THE OECD JOBS STRATEGY

ENHANCING THE EFFECTIVENESS OF ACTIVE LABOUR MARKET POLICIES

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Paris 1996

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A. Introduction

Active labour market policies (ALMPs) seek to overcome difficulties of the unemployed in finding a job and to improve the functioning of the labour market more generally. How effective are they in achieving these objectives? There is an extensive literature on programme evaluations addressing this question. Unfortunately, the answers are far from clear-cut: evaluation studies tend to vary in terms of rigour, coverage and time horizon. Moreover, evaluation results show that some programmes seem to work well for some groups but not for others.

The answers are also incomplete because most evaluations are not concerned with the reasons for positive or negative outcomes. For instance, the outcomes can be strongly influenced by the policy infrastructure which is in place to implement and monitor ALMPs. An effective infrastructure cannot be created overnight. Labour market authorities have to operate often under the short-term pressure of rising unemployment or sudden political concern with long-term or youth unemployment. A typical situation they face is the need to generate at short notice local job creation programmes on a large scale. Once the programme slots are available, there is a need to manage the intake, i.e. to decide who goes on what programmes and on the basis of what criteria, to control quality standards and to monitor outcomes. All this needs time, careful preparation and a good dose of trial and error. It is not difficult to predict that evaluations of hastily set-up programmes or programmes which are still in their infancy are likely to show poor results.

In order to assess the effectiveness of ALMPs, therefore, the results from evaluation studies need to be complemented by information on the quality of the infrastructure which is in place to run and monitor these programmes. In most OECD countries, the majority of ALMPs are implemented by the public employment service (PES). Thus, the PES office network, its density, coverage and resource intensity, the qualifications of its staff in the front-line offices and the effectiveness of their brokerage services are one important determinant of policy effectiveness. Schmid et al. have shown that the way in which active and passive labour market policies are financed is another contributing factor to policy effectiveness (Schmid, Reissert and Bruche, 1992).

In addition to the policy infrastructure methods of financing and the macroeconomic situation, there is a range of microeconomic policies and regulations which are likely to condition the effectiveness of ALMPs. Tight job security provisions, for instance, tend to reduce labour turnover and the flow of vacancies. This will reduce, ceteris paribus, the chances of participants in training programmes to find a job even if the training in question has raised their productivity and thus their employability relative to that of the employed.

Recent research undertaken by the OECD suggests that the way unemployment and related welfare benefits are designed and managed can be a particularly important determinant of the effectiveness of ALMPs.

If the unemployment benefit system is generous and poorly managed, it is very difficult to operate ALMPs in ways which increase labour market efficiency and reduce structural unemployment. Conversely, if ALMPs are used on a large scale and mainly serve to re-establish benefit entitlements, they risk becoming "passive" in all but name. Under such circumstances, the shift of public resources from passive to active measures is nothing else than window dressing.

This paper will discuss ways of improving the effectiveness of ALMPs. However, the underlying hypothesis is not that, once their effectiveness has been enhanced, ALMPs, on their own, would be able to cure unemployment. As stressed in the OECD Jobs Study, ALMPs are only one element
in a comprehensive strategy of macro and microeconomic measures needed to cut unemployment significantly.

The paper will exploit two sources: *i)* the available evaluation literature; and *ii)* in-depth reviews which the OECD has undertaken in 12 of its member countries (Austria, Denmark, Finland, Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom) focusing on the performance of the PES and the interactions between passive income support and ALMPs. To illustrate the arguments of the main text some interesting experiences and lessons from individual countries will be occasionally inserted in the form of indented text.

The next section will summarise the findings of evaluation research in Member countries seeking to judge which measures seem to be the most effective and which seem to be particularly ineffective. Section C will discuss the PES infrastructure in the 12 review countries and highlight ways to enhance its efficiency. Section D will draw on the recent history of labour market policies in selected countries in order to show how the effectiveness of active and passive policies is interlinked. The concluding section will set out some concrete proposals on how to enhance the effectiveness of ALMPs.

**B. What works and what does not**

Since the ultimate aim of ALMPs is to increase aggregate employment and to reduce unemployment, the most straightforward evaluation approach is a macroeconomic one. This approach has been tried in the literature.² The typical research design asks whether the total effort of a country in terms of either public spending on ALMPs or the total number of participants in such programmes has modified the rate of unemployment, labour force participation, wage pressures or the rate of inflation. But the results of these macroeconomic evaluations are still inconclusive and the technical difficulties, data and measurement problems remain considerable. Because of these uncertainties, the rest of this section will be confined to the evaluations of individual programmes.

There is a large literature which seeks to evaluate individual programmes. These evaluations can be divided into two main types. The first type measures the impact of programme participation on individuals' employment and earnings outcomes. This type of evaluation makes sense for programmes which attempt to make participants more productive and competitive in the open labour market, e.g. training and job search assistance. While the increase of employment and the reduction of unemployment is the ultimate goal of these programmes as for all ALMPs, they do not try to reach this goal directly through job creation but rather through increasing "effective" labour supply, which would then reduce the equilibrium rate of unemployment.

The second type of evaluations attempts to measure the net effects of programmes on aggregate employment and unemployment by estimating dead-weight, substitution and displacement effects. These evaluations are mostly relevant for employment programmes, i.e. programmes which attempt to stimulate job creation in the private sector (including self-employment), as well as direct job creation in the public sector. Since ALMPs have the explicit objective of increasing the number of jobs in the economy at large, evaluations must determine whether subsidised jobs would have been created anyway in the absence of the subsidy (dead-weight effects) or whether subsidised jobs have displaced, or have been substituted for, unsubsidised jobs.

The OECD has reviewed the evaluation literature available in its Member countries in 1993 (see OECD, 1993c) and up-dated this review in 1995 (Fay, 1995). This work has been confined to so-called "experimental programmes" where individuals have been randomly assigned to either a control or a
treatment group as well as "quasi-experiments" where a control group has been established \textit{ex post} and attempts made to control for possible selection bias. However, these methods can only be applied to measure the effects on individual programme participants. In order to estimate the net-employment effects of job creation programmes, much less rigorous methods are available, e.g. relying upon surveys of employers or regression analyses of labour flows.

The principal results, presented in a synoptic form in Table 1, can be summarised as follows.

\textbf{Table 1. Lessons from the evaluation literature}

<table>
<thead>
<tr>
<th>Programme</th>
<th>Appears to help</th>
<th>Appears not to help</th>
<th>General observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job-search assistance (JSA)</td>
<td>Most unemployed but in particular, women and sole parents.</td>
<td>Youths (if not combined with other programmes); Prime-age men and older workers with low initial education.</td>
<td>Require careful controls.</td>
</tr>
<tr>
<td>(job clubs, individual counselling, bonus payments etc.)</td>
<td></td>
<td></td>
<td>Important that courses signal strong labour market relevance, or signal &quot;high&quot; quality.</td>
</tr>
<tr>
<td>Formal classroom training</td>
<td>Women re-entrants.</td>
<td>Youths (if not combined with other programmes); Prime-age men and older workers with low initial education.</td>
<td>Youths are likely to need a combination of programmes targeted at their specific labour market needs.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>More evidence required for displaced workers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Follow-up evaluation period needs to be longer as length of course increases.</td>
</tr>
<tr>
<td>On-the-job training</td>
<td>Women re-entrants; single mothers.</td>
<td>Youths (if not combined with other programmes).</td>
<td>Must directly meet labour market needs.</td>
</tr>
<tr>
<td>Subsidies to employment</td>
<td>Long-term unemployed; Women re-entrants.</td>
<td>Youths (if not combined with other programmes).</td>
<td>Require careful targeting and adequate controls to maximise employment gains and social benefits.</td>
</tr>
<tr>
<td>Direct job creation</td>
<td>Severely disadvantaged labour market groups.</td>
<td></td>
<td>Typically provides few long-run benefits and principle of additionality usually implies low marginal-product jobs.</td>
</tr>
<tr>
<td>Aid to unemployed starting enterprises</td>
<td>Men (below 40, relatively better educated).</td>
<td></td>
<td>Only works for a small subset of the population.</td>
</tr>
</tbody>
</table>


\textbf{Employment training: } The largest amount of resources in ALMPs is usually directed towards training. But evaluations of training programmes in OECD countries -- mainly those offered in a formal classroom setting -- suggest low or insignificant returns from this intervention. This is particularly the case for labour market training open to all unemployed persons and not targeted on specific labour market needs, as evidenced by many of the poor results found in evaluations reviewed in the 1993 Employment
Outlook. Subsequent work such as that reviewed for Sweden by Forslund and Krueger (1994) tends to confirm relatively low returns to training.

Many evaluations show that training is not effective for disadvantaged youths who probably need a combination of measures directed at their particular needs. Among the few significant exceptions to this disappointing finding are the Job Corps in the United States and the Canadian Employability Improvement Programme (see below). Much of the success in the former appears to have been derived from in-depth counselling and training provided in an independent environment. However, providing a wide range of tailored training programmes is relatively costly and a positive cost-benefit outcome depends not only on improved labour market performance of the youths in question but also social benefits in the form of reduced crime, drug abuse, etc.

Some of the most positive results on training come from a Canadian evaluation of the training elements of a recent initiative, the Employability Improvement Programme which ran over the early 1990s. Both male and female participants had significant earnings and employment gains with results generally being higher for women -- the latter finding has been confirmed by many evaluations. The programme appears to derive much of its success from well-targeted measures, both to the individual and to local labour market needs.

The importance of targeting has been highlighted in many studies. A study carried out in Norway has shown that even training not deliberately geared towards specific labour market needs can be successful to some extent if implicit targeting is taking place, e.g. through course rationing where only small numbers of individuals gain access and courses providing skills relevant to employment in specific sectors. Hence, targeting appears to be a crucial design feature determining the success of training programmes.

The effects of training programmes on the individual may take time to appear. For example, a longitudinal analysis of training provided through the Canadian Job Entry Programme -- a predecessor to the above-mentioned Canadian programme -- indicated that, while the short-run impact on earnings was insignificant, it had a positive and significant longer-run impact on earnings. A study of displaced workers from the steel industry in Pennsylvania in the United States during the mid-1980s also found that training was successful in raising earnings, but it took about two years after the training period for the increases to occur.

Job-search assistance: Job-search assistance (JSA) comprises many different types of services, for example initial interviews at the PES, in-depth counselling at some stage in the unemployment spell, re-employment bonuses, jobs clubs etc. It is usually the least costly intervention and in many countries is closely integrated with PES activities. Evaluation results from several large-scale experiments in the United States provide the most positive support for JSA.

For example, the New Jersey UI Re-employment Demonstration Project, demonstrations under the Omnibus Budget Reconciliation Act, and evaluations of the JSA element of the Job Training Partnership Act (JTPA) Title II-A found significant gains in earnings and employment, particularly for women although they were not always long-lasting. These programmes have also been successful in reducing social assistance receipt, although they do not typically eliminate it. Other JSA experiments sponsored by the Department of Labor and the State of Nevada found significant declines in UI benefit receipt. Evaluations of the Restart interview programme in the United Kingdom suggest that the chances of finding work improved, but may have resulted in some displacement of short-term unemployed. There have been no rigorous evaluations of job clubs but one Australian study suggests that they may be helpful for the long-term unemployed and job-seekers with low levels of education.
Four random assignment experiments in the United States reviewed by Meyer (1995) have found that re-employment bonuses were successful in reducing the duration of unemployment benefit receipt. But caution is warranted here. These bonuses require careful controls to make sure they do not simply result in more claims for unemployment benefits as individuals who otherwise would not register with the PES do so to receive the bonus, leading to higher budgetary outlays overall.

**Subsidies to employment:** Subsidies to employment may have a number of objectives other than creating additional jobs. They may enhance effective labour supply by helping individuals to keep in contact with the world of work, thus, maintaining their motivation and skills. For equity reasons they may also be intended to provide the long-term unemployed with jobs even if this happens at the expense of the short-term unemployed. These positive secondary effects may still hold if the net employment gains of these programmes are very small.

Indeed, most evaluations show that subsidies to employment have large dead-weight, displacement and substitution effects and hence small net employment gains, particularly in the short-term when aggregate demand and vacancies are fixed. For instance, evaluations of wage subsidies -- e.g. in Australia, Belgium, Ireland and the Netherlands -- have noted combined dead-weight loss and substitution effects amounting to around 90 per cent.

