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WHAT CAN DEVELOPING COUNTRIES LEARN FROM OECD LABOUR MARKET PROGRAMMES AND POLICIES?

by

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RÉSUMÉ

Plusieurs pays Membres de l'OCDE et un grand nombre de pays en développement souffrent d'un taux de chômage considérable, tant à court qu'à long terme. A partir d'un plan présenté en cinq parties et traitant des problèmes du marché du travail, ce document résume et évalue l'efficacité des politiques et programmes consacrés à l'emploi dans les pays Membres de l'OCDE et envisage l'applicabilité de l'expérience aux économies en transition, aux économies dynamiques non membres et aux pays en développement dans leur ensemble. La conclusion montre que dans la plupart des économies, de telles politiques n'ont pas été très efficaces pour répondre aux problèmes les plus aigus, c'est-à-dire, un chômage élevé et persistant, tant à court qu'à long terme (les économies dynamiques non membres constituant la principale exception). Néanmoins, il existe diverses mesures de relance de l'emploi valables pour d'autres types de problèmes. D'une manière générale, il serait souhaitable que les pays en développement n'investissent pas trop lourdement dans ce que l'on appelle des mesures passives ; la mise en place d'un vaste programme d'aide sociale, et non la distribution d'allocations de chômage devrait donc être le pilier central d'un système de protection sociale.

SUMMARY

Many OECD Member countries and a large number of the developing countries are suffering from extensive unemployment, both in short and long-term forms. Based on a five-part schema of labour market problems, this paper summarises and evaluates the effectiveness of labour market policies and programmes in the OECD countries and assesses the relevance of the experience to economies in transition, dynamic non-Member economies and developing countries in general. The overall conclusion is that such policies have not proven very effective in dealing with the most pressing problems in most types of economy (the dynamic non-Member economies being the main exception), that is, high and persistent unemployment, both short term and long term. Nevertheless, there are a variety of active labour market policies which are of help with some other types of problem. In general, the developing countries would be well advised not to invest too heavily in so-called passive measures; thus, a social welfare scheme and not unemployment insurance ought to be the central feature in the creation of a social safety net.

PREFACE

This study is a follow up to the considerable body of research and policy review carried out over the past few years at the Development Centre on the subject of employment problems and policies in the developing countries. Many developing countries are struggling with severe problems of unemployment, due in part to imbalances in labour markets and to a dearth of productive, sustainable employment in the face of a continuing, very rapid growth of new entrants to the labour market. In the OECD countries, much experience has been gained with a variety of labour market policies and programmes, and the experience is often better documented and evaluated than is usually the case in the developing world. The present study seeks to evaluate the relevance of this experience and to assess the potential of the approaches followed in the OECD.

The study also sought to gain advantage from some of the analysis and interim results of a major new study of unemployment undertaken by the OECD Secretariat, a study due to be completed in 1994. The need for the OECD study reflects the widespread concern with worsening unemployment in many OECD countries in recent years — so much so that, in a large measure, this issue now dominates the policy agenda. In part reflecting the lessons of past failures in the OECD countries, one of the main findings of the present study is that labour market policies and programmes have a rather limited role and that the developing countries are advised not to follow too precipitously the same approaches, especially the heavy reliance on so-called passive programmes.

The principal author, Åsa Sohlman, is responsible for the core chapters of the study which deal with the evaluation of OECD country experience. In this regard, she was able to draw upon a considerable past background as a senior official in the labour ministry of an OECD country, one which is widely recognised for its innovative stance in labour market regulation and the use of active policies in dealing with employment issues.

Jean Bonvin
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INTRODUCTION AND CONCLUSIONS

The aim of this study is to draw up an overview of the effectiveness of employment programmes and labour market policies used in the OECD countries and to assess their possible interest for labour market policy formulation in developing countries. The main employment problem in the OECD countries today seems to be the long-term lack of jobs for unemployed people and other would-be entrants to the labour market; the lack of jobs in the short term is probably the next priority. In many developing countries, too, there is a chronic shortage of employment opportunities, both long term and short term, though for many reasons the problem is not always clearly revealed by conventional measures of unemployment.

If the basic problems are similar in the developed and the developing countries, then it would seem likely that it might be useful for developing countries to take the OECD experience into account. However, one of the lessons is that the OECD approaches have not worked well in addressing problems associated with a lack of jobs — indeed, unemployment has been rising and is now much higher in many countries than it was 20 years ago. OECD's employment programmes were developed in an era when it seemed that the growth of employment opportunities could be taken for granted. However, experience more and more seems to suggest that the policy possibilities are limited when, for fear of inflation and for other reasons, the old recipe of expansionary macroeconomic policy combined with smoothing labour market policies is discarded. Thus today, a major reconsideration of policies is taking place in the OECD itself. Nevertheless, though not perhaps at the top of the priority list, the problems addressed by traditional types of labour market programmes and policies continue to be of some concern — both in the developed and in the developing countries.

For the purposes of this study, five types of labour market problems are identified. A schematic view of these problems and the potential contribution from employment policies and programmes towards their solution is as follows:

	Labour market problems	**Possible programmes and policies**
1.	Labour market efficiency.	Labour laws, Basic institutions, Public employment services/matching.
2.	Structural adjustments.	Public employment services and training.
3.	Short-term lack of jobs.	Temporary public sector employment and stimulus to private employment.
4.	Long-term lack of jobs.	(Labour market policies can complement macroeconomic or other policies creating economic growth and jobs but can do little in isolation.)

5.	Equity, poverty relief.	Temporary public sector employment and stimulus to private employment; unemployment benefits, social security and social assistance.

Much policy in the past was focused on problems of types (1), (2) and (5) in a context when problems of type (3) and especially of type (4) were less prevalent. Thus the 1990 OECD Framework for labour market policies was mainly geared to employment problems involving items (1) and (2).

The Table below shows the GDP shares devoted by OECD countries to the different types of labour market programmes. Also shown is a performance ranking of these programmes based on our assessments and evaluation analysis.

Labour market policy measures	GDP share	Evaluation by rank order
Public employment services	0.02-0.22	1
Private enterprise employment	0.00-0.12	2
Self-employment	0.00-0.21	2
Training	0.20-0.81	3
Youth measures	0.00-0.69	3
Vocational rehabilitation	0.00-0.23	3
Public sector employment	0.00-0.58	4
Work for disabled	0.00-0.68	4
Unemployment compensation	0.00-3.48	5
Early retirement	0.00-1.24	5

Our rankings must, of course, be interpreted with great care. The labour market programmes have not been systematically evaluated on a country by country basis. Nevertheless, the rankings, together with the following conclusions, seem justified:

— **Public employment services**. The experience of the OECD countries shows that the core activities of the employment services, such as counselling, job search training, relocation assistance, and mass lay-off services can be very efficient and are not very expensive. Sometimes, however, particularly when unemployment is high, they serve mainly to redistribute work openings among various applicants, neither creating new jobs nor reducing frictional unemployment very much;

— **Incentives for private sector employment and self-employment**. These measures, which often involve subsidies, tend to be more efficient than either public sector employment or training. Indeed, they can create more productive work and achieve a greater training impact at lower cost;

— **Training, youth schemes and vocational rehabilitation**. These measures are expensive and their use seems to be justified only with special targeting in relation to particular groups. They sometimes attract quite significant resources;

— **Public sector employment and work for disabled**. These measures are also expensive; moreover, there are often compelling reasons to seek a restructured and diminished public sector rather than an expanded one. Thus it may be more efficient to try to absorb the unemployed directly into the private sector;

— **Unemployment compensation and early retirement incentives**. These essentially passive measures do not solve unemployment problems and are better thought of as part of a last resort safety net approach. Many OECD countries still devote large resources to such measures.

OECD countries face employment problems of varying types and severity, reflecting their particular economic and labour market situations and past policies. Some have experienced a more favourable labour market performance in terms of relatively low measured unemployment and greater flexibility in the face of shocks. Canada, Germany, Luxembourg, Switzerland, and the United States form one such group at the upper end of the income scale (measured in terms of GDP per capita); Austria and Japan have had good labour market performance and these countries have also enjoyed fast growth; finally, Sweden is included for its low long-term unemployment — juxtaposed, however, with only a moderate economic performance.

Considered collectively, the experience of this group of countries serves to highlight the importance of a high level of human capital development and flexibility in the labour market if the desired combination of high living standards and low unemployment and inflation is to be achieved. A flexible labour force is characterised by flexibility in total numbers as well as in the ease of movement between sectors, occupations and regions. Some labour market impact may be obtained through policies which aim at improving flexibility (e.g. active labour market policy and educational policy).

Among this group of countries, Japan, Sweden, Switzerland, and the United States have a relatively high share of GDP devoted to programme categories 1-4 i.e., have the best general profiles for labour market programmes. Based on the share devoted to programme categories 1-2, Japan and Switzerland have the best employment policy profiles.

Turning to the economies in transition of **Central and Eastern Europe** (the CE countries), the main employment problems are a combination of types (4) and (2), i.e. a long-term lack of jobs, but in this case mainly affecting people being made redundant during the restructuring process. To this should be added the need to moderate the social effects of the restructuring effort, i.e. problems of type (5).

Based on the OECD experience, it is suggested that in the CE countries the public employment services should concentrate on the provision of matching services, to the extent possible linked to private sector employment creation. However, since the basic institutions and core activities of the public employment services are not yet firmly established in the CE countries, more attention than in the OECD countries needs to be given to the whole array of policy measures. There is a danger that too much attention and resources will be devoted to the passive measures, and it is recommended that the social welfare system, not employment programmes, be the essential instrument in the creation of a social safety net.

Our indicators do not reveal any very serious employment problems in the **Dynamic Asian Economies** (DAEs); indeed, in some respects — notably in their low rates of unemployment — these rapidly growing economies are in better shape than many OECD countries. However, there is a need for continuing swift economic restructuring and this could give rise to employment problems in the form of redundancies and skill mismatches. Labour market programmes and policy should be directed towards improving efficiency in the labour market, involving labour law and institutions, public employment job matching services and training activities. As in the CE countries, buoyant private sector employment plus a safety net that is based on a social welfare system seems preferable to potentially large expenditures under expanded passive programmes built on unemployment benefits.

The employment problems of the **Other Developing Countries**, are extremely heterogeneous, reflecting the wide variety of country situations from Mexico to Myanmar and Mauritania. In many of the urbanised economies of Latin America, high urban unemployment combines with an extensive urban and rural informal sector of very low productivity work that — in the absence of a social safety net — most people are forced into. The essential problem is the lack of long-term productive jobs, for which the cure is faster growth rates, coupled with a labour intensive pattern of development. In many of these countries, problems of human resource development and a need for improved basic education and worker training are other factors which labour market policies *strictu sensu* can do little to solve.

In many of these economies, the basic labour market institutions for labour market policies hardly exist at all or, if they exist, they apply only to a small modern sub-sector of employment. In some instances, experience suggests that a selective application of programmes can do more harm than good through the distortions that they tend to create. So a strategy for the development of labour market programmes has to be established which corresponds to the emerging needs in the labour market as a whole. In some cases the dominant problem is one of dislocation brought about by structural adjustment. Here, some of the experience of the OECD countries may be directly relevant, including mass lay-off services, placement and matching activities. Other countries might be better advised to concentrate largely on training and provision of infrastructure and capital to assist in the accelerated development of small scale business.

For a fruitful co-operation between the OECD, the CEs, the DAEs, and the other developing countries to evolve in the field of labour market policy, it would seem

necessary to pursue the following activities:

In the *OECD countries*, to document and evaluate in an internationally comparative way the basic rules and regulations directed at the labour market; to further evaluate internationally the different types of active labour market programmes; and to assess the financial sustainability of different types of systems for unemployment compensation and evaluate the efficiency of different types of passive labour market measures.

In the *other countries*, to develop systems aimed at better describing and following the employment situation and the evolution of the labour market, informal and formal, from a household perspective and from an employer perspective; and closely to monitor and assess the effectiveness of labour market policies as they are introduced, in some instances on a pilot basis.

I. BACKGROUND - EMPLOYMENT IN THE OECD COUNTRIES

I.1 The employment situation in the OECD countries

Output, productivity and living standards have grown considerably in the OECD countries over recent decades but since the mid-1970s employment growth has not been strong enough to prevent rising unemployment. Unemployment is projected to reach almost 36 million by the end of 1993, over 8 per cent of the labour force (OECD, 1993c). Other alarming aspects are the high and persistent shares of youth and long-term unemployment. At the Ministerial Council meeting of the OECD in June 1993 ministers announced the reduction of unemployment as a central goal for government policies (OECD, 1993a).

The employment problems of the OECD countries are both of a short-term cyclical nature and long-term. Figure 1.1 illustrates the cyclical movements and long-term trends in unemployment in different OECD regions.

Cyclical peaks in unemployment in the early 1970s and 1980s are associated with the two oil price shocks. The latest recession started in 1989: by 1992, only five OECD countries had an unemployment rate of 4 per cent or less i.e. Austria, Iceland, Japan, Luxembourg, and Switzerland — by 1992, Norway, Finland and Sweden had all ceased to be low unemployment countries.

