Editorial

Addressing the social dimension of the crisis through adequate income support and effective activation policies

In many countries, the social fabric is being strained by persistently high unemployment...

Concerns are growing in many countries about the strains that persistently high levels of unemployment are placing on the social fabric. Over five years have passed since the onset of the global financial and economic crisis but an uneven and weak recovery has not generated enough jobs to make a serious dent in unemployment in many OECD countries. In April 2013, 8% of the OECD labour force was unemployed representing over 48 million people, almost 16 million more than in 2007. While there have been some encouraging signs of a recovery in employment growth in the United States, this has been offset by the return of recession in the euro zone with an associated further rise in its unemployment rate to a new record of 12.1% in April 2013. According to the most recent OECD economic projections (May 2013), unemployment in the OECD area is unlikely to fall below its current level until well into 2014.

... and rising inequality in market incomes.

In many countries, these difficult labour market conditions have been exacerbated by an unequal sharing of the hardship that has resulted from the crisis. Job loss and a lack of job opportunities have been concentrated among low-paid workers, more than offsetting declines in earnings of high-paid workers (either in absolute terms or relative to low-paid workers), which were often only temporary. Consequently, inequality in the market incomes of households (i.e. their incomes before taking account of transfers and taxes) rose more in the period 2007 to 2010 than in the previous 12 years in most countries for which data are available.
Social programmes have so far cushioned the impact of the crisis on the most vulnerable, but are under strain…

The initial policy response to the surging labour market problems and social needs emanating from the crisis was to set up or strengthen support programmes to protect the most vulnerable groups. This has helped to cushion household incomes and, in turn, to support aggregate demand and employment. However, these programmes are under increasing strain in many countries: social welfare needs have increased since the beginning of the global crisis, but the fiscal resources available to meet these demands have often shrunk.

… reinforcing the need for “doing more with less” and a co-ordinated approach to income support buttressed by activation policies.

In a nutshell, governments are facing the challenge of “doing more with less”. The appropriate response must be a combination of social and activation policies that provide adequate income support for the most vulnerable groups, while encouraging and helping these groups to either return to work or to improve their job readiness and employability.

Income support to alleviate hardship is essential, and must be targeted at the most vulnerable.

Income support measures are essential for cushioning the damaging effects of the crisis. They also help to sustain demand for goods and services which, in turn, contributes to growth and future employment gains. But to be effective, these measures should account, as much as possible, for the individual circumstances of the unemployed and other vulnerable groups.

Adequate income support must be provided for the long-term unemployed…

Unemployment benefits have acted as crucial automatic stabilisers during the crisis, limiting the negative impact of job and earnings losses on household incomes. They should be allowed to continue to play this role. However, a growing number of individuals are experiencing long spells of joblessness in many countries and so risk losing their entitlement to unemployment benefits and falling back on less generous social assistance. In this context, it is important that this assistance adequately supports families in hardship, and minimum-income benefits may need to be strengthened, especially where long-term unemployment remains very high and those affected have little access to other forms of support.
... backed up by an activation strategy to help and encourage the unemployed to find jobs.

At the same time as ensuring that adequate income support measures are available for the most vulnerable groups, it is essential that a strong employment-focused activation system is in place to help and encourage the unemployed to find jobs. This requires a mix of measures which assist with job search and matching, while also reducing barriers to employment.

There is no unique formula for effective activation of the unemployed and other jobless groups as this will depend on each country’s institutional arrangements, benefit system and other elements of its labour market. Nevertheless, as set out in Chapter 3 of this year’s OECD Employment Outlook, a number of general lessons for policy can be distilled from the OECD’s in-depth country reviews of activation strategies.

The right institutional arrangements are key.