There is little evaluation research available on the alleged positive longer-run impacts, but the individually subsidised jobs element of the Canadian Job Development Program was successful in raising both short- and long-term earnings of participants.

Some studies have shown that subsidies combined with a training element can also be helpful in reducing unemployment. For example, on-the-job training combined with JSA offered under the JTPA Title-IIA in the United States was successful in raising earnings. Like re-employment bonuses, however, subsidies to employment require careful controls and monitoring. A recent OECD review of the PES in Finland found some evidence that firms were setting aside positions that were contingent upon receiving a subsidy (OECD, 1996a). Moreover, since the subsidy could only be received for a limited period, it became common to lay off workers after expiration of the subsidy and to hire new subsidised workers. The scheme has now been changed so that the subsidy is only available for permanent hirings.

Direct job creation in the public sector has been of little success in helping unemployed people get permanent jobs in the open labour market, but the policy debate about the utility of this intervention is still alive. Temporary employment programmes can be used as a work test and as a means of helping the unemployed maintain contact with the labour market, particularly when aggregate demand is depressed and vacancies are scarce. But since most jobs provided through direct job creation schemes typically have a low marginal product, they should be short in duration and not become a disguised form of permanent employment.

One form of subsidy that appears to be successful for a small group of unemployed individuals is aid to starting up a business. Experiments in the United States such as the Washington and Massachusetts demonstration projects suggest that such schemes result in employment gains for men, primarily between the ages of 30 and 40, who have relatively high levels of education. More anecdotal evidence from other countries such as Australia, Ireland, Norway and the United Kingdom tends to confirm longer-term survivability, but only for a relatively small share of enterprises started up in this manner. A further positive outcome of assistance to unemployed people to start their own business is that these businesses may create further jobs for others.
In sum, the evaluation literature suggests that careful targeting on individual needs as well as those of employers is important for programmes to be successful. This has implications for the role of the PES as discussed below. However, there are many other design features that will be important in conditioning the success of ALMPs such as the level of compensation offered to programme participants, the optimal duration of programmes, whether ALMPs should be combined or offered individually. Empirical evidence on the relative weight of these design features in determining programme outcomes is not available however.

C. The effectiveness of the PES

a. The PES infrastructure

In order to compare PES resources between countries, it is useful to distinguish countries which have a fully integrated system of the three basic PES functions (brokerage, unemployment insurance (UI) administration and referral to ALMPs) from those which have not. It is particularly relevant whether or not the UI administration forms part of the PES system because it requires significant staff resources and -- if not integrated -- a separate office network. Among the twelve OECD countries shown in Chart 1, half of them have fully integrated PES front-line offices (Austria, Germany, Italy, Japan, Norway, Spain) whereas five others have only integrated the brokerage and ALMP referral functions (Denmark, Finland, the Netherlands, Sweden, Switzerland). The United Kingdom has integrated the brokerage and UI functions but not totally the ALMPs function -- the bulk of training is handled by a separate system, the Training and Enterprise Councils (TECs).

In terms of public expenditures, PES activities -- according to the OECD standardised categories of labour market programmes -- accounted for between 0.03 and 0.25 per cent of GDP in 1993-94 depending, however little, on whether or not the UI function is integrated (Chart 1). Germany, Sweden, the United Kingdom, the Netherlands and Norway have well-resourced PES systems, notably in comparison with Japan and Switzerland. Resources have grown rapidly in recent years in the Netherlands and Norway: the percentage share of GDP absorbed by the PES was respectively around three times and two times higher in 1994 than ten years earlier. The increase in the United Kingdom can partly be attributed to the gradual integration (or reintegration) of the UI function starting in the late 1980s.

Table 2 provides summary information about the PES networks in the 12 review countries. Switzerland has by far the most dense office network but these offices are mostly served on a part-time basis by municipal workers who have other responsibilities as well. If these part-time positions are calculated on a full-time basis, the average for the country as a whole is less than one full-time worker per office. Germany has by far the largest local offices, employing on average 440 officers and serving extended regions. Next to Germany, relatively big offices can be found in the United Kingdom with an average staff of 35, followed by Austria (34), the Netherlands (33) and Japan (27). However, in the United Kingdom and the Netherlands the office networks are much denser so that each office has to serve a much smaller region than is the case in Austria and Japan. The average staff per office is very similar in the other countries (between 11 and 21), but due to vast and sparsely populated areas in Norway, Finland and Sweden, the average size of the region to be served by each office is much bigger in these countries. In terms of the distribution of staff by level of centralisation, Spain and Italy have the lowest resources deployed at the local level and a striking concentration of resources at the intermediate level.
Chart 1

Public expenditures on public employment services and administration

As a per cent of GDP

1. 2. See footnotes to Table 2.
3. Administration of unemployment benefits by the National Institute for Social Security (INPS) are not included.
4. In the late 1980s, a multi-year programme bringing job placement and benefit offices back together, i.e. re-establishing the pre-1973 situation, was introduced.
5. The steep rise is partly due to the integration of vocational training centres into the PES network.

Source: OECD database on labour market policies.
Relating PES staff to the total labour force, Table 3 shows for Germany, Norway, Sweden and the United Kingdom that there are on average around 500 active persons per PES officer. Japan and Switzerland are at the other end of the spectrum with more than 4 000 and 3 700 active persons per officer, respectively. Both countries have a history of full employment and their current unemployment rates are among the lowest in the OECD area. The same cannot be said of Italy which is a high-unemployment country, yet has only 1 PES officer per 1 700 persons in the labour force.

Looking more closely at proper work-load indicators, i.e. the number of job-seekers and the number of notified vacancies which each PES staff member has to process on average, Table 3 shows significant differences between the situation in high-unemployment and low-unemployment countries. Comparing the situations in Japan and Spain, for instance, the Japanese PES officer has to manage an average stock of 121 job-seekers whereas the Spanish officer has to look after an average stock of 307 job-seekers. The qualitative differences are likely to worsen this gap because the nature of the employment problems of job-seekers is likely to be more serious in Spain which has a high incidence of long-term unemployment compared with Japan. In addition, the work of the average Japanese officer is much less frustrating because his/her stock of 121 job-seekers is paralleled by a stock of almost 80 unfilled vacancies whereas the average stock of unfilled vacancies per Spanish officer is virtually zero. A similar picture emerges from monthly flow data per PES staff member. In Spain, there is an average monthly inflow onto the register of about 48 job-seekers per PES officer whereas only 28 in Japan. In Japan an equal number of vacancies are notified per month compared with only 3 in Spain. Not surprisingly, the Japanese officer is able to place 8 job-seekers per month whereas the Spanish officer only places 3.

Table 2. Employment office networks and staff numbers, 1994

<table>
<thead>
<tr>
<th></th>
<th>Fully integrated PES1</th>
<th>Partially integrated PES2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Austria</td>
<td>Germany</td>
</tr>
<tr>
<td>Number of local office districts</td>
<td>96</td>
<td>184</td>
</tr>
<tr>
<td>Average number of local staff per district</td>
<td>54</td>
<td>440</td>
</tr>
<tr>
<td>Average Km² per local office district</td>
<td>881</td>
<td>1 949</td>
</tr>
<tr>
<td>PES total staff</td>
<td>4 230</td>
<td>89 300</td>
</tr>
<tr>
<td>Local offices</td>
<td>3 240</td>
<td>81 000</td>
</tr>
<tr>
<td>Intermediate-level offices</td>
<td>810</td>
<td>6 850</td>
</tr>
<tr>
<td>National headquarters</td>
<td>180</td>
<td>1 450</td>
</tr>
</tbody>
</table>

1. The three basic PES functions are integrated in the local labour offices: brokerage, unemployment insurance (UI) benefit administration and referral of the unemployed to active labour market programmes (ALMPs).
2. Brokerage and referrals to ALMPs in all countries except the United Kingdom which has integrated brokerage and unemployment benefit administration.
3. All data for PES offices and staff exclude Sicily.
4. The number of local offices is based on an estimation for June 1995. The staff distribution between local and intermediate-level offices is based on the distribution in 1991.
5. Data refer to 1993.

Sources: Denmark, Finland and Italy: OECD (1996a); Japan, Norway, Spain and United Kingdom: OECD (1993a) and information submitted to the Secretariat; Netherlands: OECD (1993b) and information submitted to the Secretariat; Switzerland: OECD (1996b); Austria, Germany and Sweden: OECD (forthcoming).
### Table 3. Indicators of PES workload in selected OECD countries

<table>
<thead>
<tr>
<th></th>
<th>Fully integrated PES</th>
<th>Partially integrated PES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Austria (1994)</td>
<td>Germany (1994)</td>
</tr>
<tr>
<td>Total labour force(^3)</td>
<td>3,876 39,646 22,787</td>
<td>66,450 2,151 15,701</td>
</tr>
<tr>
<td>Registered job-seekers</td>
<td>231 5,024 4,970</td>
<td>1,848 239 4,621</td>
</tr>
<tr>
<td>Registered wholly unemployed</td>
<td>215 3,698 4,800</td>
<td>110 2,647</td>
</tr>
<tr>
<td>Benefit recipients</td>
<td>195 2,866 509</td>
<td>773 142 1,759</td>
</tr>
<tr>
<td>Notified vacancies</td>
<td>30 285 1186</td>
<td>8 20</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual flows (in thousands)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New registration of job-seekers</td>
<td>692 7,485 4,802</td>
<td>5,074 395 8,743</td>
</tr>
<tr>
<td>New benefit claims</td>
<td>710 5,541</td>
<td>1,960 223 2,028</td>
</tr>
<tr>
<td>Inflow of notified vacancies</td>
<td>256 3,133</td>
<td>5,465 283 534</td>
</tr>
<tr>
<td>Placements</td>
<td>2,347</td>
<td>1,448 68 495</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock per PES staff member</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total labour force</td>
<td>916 444 1,697</td>
<td>4,345 508 1,042</td>
</tr>
<tr>
<td>Registered job-seekers</td>
<td>55 56 370</td>
<td>121 56 307</td>
</tr>
<tr>
<td>Registered wholly unemployed</td>
<td>51 41 357</td>
<td>26 176</td>
</tr>
<tr>
<td>Benefit recipients</td>
<td>46 32 38</td>
<td>51 34 117</td>
</tr>
<tr>
<td>Notified vacancies</td>
<td>7 3</td>
<td>78 2 1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly flows per PES staff member</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New registration of job-seekers</td>
<td>14 7 30</td>
<td>28 8 40</td>
</tr>
<tr>
<td>New benefit claims</td>
<td>14 5</td>
<td>11 4 11</td>
</tr>
<tr>
<td>Inflow of notified vacancies</td>
<td>5 3</td>
<td>30 6 3</td>
</tr>
<tr>
<td>Placements</td>
<td>2 8</td>
<td>1 3</td>
</tr>
</tbody>
</table>

1. The three basic PES functions are integrated in the local labour offices: brokerage, unemployment insurance (UI) benefit administration and referral of the unemployed to labour market programmes (ALMPs).
2. Brokerage and referrals to ALMPs in all countries except the United Kingdom which has integrated brokerage and unemployment benefit administration.
3. Figures in brackets refer to benefit recipients per PES staff excluding benefit administrators. Sources: Denmark, Finland and Italy: OECD (1995a, Chapter 3); Japan, Norway, Spain and United Kingdom: OECD (1993a) and information submitted to the Secretariat; Netherlands: OECD (1993b) and information submitted to the Secretariat; Switzerland: OECD (1995a); Austria, Germany, Sweden: OECD (forthcoming).

### b. The processing of vacancies and methods of placement

Vacancies being the main constraint on PES job broking in a slack labour market, are there ways and means to increase the notification of vacancies to the PES? Moreover, what is the most efficient method of treating vacancies so that both employers’ interests and PES commitments to assist the unemployed are met? Various methods have been put in place to increase the flow of vacancy notifications to the PES, in particular, regular visits of placement officers to local employers to provide them with information about available labour and skill resources and to discuss recruitment methods and future personnel requirements. In the larger PES offices of Finland, for instance, each employer has a contact person assigned to him/her. In Sweden, it was found that such a contact person can be effective in encouraging the notification of more vacancies and reducing the risk that employers fail to inform the PES when they are filled. The principal difficulty with this approach is that the work-load becomes...
particularly onerous when unemployment increases just at the moment when such contacts with employers would be most needed. It is useful, therefore, to maintain as a rule -- regardless of the cyclical state of the labour market -- that placement officers spend a certain amount of their working time, say 15 to 20 per cent, visiting local employers.