In almost all regions the bottom of each downturn has been associated with a higher rate of unemployment. The trend of unemployment has been increasing steeply, especially in the EC countries, pointing to long-term, structural employment problems.

The structural problem is indicated in Figure 1.2 where secular employment growth is shown to be especially low in the EC and EFTA countries. Moreover, this is a situation that dates further back than the mid-1970s.

In a stylised fashion the long-term economic and employment problems of the OECD countries can be described as follows[2]:

— Increased competition, due to the internationalisation and globalisation of the economies, requires constant structural changes and adaptations on product, service, and labour markets. Transportation and communications have become cheaper. Technical changes spread more rapidly. High capital costs and the accelerating technical development also contribute to the demands for increased flexibility;

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2. The discussion draws upon the following sources: Nou, 1992:26; OECD, 1987; OECD, 1989a; OECD, 1992a; OECD, 1992b.

— However, these economies, especially the European ones, have become not more, but rather less, adapted to change. Rigidities have been introduced through different types of legislation as well as via the growth of the public sector. Also, ageing and slowly growing populations, do not make flexibility problems easier to solve;

— On the labour market, educational and training requirements have increased but increased needs have not always been met. Thus, in spite of growing unemployment, skill shortages and mismatches between labour demand and supply have appeared. At the same time, the increasing share of long-term unemployed in unemployment as well as persistent regional differentials in unemployment reduce the responsiveness of the labour market to changes in economic conditions. And the design of the systems for unemployment benefits, old age and disability pensions — their duration and size — have sometimes also served to counteract flexibility;

— Labour law and regulations are necessary to create stable conditions for adaptations on the labour market. However, too many and too rigid regulations — minimum wages, conditions for dismissal, and job security provisions — reduce the flexibility on the labour market and can thereby prevent employment creation and increase unemployment; finally,

— The rigidities on the labour market also sets limits to expansionary macroeconomic policies.

For many reasons it would therefore seem desirable to have a more flexible labour market, a labour market where quantitative and qualitative adjustments can take place rapidly. This is desirable not only for efficiency or equity reasons, but also for budgetary reasons. In many OECD countries state budgets show structural deficits. In brief, an "Active Society" is needed, where as many as possible are integrated in working life and as few as possible are dependent on the expensive insurance systems[3].

Institutional and structural factors not only influence quantity adjustments on the labour market but also price adjustments, i.e. wages. Flexible wages are also necessary for an efficient labour market though efficiency also argues for a balance to be struck between flexibility and stability, between wage variations that help to promote external labour market adjustments and internal, firm-specific adjustments (Siven, C-H. ed. 1993). Among the factors influencing wages flexibility are government interventions (regulations, taxes etc.) and the collective bargaining process, including how it is organised, its coverage and the co-ordination among unions and employers.

In this regard, we need to look for examples of good labour market practice by

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3. See also: OECD, 1990a; OECD, 1992b; Schwanse, P., 1991.

considering country experiences in some detail. This is the subject of the next section.

I.2 Employment differences among OECD countries

For overview purposes, we consider a range of indicators with countries grouped into three categories, 1, 2, and 3 — designating good, medium, and poor performance. No attempt has been made to force countries into equal sized groupings, rather, the classification is used to create groups more or less equal in performance with regard to the specific indicator. For changes in classifications the notations (+) for improvements, (-) for regression, and (o) no change are used.

With reference to Table 1.1, economic and unemployment indicators, we distinguish countries according to three levels of GDP per capita, three levels of unemployment and three levels of inflation performance. Also shown is the direction of the trends in GDP per capita and unemployment. The richest group of countries comprise Canada, Germany, Luxembourg, Switzerland and the United States. These countries have a fairly good performance in terms of economic growth (measured by the change in GDP per capita, 1980-90) and a low inflation rate, 1985-91. Other countries with a low inflation rate are Austria, Belgium, Japan, and the Netherlands and with a high GDP growth rate are Austria, Finland, Ireland, Japan, and Turkey.

Are the rich countries also the best performers as to employment with a low and stable rate of unemployment? Mostly they are: except for Canada, all of them belong to categories 1 or 2 for low unemployment in 1992. Other countries in the low unemployment category are Austria, Japan, and Iceland which are group 2 countries in terms of GDP/capita. The countries with the highest rate of unemployment tend to be those with a low per capita income such as Ireland and Spain with 17 per cent and 18 per cent unemployment respectively.

With few exceptions (Portugal, Sweden and the United States) the rate of unemployment has increased over the 1970-1990 period. The United States remains in category 2 as regards the unemployment level.

Turning to Table 1.2, which shows data relating to the structure of unemployment (and the importance of self-employment) in the OECD economies, only three countries — Canada, Sweden, and the United States — have a low share of long-term unemployment (12 months or more) in total unemployment. The latter two countries are also countries where this share has not increased over the recent business cycles. Other studies have also categorised Canada, Sweden and the United States as best performers in terms of long-term unemployment (Holmlund, B., 1993).

Often the share of long-term unemployment increases with the overall rate of unemployment (though the higher the figures become the more unreliable they tend be because of the effects of worker discouragement). However, among the richest group of countries Germany has surprisingly high long-term unemployment (category 3) while having a category 2 rate of unemployment.

Male and female rates of unemployment are rarely exactly the same. In Table 1.2 we have indicated a higher male rate by the + (plus) sign, a higher female rate by the - (minus) sign and approximately equal rates by the = (equals) sign. Only three countries have an equals sign, the United States, Japan, and Sweden while others are evenly distributed between the male-dominant and female-dominant categories. Countries with a plus sign are Australia, Canada, Finland, Ireland, New Zealand, and the United Kingdom. Those with a minus sign are France, Germany, Italy, the Netherlands, Portugal, and Spain. Rather more high-unemployment countries are dominated by male unemployment than by female unemployment.

Relatively high and low youth unemployment are not associated with any particular pattern of overall unemployment. Canada, Germany, Ireland, the Netherlands, and the United Kingdom have a low share of youth unemployment. Youth unemployment is relatively high in many countries including France, Italy, Japan, Sweden and the United States (OECD, 1993a).

Self-employment is, however, rather closely related to the level of development (a relationship that in turn is often linked to the larger role of family farming in countries at lower levels of per capita GDP). The share is low in the five richest countries (where self-employment is below 10 per cent of employment) and high in the poorer ones (self-employment share 20-35 per cent). However, it is interesting that in some of our more successful countries the self-employment share has recently been increasing, e.g. in Canada, Germany, and Sweden. This development has to some extent been influenced by labour market policies — a point that we will come back to later. The self-employment indicator, too, is not associated in any uniform way with the unemployment indicators.

Summarising our findings so far, six countries seem the most likely sources of useful labour market policy experience based on relatively good economic and labour market results. These are: Austria, Canada, Germany, Japan, Switzerland, and the United States. Sweden also has some interesting labour market characteristics but not very good economic performance. However, even among the group of seven, the labour market performance is patchy. Thus, Austria was not among the best performers as to long-term unemployment and women have had a rather unfavourable position on the labour market; Canada has had a high rate of unemployment; Germany was not among the best performers as to unemployment, long-term unemployment and women; Japan was not among the best performers as to long-term unemployment and youth; Switzerland only had one good result, i.e. for unemployment; the United States had only a medium position as to unemployment and had a high share of youth unemployment. Hereafter we refer to the six rather successful countries plus Sweden as our sample countries.

Turning to Employment Indicators (Table 1.3), countries are grouped from high to low, based on participation rates among the population aged 15-64 years[4]. All

4. The share of the total population in the labour force is 48 per cent on average among the OECD countries, varying from around 40 per cent up to about 60 per cent. The rate of labour force participation of older age groups seems

the sample countries belong to the highest category 1 except Austria and Germany (category 2). Other countries with high labour force participation are Denmark, Finland, Iceland, and Norway, i.e. the other Nordic countries, and the United Kingdom.

Participation rates may be somewhat understated on account of non-recorded activities in the informal sector. Undeclared *production* was in one report was estimated at 2 per cent in the more industrialised OECD countries though it may be higher in other instances, perhaps as high as 4 per cent. For *labour* the figure could be higher than for production as this type of activity may be expected to be relatively labour intensive. This would probably be especially true in southern Europe (OECD, 1986). However, an offsetting factor is that many of those with informal sector activities are also counted as employed or unemployed workers through their regular activities.

The sample countries tend to be in a middle category as regards part-time work activity although Sweden has a high rate (23 per cent) and Austria a low rate (below 10 per cent). Other countries with low rates of part-time work are Finland, Greece, Ireland, Italy, Portugal, and Spain. (In the table, the Figure 3 means a high and the Figure 1 a low rate of part-time work.) Involuntary part-time workers have been estimated at 2.5 per cent of the OECD labour force (and discouraged workers at approximately 1 per cent of the OECD labour force (OECD, 1993b).

In most of the OECD countries the rate of labour force participation increased during the 1970s and 1980s. The exceptions are France, Ireland, Spain, Switzerland, and Turkey. The increase was mainly due to increasing rates of labour force participation among women. In fact, the female rates increased in all OECD countries for which a separation of male and female rates can be made, i.e. for all OECD countries except Iceland and Turkey. The average rate of participation was 83 per cent for men and 60 per cent for women (OECD, 1992c).

In Table 1.3 data for employment growth have also been included. In our sample countries employment growth was high in Canada and the United States and at a medium level in the others except Sweden. Other countries with rapid employment growth were Australia and Iceland. In the United States and Japan the jobs created were mainly in the private sector while in Europe they were public sector jobs (OECD, 1993a).

Summing up, one can say that low unemployment rates are normally not achieved at the expense of low rates of labour force participation. However, high rates of labour force participation often translates into high rates of part-time work. As shown by the experience of the more successful countries, employment and economic growth are important to prevent unemployment especially as the rate of labour force participation is increasing.

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to be positively related to the overall rates of labour force participation being high for the United States, Sweden, Japan and Norway.

I.3 Education, labour market programmes and labour market performance

A range of evidence suggests that investing in the education of the population and labour force has a high pay-off in terms of economic growth. Rich countries tend to have a more highly educated population than poor countries (see Table 1.4), however, many of the poor OECD countries make considerable investments in education, in some instances exceeding outlays in some rich countries. Among the sample countries, educational investments are relatively high in Canada, Germany, the United States and Japan. Ireland, New Zealand, and Spain also have relatively high expenditures on education. Relative levels of education among the younger part of the population (which reflect more directly the impact of current educational investments) are not necessary the same as for the total population, nor for secondary and higher education as compared with total education. Some sample countries such as Luxembourg, Sweden and Switzerland show relatively low levels of investment in education.

Another way of helping to place people into productive activities is to have them in labour market programmes, such as programmes of employment training and public works. Of course, here the figures are normally much smaller than for education. In 1991 around 3 per cent of the OECD labour force participated in active labour market programmes i.e. about 2 per cent of the population. This measure is a flow measure of those entering such programmes during the year and it compares with the stock of unemployed of 7 per cent that year (OECD, 1992c).

The main influences are likely to be similar to those for education — the need for programmes, i.e. the rate of unemployment, the richness of the country and its propensity to invest. Large investments in active labour market policy measures are neither a characteristic of rich nor poor countries (cf. Table 1.5 where investments in active labour market programmes are measured by their share of GDP). Only Sweden in the more successful country group and Ireland among the poor countries belong to category 1, other members of category 1 are Denmark and Finland. All have GDP shares for active labour market programmes above 1.3 per cent. All except Sweden also belong to the high unemployment group. But there are ten other countries in the high unemployment group who do not invest so intensively in active labour market programmes.

While the active labour market policy measure are more or less voluntary the passive ones, mainly comprising early retirement and unemployment benefits, can be both legally more binding and also politically more compelling. The countries belonging to the high spending group in this respect (shares of GDP above 2 per cent), marked by a Figure 3 in the table, are a mixed group comprising Belgium, Canada, Denmark, Finland, Ireland, the Netherlands and Spain, but except for the Netherlands, they are all in the high unemployment group. Once again however, there are six other high unemployment countries who do not spend so heavily on passive labour market programmes: Australia, France, Greece, Italy, New Zealand, Turkey, and the United Kingdom. In summary, the thirteen high-unemployment countries have varying economic, employment and educational characteristics as well as differences

regarding labour market programmes. In contrast, the five low- unemployment countries form a more homogeneous group tending to be richer, more developed, and having small labour market programmes.

I.4 Flexibility in the labour market

Our last set of indicators has to do with the flexibility of the labour market and labour supply (see Table 1.5). "Wage rigidity" seeks to measure the amount of additional unemployment needed to offset the wage impact of a one percentage point price shock. The lower is wage rigidity the easier it is to keep employment high in spite of price shocks. In the same way a low equilibrium rate of unemployment can permit more demand pressure in an economy with less inflation. Finally, "responsiveness" is the elasticity with which the labour force reacts to changes in employment. It points to another mechanism evening out employment problems, i.e. if the labour force grows smaller as employment goes down then fewer will be recorded as unemployed. (On the other hand they will come back when the economy improves and thus will tend to slow down the reduction in unemployment during a recovery).

