of measures to place the long-term unemployed into subsidised work which often had the effect of maintaining eligibility for UI. Assistance beneficiaries are mainly young: in 1993, almost all unemployment beneficiaries aged under 20, about two thirds of those aged 20 to 24, and one-third of those aged 25 to 29 received assistance. The state assistance benefit, which was called the Basic Allowance from 1985 to 1993 and Labour Market Support from 1994 onwards, provides assistance at the level of the Basic Amount, i.e. the fixed element in the earnings-related UI benefit. However, the 1994 reform reduced the benefit level for young people living at home to 60 per cent of the Basic Amount. The means-testing limits for couples are such that both members of a couple can, in the absence of any other income, receive assistance at the full rate.

Finland also has a system of municipal social assistance. Prior to 1982, municipalities had extensive powers of discretion in granting this, and could, for example, choose to provide help in kind (e.g. firewood instead of cash assistance for heating in winter). However, national legislation then defined minimum cash entitlements, with a fixed amount to cover food and other daily necessities supplemented by an amount related to spending on housing and utilities. There are some unemployed workers who qualify only for municipal social assistance, notably because there is a 3-month waiting period for the state benefit. Other unemployed, when they are in households where there is no-one in work (or receiving a wage-related benefit), often qualify thanks to their housing and related expenses for municipal social assistance as a supplement to state assistance benefits.

Denmark has no state system of assistance, but entitlements to municipal social assistance have for many years been determined on a national basis. The benefit level is currently determined in terms of basic amounts to which are added supplements, related to housing and utilities costs. Young people living with their parents have an independent right to benefit, but at a lower rate than for single-person households. According to the CRAM figures (see Note 2) about 9 per cent of the registered unemployed were receiving social assistance rather than UI in 1979, and 16 per cent in 1993. There is slightly less than one unemployed person with an assistance benefit for every two social assistance claims, counting families on social assistance as a single claim.

In Denmark, central government grants cover about one-half to two-thirds of municipalities' social assistance expenditures, at the margin. In Finland, central government grants cover about a half of municipal social assistance expenditures, and since a reform at the beginning of the 1990s, municipalities pay the whole of any marginal increase in their social assistance costs. The costs falling on municipalities give them a strong incentive to reduce benefit claims, within the limits imposed by legislation. This has important consequences for active labour market policies. At a general political level, municipalities responsible for paying assistance benefits tend to lobby forcefully for increases in the duration of UI benefits, especially in response to recessions. At the local level, administrators responsible for managing municipal labour market policies tend to see cost containment for their municipal employer, rather than for society in general, as their main task.

In Denmark, active labour market policies (IHPs and activation obligations), as described in the main text, apply only to UI beneficiaries. Programmes for assistance beneficiaries are managed separately by the Ministry of Social Affairs, but the municipalities retain considerable autonomy. Some municipalities do not even require their unemployed clients to register with the PES. Some municipalities "activate" unemployed claimants immediately, so that employable people are in principle not able to receive social assistance on a purely passive basis.

When participation in subsidised work renews entitlement to UI, municipalities can avoid claims for social assistance by providing subsidised employment for workers who are approaching the exhaustion of UI. In Finland, after the abolition in 1993 of the statutory employment obligation, Helsinki municipality negotiated with the PES an agreement whereby municipal subsidised jobs were to be allocated to workers unemployed for over 400 days (i.e. near the end of the 500-day UI entitlement). In Denmark, as noted in Section E, the number of subsidised work places created by municipalities for the insured unemployed dropped sharply in 1994, when benefit entitlement conditions were changed. But there has been some shift in emphasis towards providing temporary subsidised work.
In Italy, social assistance benefits are financed at the local level and there is no legislation requiring regions or local authorities to pay any particular level of benefit (although there is a state system for people aged over 65). At the regional level only Umbria, and at the provincial level only Bolzano within the Trentino-Alto Adige region, have specific regulations. Elsewhere (for example, in Tuscany and Emilia-Romagna), each commune or USL (local health unit) fixes the level of the minimum income (minimo vitale). However, such minimum income levels are not a general entitlement and according to D'Apice (1989), most communes cap the total budget for social assistance, and attribute help only to the most "deserving" cases so that any family where there is a single person of working age who is capable of working has no right to benefit. As a result, social assistance benefits in Italy do not generally function as unemployment benefits. PES staff in Italy report that, to their knowledge, very few of the unemployed who exhaust Ordinary Unemployment or Mobility benefits would receive cash assistance. In one region it was said that people in extreme difficulty would be more likely to receive help in kind, in terms of emergency housing with food and clothing provided directly.
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