Several countries have adopted the practice of registering vacancies with the PES which are advertised in local newspapers. Such advertisements are either simply photocopied and made available to job-seekers or they are displayed on "fully open" vacancy boards (Denmark) or entered in the computerised vacancy registers (Norway, see below). Vacancies for short-term jobs or short-duration fixed-term appointments -- even if notified to the PES -- are often not included in the vacancy lists or computerised registers. This is normally done for cost reasons, especially when such vacancies can be filled immediately by available job-seekers. However, such a practice should not lead to the result that the PES is eventually squeezed out of the booming market for fixed-term jobs which then tends to become completely dominated by temporary work agencies.

Vacancy display can be "fully open", "semi-open" or "closed". With fully open display, when job-seekers can search and choose job openings on vacancy boards or computer terminals without any intervention by the PES, the screening of applicants will be zero. In the case of semi-open display when job-seekers have to contact a PES officer because the address or telephone number of the employer is not mentioned in the vacancy note, screening of the applicants can be either "light" or more intensive depending on the preferences of the employer. For some jobs, employers may wish to receive a large number of applicants, for other jobs they may prefer not to spend too much time with unsuitable candidates and delegate most or part of the screening to the PES. In the case of closed vacancy treatment there will be no display of the vacancies at all but the PES will undertake intensive screening among the potential candidates available on its register.

Fully open vacancy display coupled with other "self-service" facilities has become widespread in Member countries, not least because such methods can free scarce PES resources for more intensive work in favour of the hard-to-place job-seekers. Norway is a typical country which has adopted a self-service approach.

**Norway**

*Norway has a long-standing tradition of disseminating vacancy information throughout the country and facilitating long-distance access of job-seekers to placement services. To some extent this tradition has its roots in the geographical size of the country and the existence of many remote areas. In order not to put the unemployed living far away from a PES office at a disadvantage, a number of information channels and self-service facilities are in place. These range from a PES newspaper to a free-of-charge telephone service to computer terminals with vacancy and occupational information available not only in the PES offices but also in schools, public libraries, shopping centres, military camps, etc.*

*Reliable information on job vacancies depends crucially on the quality of the PES database. Local PES agencies send both notified vacancies and vacant positions advertised in local newspapers, periodicals, etc. to the national vacancy registration. 70 per cent of the vacancies registered in the PES database are retrieved from newspaper advertisements. It is believed that the database covers virtually all positions publicly announced as being vacant. The notification of vacancies to the PES is compulsory but cannot be enforced in practice. Nevertheless, this provision permits the PES to*
include newspaper advertisements in the database and to disseminate them without having to ask for the consent of the employers.

Norway still maintains a PES placement monopoly (although some exceptions have been authorised recently for particular occupations). In order to ensure that placement services are as effective as they would be under a regime of free competition, the PES takes great care in providing effective screening of job-seekers if employers so wish. In 1995, a provision was introduced to guarantee specified quality standards for PES-sponsored recruitments.

The extensive use of self-service facilities leads to a low rate of registered PES-filled vacancies. At the same time, these facilities save valuable staff time which will be available for in-depth counselling and assistance to the difficult-to-place job-seekers. Norway provides a broad range of such services. What is surprising, however, is a rather tenuous link between benefit receipt and job-search efforts. Frequent and compulsory contacts between benefit claimants and the PES offices do not seem to have a high priority in Norway. Claimants have to sign-on once every two weeks but can do so by mail. They are called for a counselling interview to their local PES office once every three months. Thus, an initiative to use the PES services has to come from the claimants themselves. If they opt not to do so, there is little coercion to change their behaviour.

The advantage of fully-open and semi-open displays is that only interested and motivated job-seekers will apply for the vacancies in question, the disadvantage is that it will also profit job changers, whereas poorly-motivated unemployed persons may simply ignore them. It is not infrequent, therefore, that "closed" placement techniques are preferred by the PES. Finland, for instance, uses this method because it permits the PES to fill vacancies quickly and the majority of applicants can be chosen from the unemployment register. It requires that the job-seeker register is always up-to-date and does not include former candidates which have found work or left the labour force. Closed placement has disadvantages as well. Employers are often disappointed about the qualifications of the candidates who are sent by the PES, or they soon discover that many applicants are not really interested in the job but apply only in order to satisfy the conditions for maintaining their benefit entitlements. The end result, as Finnish experience shows, is that some employers become reluctant to notify vacancies to the PES at all.

Thus, there are advantages and disadvantages with all methods of vacancy display. However, the greatest concern is that closed procedures tend to reduce the flow of vacancies notified to the PES. To the extent this occurs, it curtails the effective placement work of the PES, reduces the possibility of applying work tests and has detrimental effects on the job-search efforts of the unemployed. If few vacancies are available, this will reduce the motivation of the unemployed and increase their perception that job search is futile. The most appropriate strategy would be to give employers a choice which of the three methods they prefer and to advise them about the suitability of various methods of vacancy display and screening for particular types of jobs. For highly-skilled career jobs, for instance, the broadest dissemination is required in order to find the maximum number of good candidates. If the employer also wishes a first screening of candidates by the PES, the semi-open vacancy display is warranted.

Due to the different methods of vacancy treatment, it is difficult to measure PES performance between countries. The more a country uses self-service facilities, the less it will be able to record PES-induced placements. This, however, is not the only source of uncertainty in making international comparisons. Table 4 shows annual flows of registered vacancies and placements for twelve OECD countries. Interpretation of these statistics, derived from administrative files, requires extreme caution. The vacancy data are usually vacancies notified by employers to the PES for positions lasting more than a few days. However, in some countries (Denmark and Norway), vacant positions advertised in newspapers are also registered in the database as well as vacancies for short-term jobs. The placement statistics refer
to the filling of vacancies notified to the PES with PES-registered job-seekers. These figures are normally much higher than the number of job finders in the same period who declare they have been placed by the PES (for more on the differences between gross and net placements, see below). Not surprisingly, the derived indicator of effective placements -- number of placements as a proportion of the number of registered vacancies -- is much lower in countries where self-service procedures are frequent, e.g. Japan and Norway.

One indicator for the degree of PES market penetration is the vacancy notification rate, defined as the number of registered vacancies relative to the number of total hirings. It must be viewed for most countries as a rough proxy. The principal uncertainty arises from the difficulty of estimating the number of total hirings in the economy. Different data sources had to be used and a number of assumptions had to made to compute this indicator. According to Table 4, the vacancy notification rate varies considerably between countries, ranging from a low of 9 per cent in Switzerland where an extensive network of private placement agencies exist, to 76 per cent in Norway where, as explained, particular methods of vacancy registration are used.

Table 4. Vacancy registrations and placements, 1994

<table>
<thead>
<tr>
<th>PES administrative data (thousands)</th>
<th>Austria</th>
<th>Denmark</th>
<th>Finland</th>
<th>Germany</th>
<th>Italy</th>
<th>Japan</th>
<th>Netherlands</th>
<th>Norway</th>
<th>Spain</th>
<th>Sweden</th>
<th>Switzerland</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual vacancy registrations^2</td>
<td>256</td>
<td>157</td>
<td>145</td>
<td>3,133</td>
<td>5,465</td>
<td>272</td>
<td>283</td>
<td>534</td>
<td>353</td>
<td>44</td>
<td>2,537</td>
<td></td>
</tr>
<tr>
<td>Annual placements^3</td>
<td>..</td>
<td>82</td>
<td>76</td>
<td>2,347</td>
<td>1,269</td>
<td>1,448</td>
<td>174</td>
<td>68</td>
<td>495</td>
<td>..</td>
<td>2,192</td>
<td></td>
</tr>
<tr>
<td>Labour market data</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependent employment (thousands)</td>
<td>3,192</td>
<td>2,340</td>
<td>1,716</td>
<td>32,093</td>
<td>15,133</td>
<td>52,360</td>
<td>5,920</td>
<td>1,834</td>
<td>8,626</td>
<td>3,490</td>
<td>2,855</td>
<td>21,907</td>
</tr>
<tr>
<td>Monthly hiring rate (approximate)^4</td>
<td>1.8</td>
<td>3.0</td>
<td>2.2</td>
<td>1.6</td>
<td>2.3</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td>2.2</td>
<td>1.7</td>
<td>1.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Derived indicators (percentage)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Placements/vacancy registrations</td>
<td>..</td>
<td>53</td>
<td>52</td>
<td>75</td>
<td>..</td>
<td>26</td>
<td>64</td>
<td>24</td>
<td>93</td>
<td>..</td>
<td>49</td>
<td>76</td>
</tr>
<tr>
<td>Vacancy registrations/dependent employment</td>
<td>8</td>
<td>7</td>
<td>10</td>
<td>..</td>
<td>10</td>
<td>5</td>
<td>15</td>
<td>6</td>
<td>10</td>
<td>2</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Placements/dependent employment</td>
<td>..</td>
<td>4</td>
<td>4</td>
<td>7</td>
<td>8</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>6</td>
<td>..</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Vacancy registrations/hirings</td>
<td>37</td>
<td>19</td>
<td>32</td>
<td>51</td>
<td>..</td>
<td>51</td>
<td>23</td>
<td>76</td>
<td>23</td>
<td>50</td>
<td>9</td>
<td>39</td>
</tr>
<tr>
<td>Placements/hirings</td>
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<td>38</td>
<td>30</td>
<td>14</td>
<td>14</td>
<td>18</td>
<td>22</td>
<td>..</td>
<td>4</td>
<td>29</td>
</tr>
</tbody>
</table>

1. Data refer to 1991 for Denmark, and 1990 for Italy.
2. Vacancies notified to the PES by employers but also, in Denmark and mainly in Norway, vacant positions advertised in newspapers. Very short-term vacancies lasting no more than a few days are often excluded, except in Denmark where the PES share in this market is relatively high.
3. Placements usually refer to vacancies notified to the PES which have been filled by PES registered job-seekers. Placements into subsidised jobs are normally excluded but often they overlap with placements into regular jobs.
4. Monthly new hirings as a percentage of dependent employment. Estimates based on a combination of data from labour force surveys (job tenure less than one year, number of job changes in the last three months), employer surveys (number of external hires, new employment contracts in the private sector) or administrative records of hirings kept by the PES.
5. Placements refer to rank-order hirings, which were abolished after 1991. Total hirings were estimated as the sum of rank-order, nominative and direct referrals as recorded by the PES.

Sources: Denmark, Finland and Italy: OECD (1993a, Chapter 3); Japan, Norway, Spain and United Kingdom: OECD (1993a) and information submitted to the Secretariat; Netherlands: OECD (1993b); Swiss Federal Office of Statistics; Austria, Germany, Sweden: OECD (forthcoming).

c. Tripartism and decentralisation

There is a long-standing tradition in many OECD countries to organise the PES on a tripartite basis (in line with ILO Convention 88). This raises the question whether such tripartite arrangements increase or, on the contrary, impinge on the effectiveness of the PES and the pursuit of ALMPs more generally. Moreover, do tripartite arrangements facilitate unpopular decisions such as applying benefit sanctions or do they make them more difficult?

In several review countries (Denmark, Finland, Italy, Norway, Spain, Switzerland), there are tripartite or bipartite bodies attached to the PES, sometimes only at the central level but sometimes at more decentralised level as well. However, these bodies have mostly an advisory function or they serve as
consultative bodies if and when the Government wishes to introduce new legislation. In some cases they are called supervisory bodies but in reality the final decision-making power lies with the central government. Their competence is somewhat larger in Italy where at decentralised level decisions are taken by these bodies in specific areas defined by law or Ministerial decree. In a few countries, however, such tripartite bodies have wide-ranging decision-making power at all levels and the PES system is largely independent from the Government.

Sweden and Germany are countries where tripartite management of the PES at central, regional and local level is paralleled by a considerable autonomy of the PES. The legislator remains in charge of initiating new policy measures and determining financing rules and the Ministry of Labour exercises a legal control. But the PES agency has considerable leeway in implementing policy and taking decisions on spending. In the past, Sweden has gone farthest among OECD countries in applying a "corporatist" approach in decision making and PES management. However, more recently it has experienced a set-back in tripartism.