In general, it is believed that being unemployed can result in more "scarring" effects than being out of the labour force. Or one could say that the urgency of obtaining employment is likely to be greater for those who keep searching for work — and are thus classified as unemployed — versus those who are out of the labour force. In practice, the social and economic acceptability of this adaptational mechanism will depend on what type of activities people can pick up while being out of the labour force and how it influences unemployment and the long-run level and trend of the rate of labour force participation. If the latter is not changed and people, for example, study while leaving the labour force (thus improving their long-term prospects of obtaining work) it may be a very acceptable adaptational mechanism. Comparing Tables 1.5 and 1.3 we find that for the OECD countries the responsiveness factor is not negatively but rather positively correlated with labour force participation (Elmeskov, J. and K. Pichelman, 1993).

All the sample countries have a good or rather good performance with respect to the flexibility measures in general, but in varying combinations:

— The United States and Canada seem to rely only on wage flexibility for their good labour market results;

— Japan and Austria have both a high wage flexibility and a low equilibrium rate of unemployment, perhaps achieved by means of a high responsiveness of the labour force. Switzerland is in a similar position but with a somewhat lower degree of flexibility of wages;

— Sweden combines wage flexibility with a low rate of equilibrium unemployment, probably related to the high level of active labour market programmes.

Among the sample countries only Germany has mediocre results as to

flexibility as well as active labour market policies.

Other countries with showing good flexibility characteristics in one or more forms are:

— Finland and Norway, with respectively a high wage flexibility (combined with active labour market programmes) and a low equilibrium rate of unemployment and high responsiveness. Until recently they also used to have good labour market results;

— Greece, Iceland and Portugal have high labour force responsiveness but this on its own has not helped them to achieve good labour market results;

— Denmark and Ireland have relied on active labour market policies to a great extent but apparently without great labour market success.

As suggested by the countries in our sample group:

— High levels of human capital and flexibility seem needed to achieve a combination of high living standards, low unemployment and inflation;

— There are many aspects of flexibility. Both quantitative flexibility and price/wage flexibility seem important. A flexible labour force would include flexibility in total numbers as well as between sectors, occupations and regions. For good labour market results policies aiming at improving flexibility (e.g. active labour market policy and educational policy) should also help.

(Insert Figure 1.1 and Figure 1.2)

Table 1.1 **Ranking of OECD countries based on economic and unemployment indicators**

	GDP /cap 1990	GDP change 1980-90	Unemployment rate 1992	Unemployment change 1970-90	Inflation rate 1985-91
Australia	2	1	3	+	2
Austria	2	2	1	+	1
Belgium	2	2	3	+	1
Canada	1	2	3	+	2
Denmark	2	2	3	..	2
Finland	2	1	3	+	2
France	2	2	3	+	2
Germany	1	2	2	+	1
Greece	3	3	3	..	3
Iceland	2	2	1	..	3
Ireland	3	1	3	+	2
Italy	2	2	3	+	2
Japan	2	1	1	+	1
Luxembourg	1	1	1	..	1
Netherlands	2	3	2	+	1
New Zealand	3	3	3	..	3
Norway	2	2	2	..	2
Portugal	3	2	2	—	3
Spain	3	2	3	+	2
Sweden	2	3	2	0	2
Switzerland	1	2	1	..	2
Turkey	3	1	3	..	3
United Kingdom	2	2	3	+	2
United States	1	2	2	0	2

Notes:

1 = highest rank; 3 = lowest rank.
.. Data not available.

Sources: OECD, *Economic Outlook*, Paris, 1992; OECD, *Labour Force Statistics 1970-1990*, Paris, 1992; OECD, *OECD in Figures*, Paris, 1992; OECD, *Progress in Structural Reform*, Paris, 1992.

Table 1.2 **Ranking of OECD countries based on indicators of unemployment and self-employment**

	Long-term unemployment		Male/		Self-employed	
	level	change	female	Youth		Change
	1990	1979-90	1991	1991	1990	1980-90
Australia	2	+	+	2	2	—
Austria	..	..	..	..	2	—
Belgium	3	+	..	..	2	+
Canada	1	+	+	1	1	+
Denmark	2	—	..	..	1	—
Finland	2	+	+	2	2	+
France	3	+	—	3	2	—
Germany	3	+	—	1	1	+
Greece	..	..	..	..	3	—
Iceland	..	..	..	..	2	+
Ireland	3	+	+	1	3	+
Italy	3	+	—	3	3	+
Japan	2	+	=	3	2	—
Luxembourg	..	..	..	..	1	—
Netherlands	3	+	—	1	1	..
New Zealand	..	..	+	2	3	..
Norway	2	+	=	3	1	—
Portugal	..	..	—	3	3	—
Spain	3	+	—	2	3	—
Sweden	1	0	=	3	1	+
Switzerland	..	..	..	..	..	..
Turkey	..	..	..	..	3	..
United Kingdom	3	+	+	1	2	+
United States	1	0	=	3	1	—

Notes:

1 = highest rank; 3 = lowest rank.
.. Data not available.

Sources: OECD, *Economic Outlook*, Paris, 1992; OECD, *Labour Force Statistics 1970-1990*, Paris, 1992; OECD, *OECD in Figures*, Paris, 1992; OECD, *Progress in Structural Reform*, Paris, 1992.

Table 1.3 **Ranking of OECD countries based on employment indicators - labour force participation**

	Active population		Part-time	Employment
	rate	change	work	growth
	1991	1973-91		1980-1990
Australia	2	+	3	1
Austria	2	+	1	2
Belgium	2	+	2	3
Canada	1	+	2	1
Denmark	1	+	3	2
Finland	1	+	1	3
France	2	—	2	3
Germany	2	+	2	2
Greece	3	+	1	2
Iceland	1	+	..	1
Ireland	3	—	1	3
Italy	3	+	1	2
Japan	1	+	2	2
Luxembourg	..	+	1	1
Netherlands	2	+	3	..
New Zealand	2	+	3	..
Norway	1	+	3	2
Portugal	2	+	1	2
Spain	3	—	1	2
Sweden	1	+	3	3
Switzerland	1	—	..	2
Turkey	3	—	..	..
United Kingdom	1	+	3	3
United States	1	+	2	1

Notes:

1 = highest rank; 3 = lowest rank.
.. Data not available.

Sources: OECD, *Economic Outlook*, Paris, 1992; OECD, *Employment Outlook*, Paris, 1992; OECD, *Labour Force Statistics 1970-1990*, Paris, 1992; OECD, *OECD in Figures*, Paris, 1992; OECD, *Progress in Structural Reform*, Paris, 1992.

Table 1.4 **Ranking of OECD countries based on levels of education**

	Total population		Under 29 age group	
	Total education	Secondary + higher education	Total education	Secondary + higher education
Australia	2	2	1	2
Austria	3	2	2	2
Belgium	2	2	1	3
Canada	1	1	1	1
Denmark	2	1	2	2
Finland	2	..	2	2
France	1	1	1	2
Germany	3	1	2	1
Greece	2	2	..	..
Iceland	..	..	..	..
Ireland	1	1	1	3
Italy	2	2	2	3
Japan	2	2	1	1
Luxembourg	3	..	3	..
Netherlands	2	1	1	2
New Zealand	1	1	1	2
Norway	2	2	2	2
Portugal	..	..	3	3
Spain	1	1	1	3
Sweden	3	3	3	2
Switzerland	3	3	3	1
Turkey	2	3	3	..
United Kingdom	3	3	2	2
United States	1	1	2	1

Notes:

1 = highest rank; 3 = lowest rank.
.. Data not available.

Sources: OECD, *Economic Outlook*, Paris, 1992; OECD, *Education at a Glance*, Paris, 1992; OECD, *Labour Force Statistics 1970-1990*, Paris, 1992; OECD, *OECD in Figures*, Paris, 1992; OECD, *Progress in Structural Reform*, Paris, 1992.

Table 1.5 **Ranking of OECD countries based on indicators of labour market programmes and labour market flexibility**

	Labour market programme		Wage	Equilibrium	
	Active	Passive	rigidity	unemployment	Responsiveness
Australia	3	2	..	2	2
Austria	3	2	1	1	1
Belgium	2	3	2	2	3
Canada	3 (3)	2 (3)	1	3	2
Denmark	1	3	2	2	3
Finland	1	3	1	2	3
France	2	2	3	3	3
Germany	2	2	3	2	2
Greece	3	1	..	..	1
Iceland	..	..	..	..	1
Ireland	1	3	..	3	3
Italy	2	1	2	2	2
Japan	3	1	1	1	1
Luxembourg	3	1	..	..	..
Netherlands	2	3	3	2	3
New Zealand	2	2	..	2	2
Norway	2	2	..	1	1
Portugal	3	1	..	..	1
Spain	2	3	..	3	3
Sweden	1 (1)	1 (2)	1	1	2
Switzerland	3	1	2	1	1
Turkey	3	1	..	..	3
United Kingdom	3 (3)	1 (2)	3	3	3
United States	3 (3)	1 (1)	1	2	3

Notes:

1 = highest rank; 3 = lowest rank.

.. Data not available.

Labour market policy figures generally refer to 1990 except those within parenthesis which are for 1991.

Sources : Elmeskov, J. and K. Pichelman, *Unemployment and Labour Force Participation: Trends and Cycles*, OECD, Paris (forthcoming); Holmlund, B., Abertslösheten - konjunkturfenomen eller systemfel? Stockholm, 1993; OECD, *Economies in Transition: Structural Adjustments in OECD Countries*, Paris, 1989; OECD, *Employment Outlook*, Paris, 1992.

II. LABOUR MARKET POLICIES IN THE OECD COUNTRIES

II.1 The development of labour market policies in the OECD countries

After the second world war, full employment became the principal aim of policy in most OECD countries. During the 1950s and 1960s unemployment was low and economic growth strong and stable. However, in the late 1960s and during the 1970s economic problems started accumulating and unemployment has been growing more or less continuously since then. What happened to labour market policies during this period?

The development of labour market policies (as sketched by OECD documents) can be summarised as follows. During the 1950s and 1960s there were three main ideas:

— to improve the inflation-unemployment trade-off (stabilization and short-term efficiency goals);

— to develop human resources (long-term efficiency goals);

— to equalise labour market access (equity goals).

Measures concerning training and job creation for disadvantaged groups expanded and labour laws were sharpened. However, in practice, the OECD countries, except Sweden and Canada, preferred prices and incomes policies to active labour market policies to try to halt inflation.

In the 1970s, came the two oil-price shocks and with less successful stabilization policies and increasing unemployment, different types of labour market policies and programmes such as bridging measures, job creation in the public sector, local employment initiatives were tried more or less on an *ad hoc* basis. The overall economic policy remained, however, very restrictive and unemployment was not much reduced by these employment expedients. Thus, labour market policies were to a certain extent discredited during this period (Schwanse, P., 1991).

In the 1980s, interest turned to market mechanisms and deregulation. Labour market policies were rediscovered and reconsidered for their general efficiency effects. Emphasis was placed on labour market policies to assist structural reform and to foster labour market flexibility (OECD, 1990b). In spite of the prolonged economic boom the situation was, however, perceived as precarious from a macroeconomic point of view. Economic policies remained restrictive and in spite of these new types of labour market policies, unemployment did not disappear.

In 1990 a statement adopted by the Manpower and Social Affairs Committee of the OECD on the basis of an OECD Secretariat report "A New Framework for Labour Market Policies", was welcomed by the OECD Ministerial Council

(OECD, 1989a; OECD, 1990b). It is an important document that sought simultaneously to meet efficiency and equity objectives while building on the accumulated experience of labour market policy measures and the economic challenges.

The statement highlights three types of goals and measures:

1. Mobilising labour supply

The labour market policy measures implied under this heading are mainly training of the unemployed and employees at risk of being unemployed and vocational rehabilitation.

2. Developing employment-related skills

This area mainly relates to the educational system and the employers however labour market policies can also embrace the education and training of the unemployed and to some extent of employed persons.

3. Promoting a spirit of active search

Here the functioning of the Employment Services is relevant. A broad range of services should be supplied — information, counselling, job search and job motivation activities as well as the encouragement of self-employment.

Implicitly a shift from a passive labour market policy, i.e. income maintenance embracing unemployment and early retirement benefits, towards an active labour market policy was recommended. Moreover, the active measures should be such as to foster economic opportunity and improve matching and not involve resort to job creation in the public sector. Labour market policy is seen as a means to achieve structural market efficiency and at the same time provide for equity goals, with less emphasis on stabilization problems.

The basis for these recommendations, — the Secretariat report — contains first of all a description of labour market policies in the OECD countries and recent changes in labour market rules and regulations and labour market programmes. Regarding the latter, the following classification was introduced:

1. public employment services and administration;
2. labour market training;
3. youth measures;
4. subsidised employment;
5. measures for the disabled;
6. unemployment compensation;
7. early retirement for labour market reasons.