First, institutional arrangements matter in terms of the way welfare benefits and employment services are delivered and the way welfare benefits are funded. In several countries, there has been a merging of public employment service and benefit agencies to create a “one-stop shop”. In the United Kingdom, this has improved employment outcomes and services for clients. The experiences of Finland, Ireland, Switzerland and Australia suggest that partnership approaches between organisations and agencies (including those in the private and not-for-profit sector) can improve the co-ordination of service delivery, especially for disadvantaged client groups or in high-unemployment areas.

It is also important to ensure that there is a good alignment of institutional incentives across national, regional and local levels, especially when there is a decentralised responsibility for the delivery of employment services but centralised funding of welfare benefits. For example, in Finland, national and local governments have agreed to share the cost of benefit payments to the target group, accompanied by the development of jointly managed service centres for the very-long-term unemployed.

Effective monitoring of public and private employment services is required.

Second, the effectiveness of public and private employment services can be improved through more robust performance management that goes beyond simple comparisons of gross placement rates. For example, Australia and Switzerland rate the performance of local employment offices after adjusting for differences in terms of the profile of their clients and local labour market conditions. This approach, if well developed, generates relatively accurate and objective ratings of local office performance and can ultimately serve to improve the effectiveness of the employment services that are delivered.
Activating recipients of “inactive” benefits is challenging and requires time to succeed.

Third, it is not easy to “activate” recipients of benefits that previously were not required to be available for work. Therefore it may take time for measures targeted at these groups to show up in higher employment rates. Lone-parents on welfare benefits and those on disability benefits (with a capacity to work) have been the target of a range of measures in several countries introducing some form of availability-for-work requirement. While in the short run this may increase open unemployment rather than reduce it, the net effect in the longer run is to increase the employment rate. Therefore, there is a need to “stay the course” when trying to encourage a return to work of groups that have been formerly exempted from job search and work availability requirements. However, care is needed in the present circumstances of high unemployment in many countries to avoid overloading employment services with new client groups.

Tackling a sharp increase in unemployment requires adequate resources and a flexible approach.

Fourth, it is important that resources for cost-effective, active labour market programmes adjust to changing labour market conditions. At present, when many countries are facing high and increasingly persistent unemployment, it is important that sufficient resources are available to: handle higher client flows; compensate for a lack of job vacancies with focused measures to maintain and improve job readiness; and activate the long-term unemployed. While it may be difficult to scale-up active labour market programmes in a recession in both a timely and effective manner, this could be facilitated by contracting more services out to private sector providers.

Youth need to be a high priority for policy action.

Youth need to be actively supported to avoid long-term “scarring” effects as a result of prolonged unemployment and low-income spells early on in their careers. Governments should react swiftly to increases in youth joblessness and poverty, but support should be targeted to the most vulnerable youth and geared towards activation, as set out in the OECD Action Plan for Youth which was adopted by OECD Ministers in May 2013. This plan calls for actions across a broad front in order to: foster job creation for youth; address underlying problems that affect their access to high quality and relevant education; and promote effective use of their skills in the labour market.

The best combination of policies will depend on labour market conditions.

The best combination of policies to tackle unemployment and social exclusion will depend on labour market conditions in each country and how they evolve. With large numbers of workless households in many countries, the overarching objectives of “active” support include facilitating continued job search of working-age family members and ensuring that
families benefit quickly once labour-market conditions improve. As the recovery gains momentum, promoting labour supply becomes more important and the focus of active labour-market policies should shift from more labour-demand support towards in-work support for low-income working families. To be effective, work-related support should not be restricted to individual job losers, but directed at non-working partners as well.

Addressing the social crisis through a balanced approach to social and activation policies is not easy but must be done.

Finding the appropriate balance between providing much needed income support to the households hit hardest by the crisis and maintaining a strong activation stance to encourage and help the unemployed find jobs is not easy. Nevertheless, a comprehensive approach to employment-friendly social and activation policies is essential to promote a stronger and more inclusive recovery. Such an approach will strengthen the social fabric by helping to prevent the social wounds caused by the crisis from festering and compromising future improvements in economic growth and well-being.

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