In 1991, the Swedish Employers Federation decided to withdraw from the main tripartite decision-making bodies, including the PES board, arguing that it no longer wished to share responsibility for policy decisions to which it was hostile but could not prevent because of majority voting in the tripartite bodies. This suggests that voting procedures have gained the upper hand over voluntary co-operation and consensus building.  

Two other OECD countries, Austria and the Netherlands, have recently moved towards independent, tripartite and decentralised structures. Their experience suggests some interesting lessons.

Austria

At the end of the 1960s, a trade-union led initiative to create an autonomous, self-governing PES agency along the lines of the Swedish model did not succeed but resulted in the establishment of tripartite advisory bodies. The Ministry of Labour continued to administer the PES directly whereas the tripartite bodies had information and consultation rights. At the political level, however, labour market policies were strongly influenced by workers' organisations, notably by the national trade union confederation (ÖGB) and the Chamber of Labour. The Labour Minister traditionally originated from the labour movement. In the 1980s, employers became more influential, especially on issues of unemployment benefit levels, and the Ministry was able to build on support from both unions and employers in introducing measures to curb benefit abuse.

At the end of the 1980s, both social partners demanded a reorganisation of the PES into a self-governing agency with tripartite decision-making power. Following the 1990 election, the coalition agreement between the two political parties forming the government included a declaration of intent to create such an agency and a feasibility study was commissioned to a private research institute in the Netherlands. The study recommended that the change to a new status for the PES should include -- probably not unrelated to what had just happened in the Netherlands -- a shift of decision-making power to the decentralised level and the adoption of modern management techniques. The most important element of the reform which came into force in July 1994, was the establishment of tripartite Supervisory Boards at national, regional and local level. Important decisions in the central board must be taken by a majority of 2/3 plus one. Thus, if all members of one of the three parties represented on a board are unanimous, they cannot be outvoted by the two other parties.
The new agency stresses the image of a private-service provider which is not hampered by bureaucratic procedures. A significant number of employees have lost their civil servant status and are now subject to more flexible staff rules set by collective bargaining. The image of a private sector body is blurred, however, by the public service function of assessing entitlements and paying out unemployment benefits. The new organisational structure, in particular the voting rule in the central tripartite board, increases the pressure for consensus building between the social partners and the government -- and there has indeed been a tendency for intensified co-operation between employer and employee organisations over the past two years. However, some complaints have been voiced that PES staff are reluctant to implement some of the policy decisions reached by the social partners and the government in the Supervisory Boards.

The Netherlands

The principal reform of the Dutch PES which transformed it into a tripartite, decentralised and largely autonomous body was carried out in 1990 following an extensive public debate during the 1980s. The decision to make the PES a tripartite body must be seen in the context of a political system which is based on numerous tripartite and bipartite arrangements. Thus, to some extent the new status brought the PES into line with many other institutions. However, the legislator also stressed the particular responsibility of the social partners, and the municipalities for that matter, for labour market outcomes including unemployment. The purpose of the tripartite PES status was to institutionalise this responsibility or, to use the language of the legislation, to ensure that the social partners and the government are "condemned to interdependence".

The intention to combine tripartism and decentralisation gave rise to a rather complex structure of the new PES. There is a Central Employment Board (CBA) and 28 Regional Employment Boards (RBAs). On all these boards each party is represented by three members; the boards are chaired by an independent person who has no voting right. In the CBA, the central government is represented by a high-level civil servant from each of the following Ministries: Social Affairs and Employment (SZW), Education and Science, Economic Affairs. In the RBAs, local government is represented by the municipalities (which enjoy considerable independence from central government) and the social partners are represented by local union officials and local employers or personnel managers of major companies. Decisions on important issues require a qualified 2/3 majority, i.e. a 2/3 majority within each of the three groups. This arrangement assures that each of the three parties has a veto. In the CBA the vote of the representative of the SZW (i.e. the Minister of Social Affairs and Employment) is required for a qualified majority which means that he/she as a single board member also has a veto.

The legislator has not only given considerable independence to the PES structure as a whole (as supervised by the CBA) but also stressed the independence of the regional PES offices (as supervised by the RBAs). The result is that the central government has to share its policy-making power not only with the social partners but also with the municipalities. Policy formulation focuses on the establishment and annual updating of a National Policy Plan in which all players participate and which requires extremely complicated procedures. The main direct influence of the central government on the CBA and of the CBA on the RBAs is confined to the annual allocation of funds. The Minister of Social Affairs and Employment also has to supervise the legal aspects of the PES operations. When the Chamber of Audits ruled that the Minister must not only supervise the lawful use of the funds but also their efficient use, the social partners strongly protested, decrying such a practice as incompatible with the tripartite decision-making structure.
The new arrangements were evaluated by an independent committee in 1995 which came out with a number of highly negative judgements. While acknowledging that "the organisation has undeniably gained some zest", the commission found that no discernible links had emerged between the operations of the tripartite and decentralised PES, on the one hand, and collective bargaining behaviour of the social partners or the social service activities of the municipalities, on the other hand. Efforts in the CBA to arrive at consensus decisions were short-lived (although the record was somewhat better in the RBAs). The hybrid function of the Minister of Social Affairs and Employment (or his representative) as member of the CBA, legislator, paymaster and supervisor of the PES did not contribute to the smooth functioning of the new set-up. Reduced government funding of the PES, dictated by budgetary constrains, was opposed vehemently by the social partners and led to a stalemate of decision making within the CBA. Finally, the commission criticised the strong emphasis on decentralisation of decision making which had led to the CBA having few management controls and, in particular, a lack of accountability and precise costing of various PES activities (Derksen and de Koning, 1995).

The findings of the evaluation commission have led the government to submit a revision of the Employment Service Act to Parliament (where it is now under debate). There will be a clear distinction of responsibilities between the government and the PES. Representatives of the government will no longer be members of the CBA which will consist of the social partners and independent persons (one-third for each group). The Minister of Social Affairs and Employment will negotiate with the CBA on the annual budget and the policy plan; both have to be approved by the Minister. Decisions of the board will be taken by simple majority vote. The CBA will be responsible for policy but will not be involved in the day-to-day management of the PES system.

The above examples suggest that tripartite arrangements which go beyond advisory and consultative objectives, make decision making more cumbersome. The Dutch experience illustrates how veto rights further complicate the process. On the other hand, simple majority voting may frustrate one of the parties over the longer term and lead, as in Sweden, to a break-up of the arrangement. Tripartite arrangements seem to work best in the early phases of a new PES structure when they tend to create synergies and improve the image of the service with workers, employers and the public at large. They also seem to be more successful in the context of a local labour market where the supply and demand conditions are more transparent than at the national level. Such transparency favours compromise and practical solutions. Moreover, local union officials and key employers can more easily influence the labour market behaviour of their constituencies than is possible at the central level.

Independently of tripartism, the decentralisation of decision making may positively influence the effectiveness of PES operations because it provides administrative flexibility to respond to changing labour market conditions at the local level. However, a precondition is a sufficiently decentralised PES office structure. Chart 2 shows significant differences in the share of staff resources deployed in local offices, varying from 91 per cent in Germany to 54 per cent in Spain. An additional consideration is the size of the local offices and the density of the office network. According to Table 2, the average size of the local offices in Germany, for instance, is considerably higher than in the other countries. Thus, in spite of the strong decentralisation of office staff shown in Chart 2, the local offices in Germany have to serve relatively important segments of the national labour market.
A. Fully integrated PES

Germany
Japan
Norway
Austria
Italy
Spain

B. Partially integrated PES

Netherlands
Switzerland
United Kingdom
Finland
Denmark
Sweden

Chart 2
PES decentralisation

1. Share of local office staff in PES total staff.
2. PES excluding unemployment benefit
3. For the United Kingdom, in 1985 only brokerage, in 1994, PES including unemployment administration and excluding training

Sources: For the second half of the 1980s, OECD (1990) and information submitted to Secretariat; for mid-1990s see Table 2.
If decentralisation implies an actual shift of decision making to the local level, the need to compare the performance of decentralised offices becomes more urgent. There are two main reasons for this: i) control of the effective use of the resources which have been allocated to the regional and local offices; and ii) verification that policies and practices pursued at the decentralised level are in conformity with the broad lines of policy as decided by the central labour market authorities. To ensure management efficiency and the attainment of national policy goals, it is common practice to formulate ex-ante performance targets and to measure the ex-post results of decentralised PES offices against these targets. Some of these targets may be qualitative rather than quantitative (e.g. "minimise the use of ALMPs for benefit renewal"), in which case the ex-post assessment has to be judgmental. Examples of quantitative performance targets include: the number of vacancies notified, the speed with which vacancies are filled, the speed with which new benefit claims are processed, the share of groups with specific employment handicaps in total placements, the number of visits of PES staff to local employers, the employment rate of workers having completed ALMPs, the share of job finders in the total having been given in-depth job counselling.

As with the performance measurement of the PES brokerage function at the national level (and hence international comparisons attempted in Tables 3 and 4) the use of performance indicators for internal PES management is beset with methodological and implementation difficulties. One crucial methodological problem is the economic significance of the number of placements as recorded by the PES. This number may simply be the outflow of job-seekers from the PES register into vacancies registered by the PES or the outflow into regular jobs. Many of these flows may be only marginally related to the actual placement service provided by the PES. Figures for the Netherlands, for instance, show that the number of placements recorded by the PES is about 3 times the number of workers who declare they have found a job thanks to the PES (Dercksen and de Koning, 1995). Thus, the gross number of placements has to be distinguished from the net number and may not be a good measure of the effectiveness of the placement service (Walwei, 1995).

Another difficulty in measuring the performance of decentralised PES services is due to the use of self-service facilities where clients do not register and thus cannot be tracked. Decisions about the use of such facilities are often left to the decentralised level, but the existence of performance targets relating to the number of placements may unduly bias the choice in favour of "closed" procedures. Finally, there is the principal difficulty that decentralised offices may neglect efforts to deal with particular problems arising in the local labour market, e.g. locally significant target groups, simply because they are not included in the set of performance targets laid down by the central level.

Faced with these difficulties associated with the use of internal performance targets, the question arises whether a more radical method could be found to enhance PES effectiveness. One possibility may be to increase competition from private providers of PES services. There has been considerable debate in recent years about the ILO monopoly convention of the PES (Convention 96). Several countries have never ratified the ILO convention and have a well-developed private placement sector (Switzerland, Japan, the United Kingdom) or have recently abandoned the PES monopoly (Austria, Denmark, Finland, Germany, the Netherlands). The ILO convention is currently being revised in the direction of encouraging co-operation between private and public placement agencies.

The typical outcome in countries with a liberalised placement market is that private agencies operate both at the upper end (highly qualified staff) and at the lower end of the labour market (temporary work agencies). In between, there is relatively little competition between private and public providers. Indeed, after a heated debate about the monopoly issue and the final liberalisation of the placement market
in Denmark and Germany, many observers were astonished that "nothing happened". This may change if and when the labour market tightens up again. But even with the arrival of more private placement agencies, it is possible that the placement market will become split between "the easy cases" catered for by the private sector and "the more difficult cases" catered for by the public service. This perspective is the very reason why there has been so much resistance to dismantling the PES monopoly. According to the monopoly argument, the PES needs to cover the market for easy-to-place cases because a high turnover is the only chance to handle the difficult-to-place cases ("slip stream effect").

Experience has shown, however, that as a non-fee-charging agency and provider of a broad spectrum of services, including ALMPs, the PES -- if properly managed -- will tend to be competitive in the market for easy-to-fill vacancies. Even some split in the placement market between private and public agencies does not necessarily diminish the operational effectiveness of the PES. It can be overcome by co-operation (for instance, exchange of vacancy information or sub-contracting from the public to the private sector). The existence of private providers tends to put pressure on the PES to adopt methods and practices which have proved successful in the private sector, especially in the market for temporary jobs.