Categories 1-5 are the active measures and categories 6-7 the passive measures.

This classification has since been used for monitoring and analyses of labour market policies of the OECD countries and has been adapted to the three goals mentioned above as follows:

— *Mobilising labour supply*

- training for unemployed adults (subcategory of 2);
- measures for unemployed youth (subcategory of 3);
- subsidised employment, except in the public sector (subcategory of 4);
- vocational rehabilitation (subcategory of 5).

— *Developing employment-related skills*

- training for employees (subcategory of 2);
- support of apprenticeship and related forms of general youth training (subcategory of 3).

— *Promoting a spirit of active search*

- employment services (category 1).

The categories of the classification 1-7 that did not fit in with the new three goals are gathered together under the two headings:

— *Work as a social objective*

- public sector work (subcategory of 4);
- work for the disabled (subcategory of 5).

— *Passive measures*

- unemployment compensation (category 6);
- early retirement benefits (category 7).

In Chapter 3 we use a simplified version of this classification in discussing the components of the labour market programmes i.e. employment services, training, private sector employment, public sector employment, and income support.

Along with the descriptions and analyses of the regulations and labour market programmes, the OECD Secretariat report has some comments on the cost-effectiveness and efficiency of the measures although few results from evaluations and cost-benefit analyses could be reported. The general judgement was that "unless displacement is near total, the social rate of return from reintegration should quickly repay the investment implied by the difference between the cost of income support and that of more active measures".

The fact that the passive measures were de-emphasized does not imply a neglect of equity objectives. The three goals combine efficiency and equity effects. But measures with more or less exclusively equity effects such as public employment and the passive measures were judged less efficient even for equity reasons.

The "Framework" statement of 1990 was issued in the context of a decline in unemployment in the OECD area in each of the previous six years. However, unemployment in 1989 was still higher than in the peak year of the previous boom 1978-79 and long-term unemployment was high and seemed intractable in a number of European countries. Ministers felt that the unemployment problem was fundamentally structural in character and could not be cured by expansionary demand policies.

However, by 1992 the employment situation had not improved but rather had worsened with the onset of another recession. Disappointed by the unemployment situation, by the unsatisfactory results of structural policies in the field of labour, and in the light of the perceived non-sustainability of expansionary macroeconomic policies, the OECD Ministerial ordered a new Employment Study from the Secretariat.

At the 1993 Ministerial Council of the OECD the Secretary-General presented an Interim Report from the Employment/Unemployment Study (OECD, 1993c). Its main conclusions were the following:

— Macroeconomic policies should primarily aim at creating a stable framework for private sector activities and budget deficits should be reduced;

— Competition and technological change would help create new jobs;

— Wage/price flexibility is important for job development;

— Human capital development and enterprise creation should be encouraged;

— Active labour market policies could facilitate adjustments on the labour market;

— Policy coherence is necessary.

To avoid disappointing results with job creation programmes, — subsidised work and training having no measurable impact on later job-finding chances— active labour market policies have to adjust "to changing economic circumstances and focus on the longer-term supply enhancing aspects ... i.e. labour force participation, talent and qualifications as well as flexibility and adaptability". Job finding assistance to those in need, especially the long-term unemployed, is cited as one example of active labour market policy that can improve the allocative efficiency of the labour market.

As for coherence, it is particularly important that labour market policy and social policy be co-ordinated so as to become mutually reinforcing. Income protection and unemployment benefits as well as employment protection legislation should create incentives for labour market integration and efficiency. The communique from the Ministerial Meeting endorses a combination of structural reform policies and a "monetary and fiscal policy that will exploit the opportunities that may exist — without jeopardising the objectives of price stability and medium term budget consolidation" (OECD, 1993a).

In regard to structural policies, as well as wage adjustments, human capital, productivity and private sector development, the need to "promote and increase the effectiveness of active labour market and social policies aimed at the entry and re-reentry of workers into the labour market" was stressed by the Ministers.

In a number of respects the Interim Report follows the same line of reasoning as the Framework; thus, active labour market policies are highlighted with a focus on the more supply-oriented measures, and the dangers of passive measures and employment protection legislation are recognised. However, while the OECD Employment/Unemployment Study was due for completion in 1994, a few nuances at least at a general level already seem to exist between the Interim Report and the Framework. These relate in part to the evolving experience with labour market policies since the Framework and to a continuing evolution of views on their applicability and relevance.

II.2 The application of the OECD Framework in the OECD countries

In the overview we looked at the volume of active and passive labour market programmes in 1990/1991 and could not find any special associations between them and other variables. What do we find on the basis of the latest materials, including comparisons pre- and post-1985?[5]

Firstly, passive measures still dominate the labour market budgets of the OECD countries; only in Italy, Portugal, Sweden and Turkey do the active measures account for more than half of the budget and there — except for Sweden — because passive measures such as unemployment benefits are largely lacking.

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5. This section draws on OECD sources, including: OECD, 1992c; OECD, 1992h; OECD, 1993b.

Second, contrary to stated intentions, the outlays on active measures as a share of GDP have generally not increased. Over the 1985-1991 period the active programmes have as an average remained at a rather low level, slightly below 1/2 per cent of GDP, with some variations in the active as well as the passive measures according to the development of unemployment. Some small expenditure switching can, however, be noted in a few cases — France, Germany, Italy, Portugal, Spain and (in a situation of increasing unemployment) Finland and Switzerland — all managed to increase the share of GDP devoted to active labour market policies while reducing the one for passive policies.

Compared with 1985 the unemployment situation in 1991 looked worse in ten countries, better in twelve countries and was unchanged in one OECD country. Since then it has worsened in all OECD countries. However, only twelve countries had by 1991 increased their active labour market budgets as a share of GDP and eleven had reduced them so that on average the active policies as measured by the intensity of active labour market programmes per unemployed person have been reduced. For the countries where a follow-up for 1992/93 is possible, increases in both active and passive programmes have been noted especially in Germany and the Nordic countries.

The composition of active labour market policy measures has, however, changed. Seventeen OECD countries increased their budgets supporting measures aimed at mobilising labour supply (i.e. training for the unemployed, vocational rehabilitation, and subsidies to private sector employment). There was no clear increase in the resources devoted to active search and the change in favour of supply measures cannot be clearly identified with any other specific active category, e.g. work as a social objective. Moreover, the labour supply measures only reached around 2 per cent of the labour force while as noted above the stock of unemployed in the OECD area was around 7 per cent in 1991.

A possible conclusion thus is that the OECD countries, with conceivably the exception of Sweden, so far have not fully adopted the recommendations as to active labour market policies contained in the Framework.

II.3 Other policy areas

The following quotation from the Framework illustrates the way economic and full employment policies used to be seen as developing together in a long-term perspective in the OECD countries and laying the foundations for educational and social policies.

> "By offering all "breadwinners" the opportunity to support their families full employment ensured that mass poverty was largely eliminated. Full employment, and the economic growth associated with it, also formed the context in which the main programmes of social protection were developed and in turn greatly expanded. Health, education and old-age pension schemes were progressively extended to cover whole populations...Welfare payments supported those who were unable to work or were not part of a

settled family" (OECD, 1990b), p. 61).

Full employment and economic growth were mutually reinforcing during the 1950s and 1960s; they contributed to the development of social policy and the relations among them were not seen as very complicated.

The first complication to come to the fore was that between full employment and inflation. The special relation between economic and labour market policy for stabilization purposes and the necessity to have a comprehensive as well as a co-ordinated perspective is clearly expressed in the following statement from the Framework:

> "Labour market policies ... have an important role to play in improving macroeconomic performance by augmenting potential growth and removing inflationary bottlenecks. But the reverse relationship is equally important: the success of labour market policies will depend on the general economic climate and a reasonable pace of job-creating growth, hence on the pursuit of appropriate macroeconomic policies ... The fundamental challenge (is) to maintain this virtuous circle".

From a stabilization and growth perspective, labour market policy can reduce the risk of inflation and marginally reduce the cost of expansion. While this statement was made in 1990 it is true that successful implementation of the principles is more characteristic of the 1950s and 1960s than of the more problematic decades of the 1970s and 1980s. By the latter period, the influence of a better functioning labour market on improved macroeconomic performance and growth was more stressed than the opposite relation. The same point is made in OECD documents of 1993 (OECD, 1993a; OECD, 1993c).

As for the relations between economic, labour market, social and educational policies the latter two have also come to be seen as more active factors for good macroeconomic results than suggested by the first quotation. For equity, efficiency and budgetary reasons, social policies are being restructured so as to promote a more active society and to reinforce the incentives to go back to labour market activities.

Many of the social systems of the OECD countries have been based on an assumption of rather high economic growth and a rather low rate of unemployment. When these preconditions are no longer fulfilled something has to change — the turn-over in the systems, the level of benefits, or the financial resources devoted to the social systems. The more policies can promote an active society and the less people need to rely on the social systems, the better can the benefit levels be protected. Again, the 1993 OECD documents make this point very clear. The idea now is not simply that active labour market policies are to be preferred to passive ones but rather that labour market policies and social policies have to be efficiently combined.

Evidently, when social policies become more active this in turn also calls for more active labour market policies. With de-institutionalisation and mainstreaming of, for instance, health services for disabled people, and as more and more of the young

disabled are integrated in ordinary schools, this has to be followed up by labour market integration and more active and better co-ordinated labour market policies (OECD, 1992d).

Education and training are not only social goods but of fundamental importance for economic growth. With increasing global competition, a good basic education for the labour force and continuous further training has become more and more emphasized as a condition for successful economic development. However, the educational systems of the OECD countries are very complex and different the one from the other. Therefore the role and interrelation of educational and labour market policies is necessarily very different in one country from another (OECD, 1989b; Sohlman, A., 1992).

In some countries the vocational training of the young is provided for mainly by the enterprises as in Japan; in others, like Sweden, vocational training is through the educational system; in still others it is by the enterprises and the educational system in co-operation as under the German dual system, and in still others, the United Kingdom for example, there is no unified responsibility for vocational training.

In each of these four cases dealing with the outputs of the systems presents certain specific problems to the labour market authorities. In the first case, special problems may arise for the labour market insertion of the drop-outs and the poor performers and remedial training could be required (cf. the Youth Training Corps in the United States). When the "school" takes care of the vocational training a risk may be that the training becomes inadequate and that many young people need retraining by the labour market authorities. The dual system can result in too early a specialisation and less flexibility. In the last case, the risk is that the young get too little vocational training so that labour market training takes on a more massive character — as it does in the United Kingdom (OECD, 1990b; Schwanse, P. 1991).

For adults, labour market authorities are normally responsible for the vocational training of the unemployed but with a varying commitment to vocational training for employees; similarly, basic education for both employees and unemployed may also be needed to the extent that the other parts of the system do not meet these needs. Thus, depending on how the educational system at basic and vocational level is built up, what public and private providers of training there are, the need for the labour market authorities to create training centres of their own will also vary. Though the OECD has studied the educational questions for a long time no definite conclusions as to efficient systems from a labour market point of view have emerged as can be seen in the 1993 OECD documents cited earlier.

Labour market policies that increase the efficiency of the labour market are one example of structural policies that influence the performance of the total economy. Other examples, besides educational and social policies, are wage policies, trade, technology and types of policies increasing competition. In the Framework, active labour market policies stood out as the structural policy *par excellence* but in 1993 they tended more to be seen as one of a number of different types of structural policies that for efficiency reasons have to be pursued — and pursued much more

vigorously — than was thought earlier.

The way wage and other structural policies are conducted, of course, also influences the role of labour market policy. To what extent do the government and enterprises rely on internal and external labour markets in making structural changes and in accommodating new training needs? Do enterprises provide for their new training needs themselves or do they expect them to be satisfied by the education and training system or by other firms? Does the wage system encourage enterprises and employees to invest in on-the-job training?

In Japan the internal labour markets are very important while in the United States the firms make greater use of the external ones. In Europe the reaction to change may initially be to rely on internal adaptations while in a long-term perspective adaptations may also involve external markets. The more use is made of internal markets the less the need for labour market authorities to get involved in lay-off services and training of employees, but the harder they may have to work for the outsiders to get into the enterprises[6].

All these complexities and interrelationships between labour market policy, economic, social, educational and other structural policies explain why the calls for cohesion, integration and co-ordination have become legion. Co-ordination is, of course, desirable, but is often difficult to achieve. Labour market policy tends to be short-term and action oriented while, for instance, educational and social policies are more long-term, and culturally and socially oriented. There will probably always be some tensions between these different types of policies and the cultures they relate to.

Labour market policy as well as the other interrelated policies should to some extent be regarded as endogenous, reflecting different overall market regimes or models for society. These models make both political and economic processes work and involve basic social values and attitudes and try to strike a balance between social justice and different types of adaptational processes[7]. The flexibility indicators we discussed in Section I.2 are generally not parameters that can be introduced and phased out at will. However, in 1993 the main co-ordination concern for the labour market is less to do with broad societal aspects as with the more practical co-ordination between labour market policies and social policy.