Such a mixture of competition and co-operation between private and public placement agencies still does not answer the question whether in dealing with the difficult-to-place job-seekers -- a service for which a market price is difficult to establish -- the PES operates in the most efficient way. Can more be done than simply opening market access to normal placement services in order to increase the contestability of the PES and enhance the effectiveness of its operations? Australia has recently taken a decisive step in this direction:

**Australia**

*In order to increase the contestability of its PES system, the Australian Government has called on private and community sector organisations (Contracted Case Managers or CCMs) to provide employment placement services in competition with its public provider, Employment Assistance Australia (EAA -- an agency separate from the PES, although co-located with it). Community and private sector providers have been given the opportunity to apply for public funds to provide one-to-one case management for the re-employment of the long term unemployed and those categorised as "at risk" of becoming long term unemployed. To this end, a new agency, the Employment Services Regulatory Authority (ESRA) has been established to promote, monitor and regulate competition.*

*When job-seekers become eligible for case management, the PES is obliged to offer them a choice of case management provider, which includes EAA or any suitable CCMs that have vacancies available. Job-seekers are provided with information sheets to enable them to make an informed choice of provider. As EAA is co-located with the PES, the relationship between the two is not an "arms length" one. EAA may have some advantages over CCMs as a case manager through greater knowledge of administrative systems and labour market programmes. There may also be constraints on the job-seeker's choice arising from caps that are place on CCM workloads. It should be noted, however, that there will be a range of influences on a job-seeker's choice of case manager.*

*Getting the fee/incentive structure right has been, and will continue to be, crucial to the success of contestability in case management. A responsibility of ESRA has been to set fees for case management services provided by CCMs. ESRA has sought to minimise "creaming" effects, whereby case management service providers seek to attract easy-to-place clients, by setting fees that*
reflect the anticipated difficulty of placing various groups. At this stage the fee/incentive structure does not apply to EAA, which is funded by annual appropriation.

While it is too early for a full assessment, the Australian experience should provide an indication of the feasibility and impact of a competitive case management system. Further experimentation along the Australian approach would be highly desirable.

A key design feature is to separate the service providers from the service purchasers. Instead of a separate purchasing agency, it would be conceivable to implement a voucher system but this would still require a body which sets the fees. The importance of separating the service provider from the service purchaser (or fee setter) can be gauged from the training market. In several countries, the PES contracts out training for the unemployed to the private sector while providing some training itself. Although the costs of outside training can be compared with the costs of training provided by the PES this is of little value for measuring relative efficiency because of possible selection bias. Thus, as long as the PES can decide who is to be serviced by itself and who should be serviced by private providers, it avoids being contested with regard to the efficiency of its own operations.

In sum, an appropriate model of contestability in providing re-employment services to difficult-to-place job-seekers would require the following elements: i) a sufficient number of private and public suppliers; ii) free market access for new suppliers at any time; iii) purchasing (or fee-setting) agency which is independent from the public supplier; and iv) random assignment of clients to the suppliers or free and informed choice of the clients, for instance by using a voucher, where to go on their own. For a given set of fees, there would be quality competition between the suppliers; in order to permit some degree of price competition, the fee-setting agency would need to operate by trial and error when setting its schedule of fees.

The public debate in the Netherlands following the evaluation of the new status of the PES (see above) has led to some interesting policy proposals for introducing contestability and raising PES efficiency (Ministry of Social Affairs and Employment, 1995). The unemployment benefit funds which are managed by the social partners and operate independently from the PES, as well as the municipalities which deal with the social assistance recipients, would in the future purchase reintegration services for their benefit clients from the PES and/or from private providers. The advantage of this arrangement would be a clear separation of service providers from service purchasers. For the municipalities, the model would be ideal because they have to finance social assistance benefits themselves. They would have a strong interest, therefore, to reinsert claimants as quickly as possible and to obtain “value for money” from the contracted agencies. For the unemployment benefit funds, the situation would be somewhat different in that the social partners simply manage the UI benefits. Putting pressure on the claimants to participate in reintegration efforts or choosing between the most cost-effective service provider would not be in their immediate interest. Nevertheless, since their operations are controlled and audited by the central government, they could be compelled to conform to a strategy of purchasing reintegration services and to opt for the most cost-effective supplier.

D. The interaction between active and passive labour market policies

a. Introduction

In some countries, unemployment benefits have become more generous pari passu with the build-up of the welfare state; in other countries it happened under the pressure of rising unemployment and political concerns about an increasing number of long-term unemployed being at risk of exhausting
their benefit entitlements. Whatever the historical reasons, for most European countries there is evidence (see Chapter 8 of OECD, 1994 and Layard, Nickell and Jackman, 1991) that the size and duration of unemployment and related welfare benefits impinge on the labour market behaviour of the employed, the unemployed and employers.

Few countries have taken steps to roll back the generosity of their benefit systems in recent years (see OECD, forthcoming). Where actions were taken, they were usually motivated by budget considerations rather than out of concern about the possible emergence of benefit dependency. Given the political difficulties with dismantling benefit entitlements, the preferred approach in the majority of OECD countries has been to make only marginal cuts in benefit entitlements, but to seek to make the unemployed more active in job search and to accelerate their reinsertion via ALMPs. This may happen by enforcing a work test through participation in ALMPs, i.e. making benefit receipt conditional on programme participation, and/or by offering a sufficiently wide range of programmes so that a maximum number of the unemployed will choose to enter them voluntarily.

Whether ALMPs are used as a constraint on job-seeker behaviour (the work test) or as an opportunity to increase employability (the right to participate in a programme), in both cases they will rein in spending on passive income support. However, the "constraint" option may even reduce overall spending because it may induce some of the unemployed to accelerate job search in order to avoid compulsory participation in ALMPs. Some observers have argued therefore that "ALMPs might in principle work not through helping people but by punishing them for not having found a job, thus encouraging job search and reducing unemployment" (Blanchflower, Jackman and Saint-Paul, 1995). In this perspective, the question of whether ALMPs increase the employability of programme participants which is a central theme in the evaluation literature reviewed in Section B, would lose much of its relevance.

In terms of actual policy, the most common approach is to stress both functions of ALMPs, i.e. that they serve as a constraint on individual behaviour while, at the same time, providing an opportunity for participants to escape unemployment. Nevertheless, the emphasis can be more on one objective rather than the other, depending on the country.

A third function has come to the fore in recent years. In this approach ALMPs -- similar to income support -- serve a bridging function until a general economic recovery can absorb the unemployed spontaneously. The principal criterion for judging their effectiveness will then be whether participation in ALMPs leads to a more rapid cyclical absorption of the unemployed than non-participation. Typically, ALMPs are adopted on a large scale in these countries to absorb a labour market shock and in permitting programme participants to re-qualify for unemployment insurance benefits, ALMPs have become a vehicle to prevent benefit exhaustion. This has lead to a so-called "carousel effect", where a considerable number of the long-term unemployed move between spells of benefit receipt and programme participation. While intermittent programme participation will maintain employability the strategy crucially depends on the revival of economic growth.

Finally it is worth mentioning that a few OECD countries have maintained relatively low benefit generosity but have made special efforts -- often relying more on re-employment incentives than on costly labour market programmes -- to re-integrate the unemployed as rapidly as possible.

Thus, in the form of stylised facts, the following strategies can be distinguished in the recent history to interlink active and passive labour market policies. (It should be noted that these stylised facts would not be sufficient to characterise the full policy stance of most of the countries quoted and, hence, to categorise them as having adopted either one or the other strategy. As underlined in the Introduction, the
The purpose of the country examples is to quote policy episodes which illustrate and support the argument of the main text.):

− **Activation strategies:** Although the unemployment benefit system is generous, these standards are maintained (or only marginally reduced or even improved). But the number and variety of programmes are increased and/or benefit recipients are obliged to participate in ALMPs or risk losing their benefit entitlements. Participation in active programmes does not generate new benefit entitlements.

− **Bridging strategies:** ALMPs are strongly increased in response to a labour market shock; participation in ALMPs re-establishes entitlements to unemployment insurance benefits. Both active and passive measures serve to bridge the time until the labour market begins to recover again. In *praxis*, however, this will not be the declared objective of policy makers. Their primary concern will be to improve employability and apply work tests just in the same way as intended in the activation strategy. The bridging function will be an additional policy objective. Thus, even if the re-employment goal of ALMPs is not achieved, there is, in this view, a second-best effect: the unemployed remain close to the world of work over a period of labour market slack.

− **Tight benefit cum early reintegration strategies:** Unemployment compensation is low and/or short but special efforts are made to re-integrate the unemployed into gainful work as rapidly as possible.

b. **Activation strategies**

The following examples demonstrate policy efforts in selected OECD countries to rein in the generosity of unemployment benefits by "activating" benefit recipients in their job search behaviour and assisting them to become more competitive in the labour market:

**Denmark**

The essential features of Danish labour market policy date back to a reform in 1969. This reform was based on a lengthy and thorough debate between the social partners and the general public. It thus reflects a historical consensus to which all parties have been committed ever since. A crucial element of this consensus was to provide relatively generous unemployment benefits (both in terms of level and duration) but to accept low standards of employment protection.

This reform had an important negative side-effect for the functioning of the Danish labour market. If dismissals are relatively costless for employers and the experience of short spells of unemployment not particularly harmful for workers, short-term unemployment is likely to become a widespread mechanism of labour market adjustment. However, if benefits are also generous in terms of duration, active job search will tend to be sluggish and -- with rising duration, or repeated spells, of unemployment -- become more and more difficult. This will lead to unemployment persistence even though the share of long-term unemployment in total unemployment may not become very significant.

The historical consensus on generous UI benefits as a quid pro quo for low employment protection is regarded as untouchable. Therefore, other policies had to be found to cope with rising unemployment and benefit dependency. The first response was a "Job Offer" scheme which was
introduced in 1977. Beneficiaries nearing the end of the 30 months UI entitlement period had the right to receive an offer of a temporary job in the private or public sector. If not enough subsidised jobs were offered by the private sector or the municipalities, the County governments were legally obliged to act as an employer of last resort. The length of these temporary jobs (7 months in the public and 9 months in the private sector) was sufficient to generate entitlements to a new period of unemployment benefits. It turned out that the spells in subsidised employment, mostly in municipalities, did in over half of the cases lead to new spells of unemployment. In an increasing number of cases, a pattern of repeated circulation between long periods on benefit and short periods in subsidised work emerged.

After some marginal modifications of the Job Offer scheme in the late 1980s, a more radical reform was introduced in 1994. The maximum duration of UI benefits was increased from 2 1/2 to 7 years, making it one of the longest legal durations in the OECD area. However, the possibility of re-qualifying for benefits through subsidised employment was abolished and time spent in ALMPs is now counted as part of the benefit period. In a follow-up reform in 1996 (coming fully into effect only on 1 January 1999) the maximum duration period was reduced to 5 years. After a first subperiod of 2 years beneficiaries have to participate in ALMPs, for youth (under age 25) without vocational qualification the activation period starts after 6 months of unemployment.

Under the 1994 reform, individual action plans are drawn up for the long-term unemployed either at the request of the individual after the first 6 months of unemployment or on a mandatory basis after 20 months of unemployment. Such plans outline the most suitable type and sequence of ALMPs which the unemployed should follow. They are established on the basis of mutual consent between the unemployed and the PES officer but, once agreement has been reached, they are binding for the unemployed and refusal to comply with the plan may lead to benefit sanctions.

The new activation concept no longer favours subsidised employment (which generated new benefit entitlements in the old system) at the expense of training measures (which did not); participation in both type of measures is counted as "activation" within the maximum benefit period. If sufficient slots in ALMPs are not available, the payment of passive benefits will continue within the maximum period. The risk of an insufficient number of ALMP slots is a real one because the municipalities no longer have an economic incentive to offer employment programmes to UI beneficiaries. Since participation in these programmes no longer generates a new entitlement to UI benefits, they are no longer a safeguard against participants becoming eligible to assistance benefits financed by the municipalities. Municipalities will be more inclined to offer such programmes to assistance beneficiaries and thereby increase their chances of becoming re-integrated into gainful work.

**Switzerland**

Switzerland belonged, until the recession of the early 1990s, to the small group of OECD countries which were able to maintain full employment. Even now its unemployment rate at about 4 per cent -- while significantly higher than in the 1970s and 1980s -- is one of the lowest in the OECD area. However, in spite of the still low overall unemployment rate, the incidence of long-term unemployment (around 30 per cent of total unemployment) is relatively high by international standards.