To summarise, in 1993 the main concerns relating to labour market policies appear in the following guises:

— Labour market and social policy, active and passive labour market

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6. Among references on training see OECD Documents: OECD, 1989d; OECD, 1993b. Other sources are: Pons, P., 1992; Siven, C-H., ed. 1993; Sohlman A., 1992a and 1992b.

7. Among others, see: Bourdet, Y. and I. Persson, 1992a and 1992b; Edling, J., 1992; EFA, 1993; OECD, 1992c; OECD, 1993a; OECD, 1993c.

measures have to be co-ordinated;

— Structural reforms are necessary and labour market policies are one part, but not the only part of structural policies;

— Structural policies have to take care of job creation; the scope for macroeconomic expansionary policies is very limited.

II.4 Consensus about labour market policies?

There are many points where a consensus about the general approach to labour market policies exists in the OECD Framework and 1993 documents and in the general debate on labour market policies. To give two examples:

1. Labour market policies as part of structural reform policies can contribute to efficiency in case of market failures, e.g.:

   — when firms and individuals tend to underinvest in training;

   — when information is lacking.

At a theoretical level, there would not be much disagreement over these issues but it is, of course much more difficult in a practical situation to identify market and policy failures and to do something about them without making things even worse (see Chapter 3).

2. Labour market programmes are interesting because normally they embrace not only efficiency or stabilization effects but also equity effects. Among, for instance, the long-term unemployed that are an important target group for efficiency and stabilization-motivated programmes, many disadvantaged groups such as disabled, sole parents, homeless etc. will be found.

The divergencies of view seem to stem from other considerations and questions concerning deregulation, the macroeconomic consequences of labour market programmes and the role of macroeconomic policies[8]:

1. Labour market deregulation. To what extent can labour market deregulation help to make the labour market more flexible and therefore more efficient? As we will see in Section III.1, empirically only a few types of regulations have recently been evaluated. Some basic rules and regulations are necessary for the functioning of the labour market but too

8. Recent references on this topic include: Calmfors, L., 1993a, 1993b and 1993c; EFA, 1993; Layard, R.S., Nickell and R. Jackman, 1991; Llewellyn, J. and S. Potter, ed., 1991; Solow, R., 1990; Summers, L.H., 1990.

rigid a reglementation is, of course, a hindrance for efficient adaptation. The basic necessary regulations have not been clearly identified while some dysfunctional ones have. Trade unions and employers also have different opinions about what regulations belong to the one and the other category (see ILO documents, 1992a and b).

2. Macroeconomic effects. Active labour market programmes have been supposed to make the labour market more flexible and to decrease the number of unemployed required to put a given degree of downward pressure on wages. On the other hand, by the same logic, some active labour market programmes such as public works could indirectly raise unemployment by generating higher wage pressure because actual and potential participants perceive such programmes as near-substitutes for regular employment.

Empirical evidence has been found supporting both these hypotheses: cross-country comparisons in the first case and wage studies in the second case. However, the data base is limited and uncertain as few countries have really tried the active labour market programmes (OECD, 1993b). In Sweden, where they have been applied on a rather large scale, some recent studies conclude that it is quite possible that labour market policy measures are neutral or positive from a macroeconomic stabilization point of view (EFA, 1993; Löfgren, K-G. and M. Wikström, 1991) while another leans towards support of the view that they have negative effects on unemployment (Calmfors, L. 1993c).

There is perhaps signs of an emerging consensus to the effect that the influence of labour market policies on inflation will depend on how labour market policies are conducted. If they are geared at disadvantaged groups in booms and aim at reducing long-term unemployment during recessions, and if they are swiftly expanded and contracted as the business cycle develops, the chances are greater that they will not increase inflation. If they are geared at insiders, e.g. training for already employed, if they use a high level of recompensation, if they are carried out on a massive scale irrespective of the situation on the labour market and do not prevent increases in the duration of unemployment benefit periods, then they risk to increase inflation (Calmfors, L. 1993b; Calmfors, L. 1993c).

However, if the hypothesis is correct that open unemployment reduces real wages more in the short or long run than the alternatives, this would mean that cost adjustments would be slower not only with labour market programmes but with all types of stabilization policy measures. In this context an advantage with active labour market policy measures is that they have other positive effects, both short-term and long-term, that normal stabilization policies do not have (Löfgren, K-G. and M. Wikström, 1991; OECD, 1992h).

3. Although the OECD Secretariat and to some degree the Ministerial Council have settled for a limited scope for macroeconomic policies, some recent research has pointed to the conclusion that a more expansionary macroeconomic policy would be possible given the existing flexibility of

markets (Milleron, J.-C. and O. Garnier, 1991). However, it has proved very difficult to obtain co-ordinated international action to tackle the macroeconomic problems of unemployment by expansionary economic measures. Fear of reappearing inflation is one obvious explanation but another one — until recently — may be that less political priority has been given to fighting unemployment as compared with earlier periods in the history of the OECD.

4. Parallel to this discussion about the relationship between macroeconomic policy and labour market policy is another debate about whether or not labour market policy can create jobs[9]. While it is sometimes argued that labour market policy cannot create jobs others prefer a more nuanced approach. Labour market policy can make vacancies to be filled more rapidly than otherwise, discover vacancies and fill them, make it possible for people to get more productive jobs, dissolve bottlenecks, and help start new business. In such ways labour market policy at least contributes to having more work and more productive work done, to reduce future unemployment, and sometimes also to create really new jobs in the economy.

At the same time it is true that in many instances labour market policies only redistribute jobs. The more slack there is on the labour market the greater this risk will be. Redistributional effects may, of course, still be valuable if people that otherwise would be excluded from the labour market thus could keep in touch with it and avoid ending up as long-term unemployed. However, for real non-marginal long-term job creation labour market policy on its own cannot do much. Its role is rather to complement macroeconomic or whatever other types of policies used in promoting job creation.

Redistribution, substitution, and displacement effects should be carefully monitored and considered in evaluations as we will see in Section III. The OECD countries have given very different priorities to the equity components of labour market programmes — as we will also review in Section III.

9. See, among others, EC and ILO discussions relating to this question: Commission of the European Communities, 1992a, 1992b; ILO, 1992a, 1992b.

[10] III. THE COMPONENTS OF LABOUR MARKET POLICIES

We will divide labour market policy measures into six groups, corresponding to the basic legal provisions for the functioning of the labour market (Section III.1), growth or efficiency oriented measures, i.e. the employment services (Section III.2), training and vocational rehabilitation (Section III.3) and measures to stimulate private sector employment (Section III.4). Socially oriented labour market measures including public sector employment, work for the disabled, and income maintenance measures are dealt with in Sections III.5 and III.6. All these are measures more or less exclusively within the realm of typical ministries of labour. Economic, educational, social, industrial, and regional policies are also very important for the development of employment are outside the scope of this study as are the employment strategies of enterprises.

OECD statistics are used in describing the various categories of policy, mainly with reference to the period 1985-1991. For evaluations we draw upon a variety of studies — a variety that reflects in part the complexity of the issues in such studies. Some discussion of these complexities is in order before proceeding further.

What we would like to know is what would happen if the government: (a) introduces a new labour regulation or (b) raises taxes or borrows money to expand labour market training or introduce wage subsidies or recruit more people to the public sector — all compared with what would have happened without these initiatives, i.e. without additional taxation and spending. We would like to be able to distinguish the short-term effects as well as the long-term effects, the static as well as the dynamic effects, and the direct effects as well as the indirect effects via e.g. changes in wages and prices. Further, we would like to know the productivity of the unemployed if they were to work for the public sector as compared with what it would have been if they remained unemployed. Knowing all this we would have an idea of which among the alternative policies would be economically more efficient — but still it would often be difficult to pass an overall judgement because the distribution of employment and income would probably differ among the alternatives and efficiency and equity aspects also have to be considered.

Efficiency can be described as consisting of two things: doing the right things and doing the right things as cheaply as possible. Cost-benefit analysis is normally concerned with identifying the optimum package whereas cost-effectiveness analysis confines itself to the easier task of finding out the cheapest way of doing a given thing. Even with the cost-effectiveness measures there are still formidable problems relating to:

— the deadweight a programme carries — e.g. the number of employees or participants that the programme subsidizes but who would have been participants without the subsidy;

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— the displacement and substitution effects of a programme — which concerns the number of jobs lost or not created elsewhere because of the programme.

Another distinction is sometimes made between external and internal efficiency. An agency can organise itself internally more or less efficiently, its administration, its information systems etc. and handle its external activities, its contacts with the outside world more or less inefficiently.

For methodological reasons and because of variations in the actual implementation of the different labour market programmes and the circumstances for their implementation, the results of the evaluation studies have to be interpreted with great care. The results are also sometimes conflicting. Only recently have evaluation studies become more common and in most areas there is not yet enough of them for a definite pattern to crystallize.

In the final summary (Section III.7) we will, nevertheless, try to draw some conclusions and make a provisional ranking list of measures. The recommendations of the Framework could not rely on such results, as they have only appeared since 1991[11].

III.1 Legal framework and institutions

The amount of legislation directly and indirectly influencing the labour market is, of course, enormous. What we will do in this section is just to point out the most important labour market regulations beginning with those backing up the labour market institutions, the actors in the labour market and continuing with those controlling the mechanisms at play on the labour market.

Institutions

Important regulations in this area are those concerning unions and employers' organisations, their rights and obligations not least with respect to collective bargaining. In the public sector one would also usually find institutions such as ministries and different types of boards and administrations as well as courts and arbitrators dealing with litigation between employees and employers. Another important actor would be the public employment services, with perhaps a national, regional and local organisation.

The division of work between state regulation and collective bargaining is very important and varies considerably between countries. In some, like Denmark, very much is left to be decided by the partners on the labour market while in other countries, like in France and Italy, much more is regulated by law.

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11. See Björklund, A., R. Haveman, R. Hollister, and B. Holmlund, 1991; Commission of the European Communities, 1992a and 1992b; EFA, 1993; Fretwell, D., 1992; Leigh, D., 1992; OECD, 1991a; OECD, 1993b.

This division of work is, of course, as many other aspects of the labour market influenced by the degree of unionisation. In the OECD countries it varies from a low 10-15 per cent in France, Spain, and the United States to 70-80 per cent in Denmark, Finland, and Sweden. The tendency of the 1980s has been one of decreasing unionisation after the opposite tendency of the 1970s (OECD, 1991a; Visser & Jelle, 1992).

Processes and activities

These mainly concern the regulation of collective bargaining and employment contracts.

There is normally a comprehensive set of rules for the bargaining process, including the way lock-outs and strikes could be organised and implemented, whether negotiations are centralised or decentralised etc. In some countries a whole set of wages or only some wages, e.g. minimum wages, are directly regulated by law.

Contractual aspects concern the duration and work-time arrangements including overtime, probation, dismissals and redundancy warning systems, indemnities and the working environment including worker safety, severance payments, pensions, notification of vacancies, discrimination on grounds of race, gender, colour, religion, disability etc. Arrangements for paid leave - for studies, child-bearing, child-caring, etc., are often covered and the types of jobs open to certain categories of workers, e.g., young workers and women.

As we will discuss in Section III.5 some OECD countries have — as a complement to the regulation of the rehabilitation and the non discrimination of disabled people — mandated quota systems under which employers must have a certain percentage of disabled on their payrolls (e.g., in Germany, Japan, and recently in the Netherlands). In some cases these systems have been turned into quota-levy systems where the employers who do not have the prescribed number of disabled on their payroll instead pay a levy (France, Germany, and Japan). This money can then be used to finance rehabilitation programmes for recruitment and employment of people with disabilities (OECD, 1992d).

Workers and their representatives can have a right to be informed and consulted on various matters and also have legal rights to take part in the related decision-making process in the enterprises.

Assessment

The 1980s was a decade of discussion of deregulation and in some OECD counties labour market deregulations were introduced. Evaluations of these changes are only slowly appearing and are still rather few. In the field of collective bargaining some early research tended to show that centralised collective bargaining and

decentralised collective bargain were to be preferred to bargaining at an intermediate, industry level if inflation was to be contained (OECD, 1992h). Further theoretical and empirical research has produced a more complex picture of economically efficient bargaining systems (Calmfors, L., 1993a, 1993b; SOU, 1993:16) and other regulations. Some typical findings are as follows:

— The bargaining process has to adapt to specific national and industrial conditions. In some cases centralised negotiations are excluded for lack of national traditions e.g. in the United States;

— Centralised negotiations can be harmful, e.g. when relative wage adaptations are precluded or when centralised bargaining *de facto* turns into multilevel negotiations which has been the case in Scandinavia. Such negotiations are less harmful when international competition is vigorous;

— Negotiations at the firm level are generally more effective if there are many firms and perhaps are the best model for the public sector;

— A consensus favouring firm-level bargaining with co-ordination achieved through some big multinational enterprises as trend setters seems to be evolving, at least as a first best approximation of an efficient organisation of collective bargaining;

— Minimum wages are suspected of increasing unemployment, especially when combined with strict labour protection legislation and high social contributions and when they apply to young people. France is one case in point;

— Minimum wage setting tends to price low-productivity workers out of the market. On the other hand, employers could have monopsony power in some segmented labour markets, in which case minimum wages could increase wages and employment. Empirical studies tend to show modest effects of minimum wages on total equilibrium unemployment. In the Interim report to the OECD Ministerial Council, wage subsidies for families with low incomes are preferred on efficiency grounds to minimum wages to relieve poverty.

A different set of arguments relates to wage links to firm profits. Only in Japan does "share income" form a sizeable part of total employee compensation. Such systems could have a strong stabilizing influence on employment over the business cycle but it is less clear that they have any employment-generation effects (Siven, C-H., ed., 1993).

To some extent, the OECD countries have eased their employment protection legislation on dismissals, fixed-term and part-term contracts, out-contracting to temporary work agencies, severance payments and notice periods during the 1980s, for instance in Belgium, the Netherlands, Germany, France, Spain, and the United

Kingdom[12].

With respect to employment protection countries have been ranked as follows: 1. Italy, 2. Belgium, 3. France, 4. Sweden, 5. Germany, 6. Japan, 7. Great Britain, 8. the Netherlands, 9. Denmark, and 10. the United States. The general theoretical and empirical finding is that employment protection reduces the variability of employment over the business cycle. It represents costs to the employers and makes the employers hesitant both to hire and fire employees. There is no definite evidence that employment protection is related to the level of unemployment, though long-term unemployment may be increased.

Looking at the separate components of employment protection, part-time and fixed-term work has increased but not only as a result of the regulatory changes and to a varying extent in different countries. Thus in Spain fixed-term contracts have recently been applied under almost all new contracts while applying to less than 1 per cent of new contracts in Germany.

In some countries fixed-term contracts can extend over an indefinite time period (Denmark, the Netherlands, and the United Kingdom) in other countries an upper limit is imposed (to e.g., 3 years in Spain, 2 years in France, 1.5 years in Germany, 1 year in Italy and 6 months in Sweden). The effects of fixed-term contracts are the same as for overall employment protection: tending to reduce variability over the business cycle without affecting the level of unemployment. It has, however, been found in France and Spain that temporary contracts can be used to reduce long-term unemployment and it has also suggested that relaxation of the rules for fixed-term contracts could be used at least temporarily to get out of a deep recession (SOU, 1993:16).

Severance payments were on the other hand, at least in one case, found to have a detrimental effect on the level of unemployment. Also, if for different reasons labour hoarding is a problem, severance payments can make the situation worse.

The hiring-firing rules of "last-in-first-out" can also impose costs on the employer which would tend to make them have the same efficiency effects as other kinds of employment protection legislation. On the distributional side they have been found to prevent negative signalling effects. Those who lose their jobs are not necessarily the lowest productivity workers.

Legislation of working time has been used in attempts to ameliorate unemployment problems by reducing working hours, promoting part-time work and work-sharing, introducing early retirement systems and relaxing eligibility criteria for invalidity pensions (a matter we will revisit in Section III.6). Of course, all changes that promote voluntary flexibility and adjustments in pension schemes that are actuarially

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12. See OECD *Employment Outlook*, various issues, and Schwanse, P., 1991; Holmlund, B., 1993; OECD, 1993e. General references for this section are Holmlund, B., 1993 and OECD, 1990b; OECD, 1993e; OECD, 1993f.

neutral will increase efficiency on the labour market. Such measures can give some short-term relief, for example, shorter working hours can spread the burden of a recession more evenly while keeping workers attached to the work place. In Germany such part-time work schemes have also been combined with training. However, if not limited in time they quickly become counter-productive as pressure on wages will be increased by the "insiders" as the employers are relieved of some of their payments. Moreover, both reduced working hours and more generous pension schemes reduce the supply of labour. Thus in the long run, wages will tend to rise and unemployment increase again. Also for demographic reasons such measures are not well suited to the present situation of the OECD countries.

A rule that has a rather good reputation is the one that requires an advance notice of lay-offs. It has existed in Europe for most of a century and by now exists in almost all other OECD countries as well. Federal legislation was introduced in the United States in 1989. If the advance notice is not too short, two or three weeks, or not too long, one or two years, it may help shorten the duration of unemployment of displaced workers. Employers neither seem to have been deterred from hiring by this rule nor has the productivity of the work force been adversely affected during the advance notification period (Fretwell, D., 1992; OECD, 1991a). Evaluations in the United States show that it is the probability of becoming unemployed that is reduced by advance notice rather than the time in unemployment once unemployment occurs. Workers not receiving advance notice had as an average one month longer time in unemployment than workers receiving advance notice; differences were important between demographic groups.

Notification of vacancies to public employment agencies is compulsory in some countries (Belgium, France, Italy, Norway, Sweden, and Spain) though it is not clear whether this type of regulation does much to influence the market share of the public employment services in placements. Sweden has a vacancy registration that accounts for two thirds of the vacancies as compared with 10-40 per cent in unregulated countries like Australia, Canada, Finland, Germany, and the United Kingdom. However, the other countries with regulated vacancy notification do not seem to achieve as high figures as Sweden. Perhaps good services to the employers is more important for the market shares. Frequently such regulations are not actively enforced (Fretwell, 1992; OECD, 1990a and 1990b; OECD, 1992c).

The impact of regulations relating to institutions and actors has not been evaluated especially in terms of international comparison. This, of course, does not mean that the OECD countries do not have a lot of experience that can be useful for other countries, only that the experience is less readily accessible and perhaps has to be dealt with in bilateral co-operation.

However, for the organisation of one of the actors on the labour market, the public employment services, there is much more documented experience. We now turn to that very interesting institution.

III.2 Employment services[13]

Labour market programmes can be divided into "core" services, active programmes and passive programmes. In some OECD countries all three activities are handled by the public employment services (in Australia, Germany, Japan, Norway, Spain, and the United Kingdom). In some countries the public employment services are even in charge of social assistance for the unemployed (e.g. in Japan and the United Kingdom). Other OECD countries have separated so-called core functions (essentially employment services to match job-seekers and vacancies) and other functions. Often the passive programmes are handled apart as in Belgium, Canada, France, Ireland, the Netherlands, Sweden, and the United States.

Though the responsibility for active programmes may rest with the public employment services it is not necessarily the employment services that undertake activities such as training. Frequently, services are purchased from other institutions which is the case in, for instance, Sweden, the United Kingdom, the United States, and Canada. Sometimes these purchases are in addition to the provision of training in centres run by the public employment services themselves (as in Japan, Norway, and Spain). Sometimes the external purchases account for all the training (as in Sweden).

With respect to the division of programmes between authorities, no clear pattern seems to have established itself. Some countries have also changed back and forth — disintegrating and integrating active and passive programmes as the United Kingdom has done.

The advantages of having all programmes administered by the public employment services provide a potential for improved co-ordination and direct access to placement and active programmes for clients receiving income support. The disadvantages may be centralisation, reduced flexibility and stigmatisation — the public employment services can get the reputation of "unemployment offices". Also, in recessions, local offices may see all their personnel being absorbed by unemployment compensation problems if strict appointment rules are not applied. However, the fundamental issue is the outcome — on the one hand co-ordination between passive and active measures and, on the other, their autonomy, which careful planning should be able to achieve whatever the organisational structure.

Public and private employment services

Some OECD countries freely allow private employment services (for example the United States and the United Kingdom), others only under more or less rigid regulation and licensing (Germany and Japan) and still others have forbidden them (Turkey).

Private agencies normally provide parallel core placement services but they

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13. Key references for this section are Fretwell, D., 1992; OECD, 1990b; OECD, 1992c; OECD, 1992j; OECD, 1993f.

seldom administer cash benefit programmes. Generally they are financed by employer charges and only cover a small part of the market. They target other groups than do the public agencies (white collar workers, people changing jobs) and are mostly located in big cities. Head-hunting firms, temporary work agencies, employee-leasing firms, and outplacement companies are examples of private firms in this category.

Where the public employment services cannot fulfil all market needs "regulated private placement agencies and temporary work agencies can play a useful complementary (sometimes even dominant) role" (OECD, 1993c).

The public employment services can also have an interest in co-operating with private enterprises, local communities and other bodies to find jobs for unemployed workers, especially in cases of industrial restructuring but also for groups at risk of marginalisation, the long-term unemployed and the disabled. Many EC countries have developed this type of co-operation with local actors and in, for instance, Japan, co-operation between the employment services and enterprises is well developed (OECD, 1992j).

Administrative structure and financing of the employment services

Three administrative models of public employment service have developed in the OECD countries: (a) as a field service of the ministry of labour (in Australia and Japan); (b) as an institution with some degree of autonomy (in Ireland, Canada, Turkey, Germany, Norway, Spain, Sweden, and the United Kingdom); and (c) as a service controlled by local government organisations (in the United States and Switzerland).

The trend seems to be for local offices to be arms of the national office while maintaining a great deal of local autonomy. In this way, a balance can be struck between flexibility and commonality of policies and services. Decentralisation is combined with central standards.

Usually core and active employment programmes are publicly financed from general tax revenues while income-support programmes are financed from payroll taxes and/or general taxes. Exceptions are Germany, Japan and Canada where all programmes are financed by the employees and the employers, and Ireland and Australia, where central budget funds are used for all programmes.

In practice, passive programmes would tend to crowd out core activities and active programmes generally if no restrictions are imposed. As we discussed earlier, despite stated intentions to the contrary, the OECD countries have found it difficult to change the composition of their labour market budgets to favour active policies.

Core activities

The core activities mainly consist of the following types of services:

— labour exchange services; listing job vacancies, job-seekers and matching the two. Different methods may be used: self-service systems that are more or less open, cards, newspapers, computers, personal counselling;

— job development; active contacts with employers to find out more about reported vacancies, needs and requirements;

— client assessment and counselling; interest and aptitude assessment, occupational and training information;

— job search and job clubs; job search training is aimed at helping clients find jobs and discover employment possibilities. Job clubs cover the same area, but add an element of the mutual assistance among the clients themselves (see Box A);

— relocation assistance; assistance with fares for job search, lodging, household removal, house sales and purchases;

— industrial adjustment - mass lay-off services; often delivered on-site in co-operation with local organisations, unions and employers, these services consist of assessment of the workers affected and the establishment of individual action plans;

— labour market information; the employment service is both a provider and user of labour market information — for employment counselling, strategies for training, advising employers etc.

Resources and market shares

In the OECD countries the share of GDP devoted to public employment services varies between 0.02 per cent and 0.22 per cent. The countries with the highest shares are Belgium, Canada, Germany, and Sweden. The number of public employment services employees per 1 000 persons in the labour force varies from 0.1 to 2.3, i.e. one staff member serves around 400-10 000 persons in the labour force. In this case, Ireland and the Netherlands form part of the group with large numbers of employees as well as the countries with high GPD shares listed above.

In regard to the number of unemployed per staff member, only somewhat older figures, from 1988, exist. They indicate that in Sweden and Switzerland there were around 10 unemployed per staff member. A number of countries had figures around 30-50. Another group of countries had figures around 100. The highest figure was 1380 in the case of Turkey.

Local-level employment offices would normally have most of the staff. In, for instance Japan, Norway, and the United Kingdom they had 80 per cent of the staff (but in Spain only 50 per cent). One local staff or more per 1000 persons in the labour

force was noted in Finland, Germany, Norway, Sweden, and the United Kingdom.

The market share of the public employment services is often surprisingly low. As reported by employers and job-seekers, 30 per cent of the search activities undertaken through the public employment services is a good result (Japan and the United Kingdom). However figures of 5-10 per cent may be common (the Netherlands and Norway). The most common search channels are advertisements and personal contacts. They normally account for one third each of the search activities.

Generally, public employment services have a higher market share for manual workers than for non manual workers. The unemployed are also more often in contact with the public employment services than those who look for a change in employment. The former may, of course, be more or less forced to contact the public employment services in order to obtain unemployment benefits.

Role and strategies for public employment services

The employment services have to formulate strategies for their work and organisation that answer a number of questions, including:

— how much to work with job-seekers versus employers;
— how much to work with unemployed versus other job-seekers;
— how much to work at local, regional, and national level.

Four aspects that seem to be important for efficient employment services have come more and more into focus. These can be described under the four headings of national and local co-ordination; targeting, counselling and co-ordination; the programming of contacts; and efficiency versus equity.

(a) National and local co-ordination

If employment policies are to be efficient, the programme activities have to be adapted to local circumstances. This means decentralisation. The local employment offices need to have some discretionary powers and the policy instruments should:

— not be too strictly regulated;

— enable a wide rage of local activities;

— be able to combine with local activities and funds (Commission of the European Communities, 1992a).

In exchange for delegating more decision making power to the local level, national authorities should set up more explicit goals and requirements, and introduce more management by objectives with clear criteria against which the results of the local offices are to be evaluated and compensated.