In the past, Switzerland has applied fairly generous income replacement levels for UI benefits but the duration of maximum benefit receipt was not particularly long. With steeply rising unemployment in the early 1990s, duration has been repeatedly prolonged in order to prevent
benefit exhaustion so that by now Switzerland figures among the more generous OECD countries with regard to the length of entitlements. However, there is still a marked difference with other countries in that work tests are rigorously applied and benefit entitlements and receipt are controlled very tightly by international standards. For instance, "apt-for-placement" and "active job-search" are two separate criteria both of which must be fulfilled in order to qualify for benefit.

In spite of these strict controls, the rising tide of unemployment has led to more and more people, after having exhausted unemployment insurance benefits, drifting onto cantonal unemployment assistance and from there onto communal social assistance. The spectre of creating a "benefit dependency culture" has raised considerable concern in Switzerland and lead to a national debate about how to redress the situation. In June 1995, Parliament enacted a major labour market reform based on a broad consensus among the social partners, the cantons and other players in the labour market. Rather than rolling back the generosity of unemployment and related benefits, the reform relied heavily on changing the nature of benefits from passive income support to active labour market policies.

The gist of the new legislation is that payment of passive benefits is limited to 7 months; thereafter, benefit receipt for a further 17 months is conditional on participation in ALMPs. The mandatory switch from passive to active measures after only 7 months into a spell of unemployment is rather unique among OECD countries. Participation in these programmes does not generate new benefit entitlements. Thus, for the individual the insurance contract is changed in that contributions paid when in employment generate only a relatively short period of income replacement benefits but a relatively long period of re-employment assistance. The entire period, nevertheless, is limited to 2 years.

The ambitious nature of the Swiss activation concept can be gauged from a comparison with the Finnish job guarantee which was in place between 1987 and 1992 (see below). In spite of the fact that in Finland the mandatory switch from income support to subsidised employment occurred after 12 months, i.e. 5 months later than in Switzerland, the scheme had to be abandoned in 1993 because not enough subsidised jobs could be created. However, the conjunctural circumstances in Finland were exceptional; prior to the 1990 recession the job guarantee worked reasonably well in containing long-term unemployment.

All this suggests that Switzerland will have to build up a considerable infrastructure for ALMPs if the activation strategy is to work. Its PES system is not very developed and the extent to which ALMPs have been implemented so far is rather modest by international standards (Table 5). Finally, the relatively high incidence of long-term unemployment suggests that the challenge is not simply to maintain the current, by international standards rather low, unemployment rate but that there is a need to remedy structural labour market problems which have taken root. These structural problems are not unrelated to the successive build-up of benefit generosity in recent years. Thus, it will be a considerable challenge for the activation strategy to make inroads into long-term unemployment without cuts in benefit entitlements.

**Italy**

The share of unemployed persons receiving regular unemployment benefits is very low in Italy (between one-sixth and one-third depending on the definition of unemployment and benefit). By contrast, the incidence of invalidity benefits is very high by international standards; these benefits are often a substitute for unemployment and/or social assistance benefits. Against this background,
the concern about the availability of generous unemployment benefits and the drift into long-term unemployment has been less of an issue in Italy compared with other European countries. The policy concern in Italy was rather that a wage compensation scheme for short-time working or temporary layoffs (Cassa Integrazione Guadagni or CIG) was sometimes used so widely that it became an income replacement scheme for permanently laid-off workers. CIG benefits are relatively generous (providing a replacement rate of 80 per cent).

After many years of trial and error (see OECD, 1996a), the management of CIG seems to be reasonably effective. Under such conditions the scheme has considerable advantage over long-duration unemployment benefits. During the upswing in the second half of the 1980s, hours compensated by CIG were sharply reduced, suggesting a similar sharp reduction in the number of beneficiaries. In other European countries with generous long-duration UI benefits, the reduction in the number of beneficiaries was more sluggish during this period suggesting stronger forces of unemployment persistence.

With the tightening up of CIG benefits, the question of “normal” income support for those becoming permanently redundant became more pressing. The level of “ordinary unemployment benefits” was raised significantly, but duration and qualifying conditions remain very restrictive so that relatively few unemployed workers are covered. More decisive was the replacement in 1991 of “special unemployment benefits” by a so-called "mobility allowance" to cater for those permanently laid off as a result of industrial restructuring. Similar to the CIG benefits, the mobility allowance is only applicable to workers from qualifying firms. The duration of this benefit varies by age (between one and three years) and is one year longer in the South of Italy. During the first year, the same replacement rate as for the CIG applies, thereafter the benefit is reduced by 20 per cent.

While the number of CIG beneficiaries has declined since 1991, the number of beneficiaries of the mobility allowance has increased sharply and so has, albeit to lesser extent, the number of recipients of ordinary unemployment benefits. Thus, there is a shift between types of benefits underway and this shift is in favour of benefits which resemble the long-duration unemployment benefits which are very common in other OECD countries. In order to contain the risk of creating a benefit-dependency culture, the Italian authorities have resorted to ALMPs. Lists of recipients of the mobility allowance are kept in recently created Regional Employment Agencies which undertake special efforts to place these redundant workers. Employers hiring job-seekers from the mobility lists receive a subsidy in the form of exemptions from social security contributions, supplemented by direct grants if the employer hires the worker on a permanent contract.

The main stumbling block facing Italy in its attempt to pursue ALMPs on a rigorous and effective basis is an underdeveloped infrastructure, in particular a PES system overburdened with administrative tasks and technically not yet fully equipped.

c. Bridging strategies

There is a long-standing tradition of using ALMPs as an anti-cyclical device, i.e. to absorb the unemployed in special measures during a period of labour market slack and to release them in periods of labour market tightness (see OECD, 1972). This rationale has lost much of its force over the past two decades as unemployment in most OECD countries has ratcheted up over successive cycles. More and more people had to be kept in special measures and hence became a growing burden on the public purse. Also, some observers became concerned that the counter-cyclical use of ALMPs was tending to drive up wage pressures (Calmfors, 1994).
However, this policy rationale still lives on, especially in countries which have been hit by major shocks such as Finland (loss of export markets in the former communist countries) and Germany (reunification). Sweden, which has been the most outspoken proponent of anti-cyclical ALMPs in the past, still relies on this approach, not least because mass unemployment, as in Finland, is a relatively recent phenomenon.

Finland

Finnish labour market policies have been strongly shaped by the recession of the early 1990s when Finland experienced the largest two-year fall of GDP recorded by any OECD country in recent decades. Prior to this event, Finland experienced a low unemployment rate and -- until 1985 -- relatively low replacement rates for unemployment insurance benefits. Since the late 1970s, long-term unemployment was successfully tackled by job creation programmes mostly run by municipalities. In 1984, a job guarantee for long-term (3 to 6 months) unemployed youth was introduced which was extended in 1987 to long-term (12 months) unemployed adults. In the 1980s, both job security provisions and UI benefit entitlements were made more pervasive and generous.

When unemployment rose sharply in the early 1990s, it became impossible -- in spite of major financial and administrative efforts -- to create enough slots in ALMPs in order to honour the job guarantee. In 1993, the legal right to a subsidised job was abolished. The number of subsidised jobs nevertheless continued to rise sharply through 1993 and 1994. Instead of being offered after 12 months of unemployment, such jobs are still, in the great majority of cases, offered to UI beneficiaries before they exhaust entitlements in order to assist them to renew their entitlements. After termination of the (normally 6 months) subsidised job, the unemployed receives the same level of benefits as prior to entering the programme.

During the recession subsidised employment has become a significant feature of the Finnish labour market. In 1994, between 6 and 7 per cent of the labour force entered such employment (see Table 5 for average monthly flows). About 30 per cent of subsidised jobs were offered in the private sector, 50 per cent by municipalities and 20 per cent by the state. Due to their relatively short duration (6 months), job turnover is high, thus allowing considerable churning of the stock of long-term unemployment. As the subsidy is relatively high, both the municipalities and the private sector have “adjusted” their behaviour in order to take maximum advantage of the subsidy. For the municipalities, the subsidy provides a welcome relief because they have had to cut back on permanent employment due to budget constraints. Thus, in spite of the short duration of the jobs and the need to constantly renew the subsidised personnel, there is clear evidence of fiscal displacement.

It is also clear that subsidised jobs are crowding out unsubsidised ones in the private sector. Ministry of Labour data on outflows from the PES unemployment register by destination suggest that, by 1993, i.e. in the midst of the recession, the majority of PES placements into private sector jobs were subsidised. Many employers have ceased to notify open vacancies at all. Instead, they keep in contact with local placement officers and put pressures on them to receive the most “employable” candidates for which a subsidy can be obtained or they make it clear that a particular job opening will only be filled if they can choose suitable candidates from among the ranks of the long-term unemployed. PES staff, under pressure to create as many jobs as possible, often abandon their prerogative to place the most needy candidates according to labour market policy objectives. In order to contain abuse, private sector subsidies have now been made conditional on the creation of permanent jobs which has reduced the number of subsidised private sector jobs.
Eastern Germany

Following the currency union with western Germany and the subsequent reunification, the level of employment in eastern Germany fell by 37 per cent between the first half of 1989 and the first half of 1993 (the decline is even greater if the effects of short-time working and public sector job creation programmes were included). How was this shock absorbed? The rate of labour force participation declined by 15 percentage points until the first half of 1993 -- partly as a result of early retirement policies; 14 per cent of the working-age population either migrated to or commuted to work in western Germany; the rate of unemployment went from zero to 15 per cent; finally, the average number of persons in employment and training programmes went from zero to 8 per cent of the labour force (after having peaked at over 10 per cent in 1992). Since then, the number of participants in ALMPs has declined slightly to about 7 per cent of the labour force.

The initial policy response was to favour early retirement and the wide-spread use of subsidised short-time working, including the possibility of "zero-hour" working. The early retirement provision was phased out in 1992 and company requests to resort to short-time working were controlled more tightly so that the incidence of short-time working declined sharply and is to-day of the same order as in western Germany. Pari passu with the phasing out of these emergency measures the use of ALMPs become more prevalent. Job creation measures were often targeted to improve the public infrastructure and the environment so as to facilitate the industrial restructuring of the country. In the same spirit, a so-called "productive wage-cost subsidy" was introduced recently which is intended to contribute to raising the productive potential (cleaning up of industrial sites, social services and youth measures). Likewise, training programmes are expected to assist in the re-skilling of the workforce so that it can perform in the radically new economic environment.

It is too early to judge whether such ambitious aims have been achieved. But there can be no doubt that the first policy priority was -- and still is -- to prevent open unemployment for the maximum possible number of job losers. Some of the public employment programmes, due to their size, were indeed called "mega" programmes. Spells on public employment programmes usually last up to 12 months which is the time needed to re-qualify for unemployment benefits. For some participants, programme duration can be extended to two or three years. An initial provision to restrict participation to the unemployed for 6 months or over was lifted. Training programmes are also of an impressive size and variety. Some observers have remarked that, at least in the initial period, they were "little more than unemployment benefits under another name" (Bellmann, 1994).

The fact that the German authorities are slowly reducing the number of programme slots suggests that they are aware of the difficulty of managing programmes of that size effectively. They have also become concerned about the possibility of creating adverse labour market effects among those who are repeatedly churned between programme participation and benefit receipt. Nevertheless, the number of participants in ALMPs is still extremely high and while it may be politically difficult and socially unacceptable to cut the numbers drastically before an improvement of the general economic climate, there is not much hope that ALMPs applied on this scale will improve labour market efficiency and reduce the natural rate of unemployment.
Sweden

The very concept of ALMPs was created in Sweden and the actual pursuit of the policy was a significant element of general economic management over more than four decades. Up to 1990 the Swedish rate of unemployment was also one of the lowest in the OECD area and a common conclusion, therefore, was that ALMPs could contain unemployment -- if implemented on a sufficient scale and managed rigorously. Since then the unemployment rate has increased sharply and much has been written about "the decline of the Swedish model and the limits of active labour market policies" (Robinson, 1995). The more limited objective of this section is to examine how the interaction of active and passive measures has changed in Sweden with the steep rise of unemployment after 1990.