(b) Targeting, counselling and the co-ordination of core and active programmes

Targeting and counselling are normal core activities but it is easy to underestimate their value as a prerequisite for efficient co-ordination of core and active programmes, the implementation of job search, training etc. More and better targeting and counselling could therefore raise the efficiency of labour market policies more generally.

When very broad groups are eligible for programmes, costs can rapidly increase even though many of the participants get little from the programmes. Of course, there can be a risk with too narrow a targeting and self-selection that workers who really need assistance are excluded.

Linked to targeting is counselling. Core activities as well as active programmes generally need to match the needs of the clients with the labour market and training possibilities. Careful counselling is in many cases a necessary prerequisite for this type of matching.

To be able to work efficiently with targeting, counselling and co-ordination the public employment services also need rather detailed evaluations of labour market programmes.

(c) Programming of contacts with the unemployed

More and more countries have introduced programmed contacts for the unemployed (France, Norway, and the United Kingdom). A goal might, for instance, be set up that all unemployed or long-term unemployed should have a renewed contact with the employment services before a certain date. A schedule for contacts, counselling and training offers may also be a useful working instrument (see Box B).

(d) Efficiency versus equity

The employment services have to strike a balance between working with disadvantaged groups and other groups of job-seekers and employers. It is not possible for the public employment services to work only with disadvantaged groups. Good contacts with the employers are necessary to be able to do something for the disadvantaged and to promote good contacts with the employers the public employment offices have to be able to offer them more than only unemployed, disadvantaged groups.

Assessment

Results based on studies in a number of countries lead to the conclusion that core employment services generally are cost-effective. Counselling and job search activities have normally been found to be very inexpensive — much more so per participant than training and public employment. As reported, in a recent EC study comparing different labour market policy measures; on a per job entry basis they were typically cheaper by a factor 1/10 - 1/30 (Commission of the European Communities,

1992a; Commission of the European Communities, 1992b). Also, when packages of measures for dislocated workers have been evaluated, matching and job search have been found to be among the least expensive parts of such packages (see Section III.3).

However, the core activities include a number of different types of activities and they have, not surprisingly, been applied in different circumstances, to different groups, in different ways and with different results. Like most other labour market policy measures they have not been evaluated in all details. Below we will report on existing evidence for the external efficiency of different employment services — counselling and job search, relocation assistance and mass lay-off services — and the internal efficiency of the organisation of employment services.

(a) External efficiency

Counselling and job search. In the EC study mentioned above, job clubs, counselling, and job search courses — in that ranking order — were found to be the most cost-effective measures in terms of costs per additional job entry. They were, however, like all other labour market measures evaluated, judged to have a high displacement effect and carry a respectively low, medium, and high deadweight. To interpret these results and those reported below from the same study for training, public works etc., it should be kept in mind that the study was focused on the long-term unemployed and was carried out during a recession. This may explain why displacement effects were generally found to be very high not only for placement measures but also for training and temporary work. Only private sector employment did not suffer from high displacement effects.

The OECD survey (OECD, 1993b) also highlights the positive effects of counselling, especially when targeted. In Sweden studies have generally found intensified employment services to yield positive results and evidence that job search activities are cost-effective. However, a study for northern Sweden showed no improvements in results for the intensification of core activities beyond the results achieved through regular employment services (EFA, 1993b; OECD, 1993b).

In the United Kingdom a study concluded that the public employment services produced benefits exceeding the value of resources used. In the United States the cost-effectiveness of the public employment services was found to compare favourably with other government programmes. In Canada the placement and counselling functions were found to be most efficient when directed to specific situations such as plant closures and mass lay-offs, skill shortages, and services to the employment disadvantaged. In other situations the rationale for continuing a publicly-funded employment service would more lie with its equity objectives than with the conventional justification of its brokerage function to match workers efficiently with vacant jobs. Its most prominent role would be to deliver labour market programmes such as job creation and training.

As for dislocation programmes, one study based on data from the United States concluded that well-structured job search and assistance could be helpful (Björklund, A., R. Haveman, R. Hollister, and B. Holmlund, 1991) while another study

also drawing upon American data found positive cost-benefit results (Leigh, D., 1992). Job search activities combined with a bonus for taking a job within a certain time limit can further improve the results of job search activities (cf. Section III.4.).

Relocation assistance. Relocation assistance has not been extensively used as a labour market policy measure. From a political point of view, geographical mobility has been controversial and one has preferred to try to find jobs for unemployed people where they live. However, these types of measure can also be quite cheap but might carry a heavy deadweight.

In Sweden some studies have pointed to high pay offs for geographical mobility assistance but not under all circumstances and not always for the individual and/or society (Björklund, A., R. Haveman, R. Hollister, and B. Holmlund, 1991). In the more qualitative assessment of measures for dislocated workers, relocation assistance was not judged as being as helpful as job search and counselling (Eliasson, G., 1992).

Mass lay-off services. The Canadian IAS (Industrial Adjustment Services) found that the programme virtually pays for itself via savings in the form of reduced unemployment compensation outlays. An early start for job-search and counselling is an important ingredient for success as witnessed, for example by practical experience with mines and shipyards in Sweden; shipyards and steel industry in Germany; and coal mines and the steel industry in France (Council of Europe, 1991; Ministry of Industry, Ministry of Labour, 1991).

(b) Internal efficiency

Organisational measures are rarely evaluated. However, it seems that:

— It may be cost-effective to automate the employment services as a means of increasing both their internal and external efficiency;

— An organisation with self-service and easy access to vacancies is cost-effective. Clients get quicker service and staff resources are released for work with more difficult cases. Employers do not seem to get a worse screening with open access to vacancies which may be explained by positive self-selection in open-access systems and the fact that the public employment services do not screen very much anyway;

— The OECD survey (OECD, 1993b) underlines the importance of initial interviews and it reports positive results from decentralisation of responsibilities to counsellors and from a reduction in the numbers of counsellors a long-term unemployed person has to see; and

— Complex unemployment benefits systems impose heavy burdens on the administration and can often be simplified without impairing labour market efficiency.

III.3 Employment training and vocational rehabilitation

Resources

Public expenditure on labour market training as a share of GDP varies between 0.2 per cent and 0.8 per cent. The countries that have the highest shares are Denmark, Germany, Ireland and Sweden, and the lowest shares are found for Italy, Japan, Luxembourg and Turkey. In most OECD countries (sixteen of them) these expenditures have increased since 1985. They remained constant in one and diminished in six countries.

In five countries the public employment services are not involved in vocational rehabilitation. Other countries devote up to 0.23 per cent of GDP to vocational rehabilitation. Denmark, Switzerland and Sweden have the highest GDP shares. In the seventeen countries for which we have data, expenditure increased in twelve countries, remained unchanged in four countries and decrease in one country. As for participants, as a percentage of the labour force, the highest registered figure is 1.6 per cent in Denmark and New Zealand.

Types of training and vocational rehabilitation

All OECD countries except Japan invest in the training of the unemployed and it is the main type of employment training in 15 countries. Only in Greece, Japan, and Portugal is training for people already having a job more important than training for the unemployed. The number of participants, calculated as a percentage of the labour force, varies from 0.9 per cent in the United States to 7.8 per cent in Denmark.

Youth training consists to a large extent of education, formal training, apprenticeships but work experience may also be provided. Countries that do not have special youth programmes include Belgium, Japan and Switzerland. Among those that have, the highest percentage of GDP going to these programmes is 0.43 per cent; high share countries are Italy and Ireland.

Among youth programmes, a distinction can be made between on the one hand general education and apprenticeships and on the other hand labour market training and other active labour market programmes. A few countries, such as, Ireland and Italy have about the same amount of both these types of activities for youth. However, most countries seem to have opted more or less exclusively for the one or the other type. General education and apprenticeships dominate in for example Australia, Finland, France, Greece, the Netherlands, Portugal, Turkey, and the United Kingdom, and labour market programmes in Austria, Canada, Denmark, Germany, Luxembourg, New Zealand, Norway, Spain, Sweden and the United States. Some of the latter countries, for example Austria and Germany, have a dual educational system with an important apprenticeship ingredient as a part of it, but this is not run by the labour market authorities.

As for participants, as a percentage of the labour force, the highest figure is 3.3 per cent. Countries with high figures are Denmark, France and Ireland.

Labour market training usually takes the form of shorter courses, of 4-6 months in duration. There are various types of course:

— basic remedial;

- acquiring basic skills like languages and mathematics;
- behaviourial skills, self-confidence, motivation, work discipline etc.

— retraining;

- teaching new skills to people whose skills have become outdated to reduce skill mismatches and facilitate relocation.

Another distinction is between classroom teaching and on-the-job-training. Sometimes packages are composed for individual participants with, for example, some job-search training, some classroom retraining and some on-the-job training or work experience.

Vocational rehabilitation often takes place at special centres where the clients are tested to see what work they can perform and what adaptations of the workplace would be necessary. The training could then consist of learning how to use mechanical and electronic aids eventually followed by ordinary vocational courses.

Strategies for training and rehabilitation

Some of the more important strategic decisions relating to training and rehabilitation policy are the following:

(a) Subcontracting and flexibility

Should the employment services run the training and rehabilitation centres themselves or should they subcontract? The answer to this question seems to be that subcontracting with different types of organisations probably gives more flexibility and competition can reduce prices.

If the subcontracting approach is adopted, with whom should the authorities subcontract and on what should the contracts focus? The contracts can be in terms of number of training slots but also in terms of students who finish the courses and get a full-time job. Contracts could ask for module systems where entry and exit is flexible and the succession of modules are individually arranged. They could also ask for counselling and job search services. Similar questions arise when making contracts for vocational rehabilitation.

The more demanding and specific the requirements are, the greater the risk of "creaming": the providers of training and vocational rehabilitation only admit the best people which might not be those who most need training and vocational rehabilitation.

It should be noted that the need for arrangements that stimulate flexibility are as great, if not even greater, when the public employment services run training and rehabilitation centres of their own.

(b) Focus of courses

The employment training courses have to train people in a realistic way for jobs that are in demand. It is therefore of vital importance that the public employment services have an information and forecasting system of good quality and one that is based on co-operation with employers, trade unions and other organisations that can evaluate the development on the labour market (ILO, 1992b). Poorly focused courses have, for instance, been reported to be the cause of bad placement results following training in Australia and the United States (OECD, 1990b).

An alternative may be to invite the employers to offer on-the-job training to unemployed persons. Then the training might better fit the demands of the marketplace, but again one risks creaming and may end up with employers being subsidised to train their own employees.

(c) Targeting and motivation

As training courses are expensive it is necessary that not only are they realistic from a labour market point of view but also targeted at the people who can best profit from them. For countries with broad labour market policy programmes like

Sweden this may be a dilemma especially when training is heavily increased to meet high unemployment (EFA, 1993).

Sometimes targeting and counselling might not be enough for an individual to find the right way back to the labour market. Special motivational courses can also be necessary.

In certain countries, those who participate in training courses are paid more than the unemployment compensation (as in Australia, and the United Kingdom). This makes the courses more expensive but on the other hand drop-out rates may be reduced.

Box C illustrates how well-targeted training as well as other policy measures can be an important ingredient in industrial restructuring.

Assessment[14]

A summary of labour market training assessments suggests contradictory evidence as to the efficiency of training programmes. For vocational rehabilitation few evaluations have been made. Since it is known that these programmes are expensive compared with counselling for example, frequent reference to the assessment of results ought to be an important element of guidance relating to the use of such programmes.

Evaluation results for training are mixed and the conclusions frequently vary with time and place. A summary is as follows:

— Basic training often shows worse results than skill training;

— On-the-job training often shows better results than classroom training;

— Integrated training has been found to produce better results than sequential training or training only for employability. The integrated training would mix basic skill training, vocational retraining and behaviourial training;

— A recent survey of results from training evaluations in the United States suggests that training projects, whether of the classroom type or on-the-job, do not influence earnings very much beyond the effect obtained by job-search assistance. Thus, while job-search projects tend to be cost-effective, training projects do not. However, in exceptional cases training programmes do cover their costs;

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14. Among the major references for this section are: Björklund, A., R. Haveman, R. Hollister, and B. Holmlund, 1991; Commission of the European Communities, 1992b; Fretwell, D., 1992; Leigh, D., 1992; OECD, 1990b; OECD, 1991a; OECD, 1993b.