Traditional features of the Swedish unemployment insurance system are generous benefit levels but relatively short entitlement periods. However, the maximum UI benefit replacement rate was reduced in mid-1993 from 90 per cent of previous earnings to 80 per cent and, in the beginning of 1996, to 75 per cent. In spite of these cuts, Sweden still figures in the lead group of OECD countries with regard to benefit levels. Concerning maximum benefit duration, the de facto entitlement periods are much longer than the formal ones because exhaustees can re-qualify for benefits by participating in ALMPs.\(^1\)

The Swedish labour market authorities insist on the eligibility renewal role of ALMPs as a matter of principal. The policy, however, is to limit the carousel effect by closely monitoring individual cases and by putting pressure on the unemployed to participate in ALMPs well before the exhaustion of benefit entitlements. Indeed, 75 per cent of those entering ALMPs have been in open unemployment for less than 6 months. There is also evidence that the likelihood of finding a job in the open labour market tends to increase shortly before the end of the maximum benefit entitlement period (Ackum Agell et al., 1995). This suggests that job-search behaviour is affected by the duration of benefit entitlements but also that in Sweden many prefer to have a "real" job than enter another labour market programme. Finally, it is worth noting that since 1993 counter-cyclical relief programmes paying market wages to participants were scaled down to some extent in favour of programmes which only pay the equivalent of UI benefits. While the potential benefit exhaustee has a right to be placed in a programme, it is the prerogative of the PES officer to decide which programme is appropriate. Despite these efforts, the carousel effect is probably non-negligible and it may become more pervasive in the future.\(^2\)

There is another reason why the current labour market policy stance may not be sustainable over the longer term. While the pressure on the unemployed to participate in ALMPs continues to be strong, the increased workload of the PES offices and the reduced vacancy flow has lead to a sharp reduction in benefit sanctions, mainly because work tests can no longer be applied. A recent OECD review of the Swedish PES noted that brokerage staff tend to call upon the registered unemployed only if there are vacancies available and that there are no rigorously observed rules in place to carry out United Kingdom-type Restart interviews or to make Swiss-type checks on job-search initiatives by the unemployed outside the PES context (see OECD, forthcoming). As with Finland, there is a risk that the extensive use and availability of slots in ALMPs may crowd out the placement of job-seekers in ordinary jobs. (Table 5 shows that in Finland and Sweden the average monthly intake into training and employment programmes in 1994 represented more than 50 per cent of the outflows from the PES register. This contrasts with less than 10 per cent in Austria and the United Kingdom, and an average of 20 to 30 per cent for the other countries for which data are available).
Table 5 Outflows from the job-seeker register and entries into the main labour market programmes

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<td>43</td>
<td>46</td>
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<td><strong>Entries to training and youth measures</strong>&lt;sup&gt;4&lt;/sup&gt;</td>
<td>0.08</td>
<td>0.12</td>
<td>0.13</td>
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<td>0.08</td>
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<td>0.08</td>
<td>0.12</td>
<td>0.13</td>
<td>0.13</td>
</tr>
<tr>
<td><strong>Entries in the main ALMPs as percentage of outflows from the register</strong></td>
<td>7</td>
<td>10</td>
<td>9</td>
<td>10</td>
<td>9</td>
<td>7</td>
<td>10</td>
<td>9</td>
<td>10</td>
<td>7</td>
<td>10</td>
<td>9</td>
<td>10</td>
</tr>
</tbody>
</table>

1. In Denmark, Italy, Norway and Sweden, outflows from the PES job-seeker register are estimated from inflows and changes in the stock. In Austria, Switzerland and the United Kingdom, outflows are estimated from the PES unemployed register. In Finland, Germany and the Netherlands, direct information on outflows from PES job-seeker registers is available.
2. Participant inflows in subsidised employment as defined in category 4 of the OECD database on labour market programmes (Subsidies to regular employment in the private sector; Support of unemployed persons starting enterprises; and Direct job creation: public or non-profit).
3. Participant inflows in category 2a (Training for unemployed adults and those at risk) and in category 3 (Youth measures) of the OECD database on labour market programmes.

Sources: for registered job-seeker outflows: OECD (1995a, 1996a), information provided by the countries concerned and Secretariat estimates; for entries in ALMPs: OECD database on labour market programmes; for labour force: OECD, Labour Force Statistics.
d. Tight benefit cum early reintegration strategies

Not all OECD countries have followed the route of gradually raising the generosity of unemployment benefits during the 1970s and 1980s. Nor have these countries -- as might have been expected -- relied on ALMPs to any significant extent to assist the unemployed back into jobs. The main policy emphasis was rather on strong incentives or coercion to intensify job search. Japan and the United Kingdom are examples of countries which have opted for this approach.

**Japan**

Japan's spending on both passive and active measures is particularly low by international standards and so is its unemployment rate. One factor behind this appears to be the design of its unemployment compensation system which is strongly geared to reintegrating job losers into gainful work as quickly as possible. The duration of benefits is short, in particular compared with most European OECD countries, up to the age of 45, a 5-year contribution record still only generates 90 days of benefit entitlements.

In some circumstances, benefit entitlements are paid as a lump sum. For example, a worker can be classified by the PES as a Special Short-term Employment worker. In this case, a lump-sum equivalent to 50 days of regular benefits is paid upon becoming unemployed. Workers aged over 65 who lose their jobs (other than retiring from a life-time job) are entitled to Job Applicants' Benefits for Older Workers which is also a lump-sum equivalent to 50 days of regular benefits after six months of contributions, rising to 150 days for longer contribution periods. The most important lump-sum provision is a Re-employment Bonus available for regular beneficiaries. This bonus is paid when beneficiaries start a new job within the first half of their maximum entitlement period. Depending on the maximum entitlement period, the lump-sum varies between the equivalent of 30 to 120 days of benefit entitlements.

The advantage of such lump-sum payments is that they not only simplify administration compared with monthly payments but they function as an incentive to take up work immediately after receipt of benefit in the case of short-term and older workers and during the early phase of unemployment in the case of the Re-employment Benefit for regular beneficiaries. However, they may distort behaviour in undesirable ways as well. For instance, it could be that qualified workers in employment who have good chances to find a new job may easily arrange to be laid off, with the intention of restarting to work soon afterwards (or even having a new job prearranged) so as to collect the Re-employment Bonus. In view of such possible sources of abuse, several safeguards and controls are in place. For instance, workers can claim the Re-employment Bonus only once within any three-year period. In order to avoid voluntary job leavers qualifying for the Bonus or that voluntary job leaving is fraudulently declared as an employer-induced dismissal, the former employer has to fill in a "job leaving certificate". In this the employer has to declare explicitly whether the separation was at the wish of the employer or the employee.

On balance, it appears that a good case for the Re-employment Bonus can be made once adequate controls are put in place and implemented rigorously.
The history of labour market policy in the United Kingdom provides a vivid illustration of the importance of closely integrating brokerage and benefit work. In order to get away from the image of "unemployment offices", a new office network (Job Centres) was created in the 1970s. These Centres were designed as modern, up-market service providers for a much broader clientele than the unemployed and operated at arm's-length from the network of benefit offices. In 1982, the legal requirement that benefit claimants register for job placement was dropped. The subsequent experience showed that these reforms were mistaken. The Job Centres lost touch with the long-term unemployed and the benefit offices treated them exclusively as benefit recipients. The result was that the institutional structure contributed to the problem of unemployment persistence by locking benefit recipients in their jobless status. Therefore, in the late 1980s a multi-year programme was started to integrate job placement and benefit work again within the same office structure.

Starting in 1985 a series of other reforms of the PES were introduced which all go in the direction of concentrating PES work on benefit claimants and ensuring their earliest possible return to unsubsidised employment. To this end, the United Kingdom has introduced an array of innovative measures which facilitate job search and ensure that benefit claimants remain in close and regular contact with the placement offices.

The focus on the rapid reinsertion of benefit claimants is also reflected in the composition of ALMPs. There is a strong emphasis on job-search assistance whereas traditional labour market programmes such as training and public employment programmes are much less developed and quite modest by international standards.

The strong focus on job-search assistance schemes is paralleled by incentives to accept job offers at low pay in the form of in-work benefits. (The issue of in-work benefits is further discussed in OECD, forthcoming) Family Credit is a benefit which tops up incomes of those with family responsibilities who are in work on low wages. Recently, a Jobfinder Grant was introduced for people unemployed for 2 years or more who obtain jobs paying less than a specified level of weekly income. It is intended to introduce a new scheme called Jobmatch which will pay an allowance for six months to those unemployed for more than 2 years who take a part-time job while continuing to look for full-time or additional part-time work. In addition to the incentive effects on taking up a job, these in-work benefits are also intended to cushion the widening of wage differentials, particularly the relative decline of wages for unskilled work.

Later this year, unemployment benefits will be replaced by a new Jobseeker's Allowance. During the first 6 months of unemployment, eligibility for this allowance will be established through insurance contributions (the maximum unemployment benefit period is currently 12 months). After the first 6 months of unemployment, the allowance will be paid on an assessment of the individual's need. Receipt of the Jobseeker's Allowance will be conditional on the job-seeker entering into, and adhering to, a Jobseeker's Agreement setting out what he/she intends to do to find work.

e. Conclusions

Are the activation strategies of Denmark and Switzerland likely to work? Denmark has the advantage of a more developed policy infrastructure and a long-standing experience with placement, training and job creation measures. However, the disadvantage is that the 1994 reform was very timid in cutting back the generosity of unemployment insurance benefits to which all players in the Danish labour
market have become accustomed over many years. Switzerland's activation strategy is much tougher on conditioning the labour market behaviour of the unemployed. Moreover, it can build on a tradition of strict work tests and other controls of benefit entitlements and job-search efforts. The Achilles heel of the Swiss activation concept is perhaps its strong reliance on the effectiveness of ALMPs, an area of policy where the country has not gathered much experience in the past. Furthermore, Switzerland may underestimate the difficulties of running effective labour market programmes to which participants are allocated in a mechanical way after 7 months of unemployment.

Both in Switzerland and Italy the success of the activation strategy will also depend on the further development of a resource-intensive and sophisticated PES system. This will be particularly difficult in Italy because political and historical considerations complicate any eventual reform of its bureaucratic and administratively heavy PES system. This is the main reason why a parallel network, the Regional Employment Agencies, had to be created to implement the mobility lists. The coexistence of two office networks with very similar functions is a serious hindrance to enhanced policy effectiveness. Italy has also much tighter budget constraints compared with Switzerland which is one of the least taxed OECD countries. Finally, Switzerland has the advantage of a very developed private-sector placement market. In building up its PES network, it can take advantage of available know-how and recruit qualified staff from the private sector.

Finland, Sweden and the new Länder of Germany, have all recently attempted to offset large negative shocks to the labour market by adopting ALMPs on a large scale. Moreover, participation in ALMPs re-establishes new benefit entitlements. In all three cases the experience of mass unemployment is a relatively recent one. Experience in other countries which have a longer record of living with high unemployment shows that it takes time for the behaviour of labour market actors to adjust to changes in benefit rules. Sweden has successively extended the possibility for the unemployed to re-qualify for benefits through participation in ALMPs since the late 1980s. Germany has introduced "overnight" its western standards of benefit rules and management to the new Länder. The sudden rise of unemployment in Finland and Sweden has strongly increased the work-load of placement and benefit officers and reduced the possibility of applying work tests. If the experience of other OECD countries can serve as a yardstick, it is likely that all these factors will eventually impinge on the behaviour of labour market actors in ways which will contribute to unemployment persistence.

Supplying labour market programmes on a large scale is not likely to contribute to labour market efficiency. The evaluation literature has shown that there are diminishing returns if programmes are expanded significantly. The population of participants within a particular programme will become more heterogeneous and targeting the programmes, therefore, will suffer. Alternatively, if programmes are kept small and tightly targeted, their number will have to grow in order to cope with the growing number of unemployed and this will further drive up the costs to the public purse. Moreover, the availability of a large number of labour market slots tends to crowd out the traditional role of the PES, i.e. to place job-seekers in the open labour market. The general conclusion, therefore, is that running ALMPs on a large scale carries the risk that they cannot be managed effectively and that they can easily become as "passive" as income support. Their principal justification must than be that they fulfil a bridging function. But this option rests on an act of faith and a strong assumption: a general economic recovery is just around the corner and "a rising tide will lift all boats".

Japan and the United Kingdom have adopted a quite different policy stance compared with the countries discussed so far. The reason for the low Japanese unemployment rate, however, seems to have little to do with its labour market policies. Nevertheless, some of the design features of Japan's unemployment benefit system, in particular the Re-employment Bonus, deserves the attention of other OECD countries.
The United Kingdom has drawn some important lessons from earlier policy mistakes. It has recognised the crucial importance of closely integrating placement and benefit work, it has accepted the notion that the PES should in the first place serve the unemployed and that "normal" job broking should be left to the private sector, it has adhered to the view that improving the generosity of income replacement benefits beyond a certain point can do more harm than good both to individuals and to a well-functioning labour market. To bolster this strategy, it has introduced in-work benefits and several innovations in the design of job-search assistance schemes. However, in the area of ALMPs *per se* (training and employment programmes) the United Kingdom has been rather reticent to commit major resources. While the share of long-term unemployment in total unemployment has improved somewhat over the last decade, long-term unemployment remains high. Cutting long-term unemployment to more acceptable levels will probably require interventions -- at least on a temporary basis -- which are more resource-intensive than job-search assistance and job finding incentives.

An overall assessment of the effectiveness of the various strategies discussed here suggests that activation strategies may still be relatively ineffective if the benefit system remains too generous (as in Denmark and perhaps even Switzerland) or if the PES infrastructure is insufficiently developed (as in Italy). Relying on large-scale ALMPs to fulfil a bridging role is both risky and may impinge on the behaviour of labour market actors in the longer term. Tight benefit and early reintegration strategies may be effective in preventing unemployment persistence but may be insufficient to curb long-term unemployment significantly once it has taken root.

E. Policy proposals

The evaluation literature and the review of labour market policies in 12 OECD countries on which this report is based, suggest that the effectiveness of ALMPs could be enhanced in a number of ways. These proposals can be viewed as an extension and further development of the policy recommendation on ALMPs set out in the *OECD Jobs Study*.

Evaluation research suggests the following principles in the use of ALMPs:

− Rely as much as possible on in-depth counselling, job-finding incentives and job-search assistance programmes. Design training programmes which respond to the specific needs of PES clients (both job-seekers and employers) but do not rely on them to remedy large-scale unemployment.

− As the duration of unemployment spells lengthens, various forms of employment subsidies may serve to maintain workers' attachment to the labour force. However, employment subsidies should be of short duration, closely monitored and public or private employers' continued access to these subsidies should be made conditional on the retention rate of previously subsidised workers.

− Use subsidised business start-ups for the unemployed who have entrepreneurial skill and motivation to survive in a competitive environment.

− Keep programmes small in scale and well-targeted so that they can cater for a relatively homogeneous group of the unemployed.

− As with most other Government interventions, monitor and control the implementation of ALMPs carefully so as to minimise labour market distortions.
− Keep participation in ALMPs relatively short in duration so as to avoid counterproductive behavioural adjustments by labour market agents to the existence of these programmes.

It is vital to expand the body of knowledge on what works. This requires more and better programme evaluations. In seeking to further this objective, the following consideration and principles are relevant:

− Consider evaluation procedures during the design phase of ALMPs and begin the data collection process before the implementation phase.

− Whenever feasible, use random assignments for establishing treatment and control groups. The ethical concerns about using random assignments (the denial of programme access for some eligible persons in order to form a control group) lose their relevance to some extent if programmes are supply-constrained (there are more applicants than available slots). In the latter case, as participation has to be rationed, this may as well be done on a random basis especially if other criteria of selection such as individual hardship and need would be too costly to verify.

− Make sure that evaluation periods are sufficiently long so as to gauge both short and long-run impacts.

− In most OECD countries a more pervasive "evaluation culture" needs to be created as part of the normal policy infrastructure. Countries which are concerned about the high costs of rigorous evaluation studies -- be they experimental or quasi-experimental -- should take advantage of the growing international body of evaluation research.

In fulfilling its brokerage function but also in applying work tests and in seeking to place the most disadvantaged job-seekers, the effectiveness of the PES depends crucially on the inflow of vacancy notifications. This holds even more in a slack labour market when the needs increase but the number of notification tends to decrease. In order to stimulate the flow of vacancies to the PES, the following procedures and practices are advisable:

− Arrange for regular visits of placement officers to local employers. Maintain a target of each officer's time to carry out this task regardless of the state of the labour market.

− Assign individual officers to individual employers and ensure that the employer keeps the same PES contact person over time.

− Scan local newspapers for advertised vacancies and display them on vacancy boards and/or in the computerised vacancy register.

− Provide facilities for fully-open, semi-open and closed treatment of vacancies; let employers choose among these procedures in accordance with the type of job-seekers they are looking for; offer screening services of the same quality as used in the private sector.

− Make sure that staff time saved under fully-open vacancy display and self-service facilities is deployed for in-depth counselling of hard-to-place job-seekers.

− In deciding which vacancies to register, err on the side of registering too many rather than on the side of registering too few. Compete with the temporary work agencies (TWAs) by registering vacancies for fixed-term and short-time jobs.
Independent, tripartite and decentralised decision-making structures can affect PES efficiency in various ways. A positive influence has usually shown up when such arrangements were introduced to improve a hitherto poor image of the PES and to raise its clout as a player in the labour market. Experience has also shown, however, that the decision-making process is often cumbersome and may even become blocked when very contentious issues have to be decided.

- In countries with tripartite bodies at the central level which go beyond consultative and advisory functions, ensure the leadership role of the central government and/or Parliament in setting policy priorities and allocating budget resources accordingly.

- Capitalise on tripartite decision-making arrangements mainly at decentralised level when it comes to the implementation of policy and the development of consensus in finding practical solutions to local labour market problems; rely on tripartite decision-making in coping with the employment implications of plant shut-downs; build up consensus in the tripartite bodies to support coercive PES action vis-à-vis job-seekers and employers, especially when significant unemployment and unfilled vacancies co-exist in the local labour market.

- Use performance indicators and performance targets to monitor the activities of decentralised offices but exercise caution in interpreting them. Use control procedures on a selective basis, similar to audits, as a complement to performance indicators (possibly outcontracted to private consultant firms).

Several countries have recently dropped the monopoly status of the PES, joining the ranks of those where private and public placement agencies co-exist. Liberalisation of the placement market has lead to the adoption of more efficient brokerage methods in the public sector. Further steps could be envisaged.

- Encourage the PES to either compete with TWAs (e.g. by setting up a specialised PES agency for temporary work) or make co-operation arrangements with them (e.g. exchange of vacancy information).

- Pay employment subsidies to TWAs who recruit hard-to-place job-seekers from the PES register.

- Remove barriers (e.g. civil servant status of PES staff and methods of pay determination) which may hinder mobility between private and public placement agencies.

- Experiment with alternative arrangements which would raise the contestability of the PES in dealing with hard-to-place job-seekers; observe the crucial separation of service providers and service purchasers (or a fee-setting agency); let municipalities choose to purchase back-to-work services for social assistant recipients from the PES or private providers.

There is a close interaction between the operations of active and passive labour market policies. The effectiveness of ALMPs, therefore, cannot be assessed without taking into consideration the characteristics of the prevailing benefit system. Likewise, improvements in the effectiveness of ALMPs may have to be accompanied by changes to the generosity of the benefit systems or the ways in which they are managed. The recent history of active and passive labour market policies in the countries under review suggests a number of lessons for the design of future policies.

- Use "profiling" for new benefit claimants to identify those at risk of becoming long-term unemployed; provide the latter (but not the others) immediately with counselling and job-search
assistance; use "availability for work" (to be controlled by work tests) and "job-search initiatives" (to be confirmed by employers) as independent criteria which must be met to qualify for benefit receipt.

− Make passive income support conditional on accepting to participate in ALMPs not later than after 6 to 8 months of unemployment duration; do not, however, guarantee a slot in a programme by that time but handle the referral flexibly in accordance with the availability of slots which correspond to the needs of the job-seeker.

− Avoid the creation of large-scale programmes or programmes which do not correspond to labour market needs -- even if this may be the only means to honour a job guarantee or to implement across-the-board activation or workfare strategies. The latter may be justified on general political or social grounds but they will put undue pressures on ALMPs, undermining their effectiveness and credibility.

− Avoid confusion and overlap resulting from a multitude of programmes created by successive governments in the past but not phased out or re-organised in the framework of the current policy priorities.

− In order to minimise the risk that lack of motivation may jeopardise the success of training or work experience programmes, attempt to convince job-seekers that participation can improve their employability; however, apply benefit sanctions in cases of uncooperative behaviour, not only for refusing to enter but also for dropping out of programmes willingly.

− Ensure that participants in training and public sector employment programmes continue to be available for work in the open labour market; continue to provide them with vacancy information and job-search assistance; design programme hours so that participants can spend some time per week on job search.

− Participation in training and public sector employment programmes should not establish new benefit entitlements. The duration of employment subsidies to the private sector should be shorter than the contribution period required for benefit entitlements.

− Integrate the referral to ALMPs as closely as possible with benefit and placement work. Ideally, all three basic functions should be provided by the same front-line office (so-called "one-stop" labour offices). In order to avoid the development of different "cultures" in the treatment of unemployed people, rotate staff between these functions or, at a minimum, require staff to participate in regular work experience courses in the other services.

− Make sure that normal placement work remains the main concern of PES staff rather than referring job-seekers to ALMPs; avoid a situation where public and private employers will only recruit from the PES register when they receive a subsidy.

− Make passive income support as "active" as possible by using instruments like Re-employment bonuses, in-work benefits, regular contacts of claimants with the PES, job clubs, etc.
NOTES

1. For an analysis of how the interaction of benefits and taxes affect labour market decisions see OECD (forthcoming).

2. For reviews of the literature see Calmfors, 1994; OECD, 1993c; and Jackman, 1995.

3. The possibility that the participants in the treatment group do not have the same characteristics as those in the control group but have been selected or self-selected themselves (possibly inadvertently) on the basis of criteria which effect the outcome of the programme.

4. This situation is set to change from the beginning of 1996 when the new regional placement offices with qualified counsellor/placement officers will be gradually introduced in Switzerland. For details, see OECD (1996b).

5. The number of employers per PES district in Finland is typically small, given that many districts are dominated by a single big employer. This is due to a combination of two factors: low density of population and Finland’s specialisation in large-scale industrial activity such as pulp and paper production.

6. Presently, the Swedish PES still has tripartite boards at central and regional levels but the board members are only "close" to the various interest groups, they no longer formally represent them.

7. There is some circumstantial evidence supporting this view. Several countries have found that when long-term unemployed job-seekers were invited to an in-depth interview to establish a balance sheet of needs to raise their employability a surprising large number did not appear.

8. The maximum duration period of 7 years can be extended if the unemployed opt for educational leave and profit from parental leave. Each of these two leave entitlements can add another year to the maximum benefit duration which may thus amount to 9 years. However, in the 1996 reform this possibility to prolong the UI entitlement period by participation in paid educational leave was abolished.

9. Beneficiaries have to fulfil their stamping obligation once a week (until very recently twice a week), they have to document at the end of each month 10 job search initiatives, and they have to be certified by the PES offices that they were "apt for placement" during the reference period. In order to satisfy the latter condition, they have to apply for jobs regarded as "suitable" by the PES but such an application by "administrative order" cannot be counted as individual job search.

10. Monitoring data show that in a particular reporting period earlier programme participants are more often in employment than non-participants but -- due to selection bias -- this finding is hardly conclusive evidence for the effectiveness of the programmes.

11. Before 1986 this was only possible by participating in public employment programmes; thereafter, participation in training programmes also re-established benefit entitlements. In 1987, a benefit exhaustee was even given the guarantee to receive a job offer of a duration that would renew entitlements, and in 1993 this provision was extended to a training offer as well. In mid-1994 the possibility to renew benefit entitlements through participation in ALMPs was abolished but this decision was repealed by a new Government in 1995 (OECD, 1995b).
In a sample of persons who had become unemployed in 1991 there were 12 per cent who had been on benefits and/or ALMPs for more than 2 years (the formal maximum benefit period is 14 months) (Ackum Agell et al., 1995).


OECD (1972), Adult Training as an Instrument of Active Manpower Policy, Paris.

OECD (1990), "Evaluation Panel No. 8, Decentralised Delivery of Manpower Measures", mimeo.


OECD (1996a), *The Public Employment Service in Denmark, Finland and Italy*, Paris.