— Another study (Björklund, A., R. Haveman, R. Hollister, and B. Holmlund, 1991), also mainly based on projects in the United States, concludes that in general, employment and training programmes have had their greatest impacts and largest social returns for those who have had the least previous labour market experience and are the most disadvantaged. Programmes work better for women than for men, and for less educated and poorer individuals compared to those better off;

— Intensive, residential skills-training programmes for youth may be very effective. Compared with training, job search and placement efforts, these programmes produce at least short-term effects in a wide variety of circumstances and are generally of low cost. To this can be added evidence that short, tailor-made courses resulting in a certificate can have positive effects (Eliasson, G., 1992);

— Swedish surveys (Axelsson, R. and K-G. Löfgren, 1992; EFA, 1993) covering outcomes up to 1992 show mixed results. Results are favourable from cost-benefit analyses carried out in 1972 and 1992; in between there are a number of studies showing negative or unclear results. Among the groups for which the results were particularly good in the latest study were the disabled;

— In the EC study (Commission of the European Communities, 1992b), employability and vocational training were estimated to cost more than 10 times as much as counselling and job clubs per job entry. The displacement effect was estimated to be very high and the deadweight in the medium range. This type of training was not judged very favourably as some training effects could also be had through, for instance, temporary work agencies and co-operatives at a much lower cost. It might be added that in a British study it was indicated that the displacement effects could be anything between 17 per cent and 62 per cent;

— The OECD survey distinguishes training for unemployed adults, employed adults and youth. The results for unemployed adults and youth are mixed and generally only positive when targeted and highly specialized. Training schemes for employed adults have only been implemented and evaluated on a large scale in Denmark with positive results; finally

— Evaluations of training projects also exist in other countries but again results are often mixed.

Research and assessments of vocational rehabilitation is taking place in many countries, for example, in Japan, the Netherlands, Sweden, the United Kingdom, and the United States. Though no definite results can be presented the general presumption seems to be that too many resources are devoted to income maintenance and that they could be more profitably used for active measures. Vocational rehabilitation should also as much as possible take place within ordinary

reinsertion programmes (OECD, 1992d).

III.4 Private sector employment and self-employment

Resources

Seven OECD countries do not assist job creation in private enterprises. Among those which do, the highest expenditure as a share of GDP is 0.12 per cent. Sizeable resources are committed in Finland, Greece, Japan, New Zealand, and Spain. Development since 1985 is quite mixed with about equal numbers of countries reducing, increasing and keeping unchanged this type of expenditure. In numbers of participants, Spain has the biggest programme with 3.5 per cent of the labour force participating. In general, though, about 0.4 per cent is common among countries having this type of programme.

Assistance to self-employment is a rather new type of activity that (according to the OECD statistics) has now been introduced in thirteen countries on a regular basis. The highest GDP share is 0.21 per cent (for Spain), the next largest being Denmark with 0.09 per cent. Spain also has the largest number of participants, equivalent to 0.5 per cent of the labour force. For most countries with this type of programme numbers are 0.1-0.2 per cent of labour force.

The recent growth in self-employment in many OECD countries, especially in the United Kingdom, has been influenced by government programmes of which assistance to the unemployed to become self-employed have been one part. The dynamic and flexible contributions made by small firms to employment growth have been highlighted as well as government support for training and facilities at "incubator" centres (OECD, 1992c).

Framework for activities and strategies[15]

The actors through which the public employment services can work to create private-sector employment include the following:

— existing private enterprises;

— individuals motivated to start their own business either alone or as a co-operative together other individuals;

— intermediary agencies such as temporary work agencies, reinsertion agencies and co-operatives (see Box D).

Especially when trying to create new enterprises, assistance has to be

15. See Björklund, A., R. Haveman, R. Hollister, and B. Holmlund, 1991; Fretwell, 1992; Leigh, D. (1992); Mangum, S., G. Mangum and J. Bowen, 1992; OECD, 1990a; OECD, 1992c; OECD, 1993f.

adjusted to local conditions and therefore the employment services in this case often co-operate with local authorities, development agencies, and voluntary associations.

The intermediate agencies which the employment services can use to get people into regular work can operate in different ways but they all arrange for productive work which on the one hand gives the unemployed work experience and on the other hand reduces costs. The productive activities can serve both the needs of the private sector and the public sector and to varying degrees be combined with training.

Subsidies for private-employment creation are normally temporary (perhaps for six months) though sometimes extended for longer time periods for disadvantaged groups. When aiming at existing private enterprises the subsidies can either be given to the firms (via direct payments or deductions from taxes and social security contributions) or to the individuals concerned. Spain has, for instance, a programme of the latter type and Japan a programme of the former type. Subsidies are often targeted to certain groups — youth, women, long-term unemployed, disabled and refugees, as in Norway. One risk with targeting is stigmatisation of the target group.

Examples of employee subsidies can be found in Japan, the United Kingdom and the United States. It can take the form of a bonus paid to the job seeker for finding and taking a job in the private sector within a certain time limit or a subsidy for taking a low wage job (see Box E).

Unemployment benefits are often used in providing assistance to self-employment, with payments either in a lump sum or periodically. This type of assistance is often complemented by loans and training facilities provided by the public employment services or other agency.

Design and implementation strategies

For the employment services there may be several important strategy decisions that have to be taken as to the use of measures to stimulate private sector employment. For example, in determining wage subsidies the authorities need to consider the following:

— Marginal or not. Windfall profits for the employer may be reduced if wage subsidies are linked to new hires over a certain base level. However this requires more monitoring. Normally the wage subsidies in the OECD countries have been non-marginal;

— Beneficiary. Normally this is the employer but if stigmatisation and job-seeker incentives are a problem the employee could be made the direct beneficiary which might also make for more rapid adjustments;

— Payment base. Among the alternatives are flat amounts or percentages, and direct subsidies or tax deductions; subsidies can be calculated per hour, per worker or on the wage bill. In the United States, tax credits

applied to hourly rates have often been used and the subsidy has also covered training costs; in Western Europe and Japan, the subsidies have often taken the form of a percentage of the wage or a flat weekly payment per worker. A flat amount per worker tends to result in the biggest increase in employment for a given sum of money. Tax credits influence the employers less than direct subsidies but could be profit related;

— Cyclical vs. long-term use. Used as a measure to reduce cyclical unemployment, the timing of the use of wage subsidies and its non permanent use is very important. The greatest effects may be had at the early beginning of an upturn of the business cycle. The measure must be well advertised and the employers be made aware of it at the right moment otherwise the effects may be small or even counter-productive. Used as a long-term measure, the use of wage subsidies would normally be confined to support of the most disadvantaged groups and as an alternative to public sector work.

Wage subsidies can normally be used for larger groups and more disadvantaged groups than self-employment assistance. Few unemployed may have a chance to become self-employed, perhaps 2-3 per cent. Assistance might also be provided to help employed people into self-employment so long as they leave a job behind for someone else to fill. In an Australian study it was found that for every 1.5 business that came into operation one extra job was created.

Possibly, employment creation through self-employment schemes should be undertaken by industrial policy authorities. The Public Employment Services are sometimes hesitant to work with start-up grants as they do not have the competence to judge the viability of individual investment projects. However, it has been suggested that self-screening and early counselling can to a large extent replace project evaluation (OECD, 1993b).

Another strategic decision has to do with the engagement of the public employment services in local development. If the employment services do engage actively in local development, the link to measures stimulating private employment is evident. However, to be efficient the Employment Service activities have to be linked and form part of a strategy for local development. Such a strategy would include actors such as the local government authorities, employers, trade unions, large firms, schools and universities, voluntary associations and other national government agencies and focus on local resources. In this connection the public employment services could do more than just distribute subsidies — it might, for example, provide:

— forecasting and planning instruments;

— active screening of local workers for local enterprises and of local enterprises for local workers;

— retraining of workers and training of new workers according to local needs;

— custom training programmes.

Assessment[16]

Marginal employment subsidies with simple structures, outreach efforts, and minimal interference appear to be cost-effective elements in a labour market policy to reduce unemployment. They deserve more extensive utilization and careful evaluation than they have received in most countries to date.

However, as was noted above, in practice the wage subsidies are generally not of a marginal character thus evaluations generally find that the deadweight is rather high — figures between 65 per cent and 90 per cent have been reported. For wage subsidies to be financially neutral, one study estimated that the deadweight should not exceed 55 per cent. The OECD survey (OECD, 1993b) warns against broadly targeted wage subsidy programmes because of high deadweight effects, often corresponding to over 50 per cent, as well as serious substitution and displacement effects. The displacement effect in a French study was estimated at 60 per cent.

What is important when wage subsidies are used counter-cyclically is the productivity of the subsidised employees compared with their productivity as unemployed and whether the wage subsidy speeds up adjustment and can later be reduced accordingly.

While sometimes wage subsidies have been found quick to mount and easily targeted but other experiences are that they do not have much effect unless they are in place for a long time. Also, they may not speed up adjustment but rather retard restructuring. However, with a large training content, subsidised private sector employment might be a relatively effective policy instrument (as training is anyway an expensive programme element). In this context, wage subsidies have sometimes also been given a favourable rating as a long-term measure if they are used in a targeted and limited way and even though they might just redistribute work chances.

Of course, they should not be used when cheaper measures would do. For example, it has been found that in the case of redundant workers that wage subsidies may not be as useful as active job search assistance (OECD, 1991a).

Discussion of self-employment assistance has focused on:

— its potentially limited impact on the unemployed;

— the low quality of jobs created; and

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16. Main references for this discussion are: Björklund, A., R. Haveman, R. Hollister, and B. Holmlund, 1991; Commission of the European Communities, 1992b; EFA, 1993; ILO, 1992b; OECD, 1990b; OECD, 1992c; OECD, 1992d; OECD, 1993e.

— high deadweight and displacement.

The self-employed tend to work longer hours, have lower earnings and lower social protection than wage and salary employees but "maybe they are happier". The survival rate as reported in different studies rage from 50 per cent to 85 per cent. Both the deadweight and the displacement factor could lie around 50 per cent. Including these effects the net job creation effect was in one study estimated to 15 per cent and in another to 34 per cent. However, the programmes have been considered relatively cost-effective. In addition, self-employment could also be a stepping stone back to an ordinary employment.

The EC study evaluating different types of employment programmes creating private sector jobs for people arrived at the following ranking :

— Temporary work agencies. Second cheapest per job entry after counselling and job clubs. High displacement effect. Deadweight 25 per cent;

— Co-operatives. Among the second cheapest measures. Variable displacement effect, sometimes quite low. Deadweight 50 per cent;

— Reintegration enterprises. Third cost category. Variable but probably higher displacement effect than co-operatives. Deadweight 35 per cent;

— Enterprise nurseries, development agencies. Fourth cost category. Variable displacement effect. Deadweight 0-90 per cent; and

— Training for entrepreneurs. Fourth cost category. Variable displacement effect. Deadweight 50 per cent.

III.5 Public sector employment and work for the disabled

Resources

A few OECD countries do not spend money on public sector employment (six of them). Among those who do Finland has the highest GDP share with 0.58 per cent. Belgium also has almost as high a figure. Changes have not been very dramatic in this area. Eight countries kept their share unchanged while nine decreased it and six increased it.

As for participants the figures vary from 0 to 1.4 per cent in Spain, 1.6 per cent in Belgium, and 2.6 per cent of the labour force in Finland.

Work for disabled is not organised in nine OECD countries by the labour market authorities. The highest GDP shares going to this activity is 0.68 per cent for Sweden and 0.64 per cent for the Netherlands. Changes have not been very dramatic in this area either with nine countries keeping their share unchanged, eight increasing it and six decreasing it.

For participants Denmark has the highest figure, 0.6 per cent of the labour force. A normal figure for those countries who have this activity is 0.1 per cent.

Activities - aims and roles

(a) Public sector employment has had many roles to play. While producing goods and services it is supposed to:

— reduce cyclical unemployment;

— relieve structural imbalances;

— give disadvantaged groups work experience and training in non-artificial surroundings so that they can continue to the private or ordinary public sector;

— be an employer of last resort for people difficult to place elsewhere, to provide people with an income and a contact with the labour market, to make people qualify for a new period of unemployment benefits;

— provide the employment services with a flow of vacancies so they can test the willingness of the unemployed to work;

— counteract discrimination.

In the 1930s many OECD countries had huge public works going on to reduce unemployment. Such investment projects still exist but public sector employment nowadays more often means service jobs and, for instance, maintenance of local infrastructure.

Normally the public sector works are temporary, 6-12 months.

(b) Work for the disabled is both intended to permit them a contact with working life but also to give them experience and training so that they can find a job on the regular labour market.

It can take different forms:

— sheltered workshops;

— wage subsidies to public agencies;

— wage subsidies to private enterprises.

Strategies

For public sector employment the strategic issues are related to efficient

programme management:

— Timeliness, as with wage subsidies to the private sector;

— Choice of projects — construction and services — that both meet demand requirements, minimise displacement effects, and fit and develop the skills of the unemployed. Nowadays often public employment will not suit people lacking basic skills and is perhaps not as helpful as it used to be to redundant workers with an industrial background;

— Administration and subcontracting. Should the public agencies themselves lead the work or subcontract with nonprofit organisations or enterprises as is sometimes done in the United States and the EC countries? In some countries, like Sweden, new types of "work for community benefit" have also been introduced that are cheaper than traditional public works and run locally by different types of voluntary organisations;

— Transfer. Different devices could be introduced to reduce the risk for permanent public employment or new unemployment for the unemployed who are given public sector employment — e.g. job search activities and time limits on each slot for each participant. While making the jobs individually temporary a certain continuity and long-term planning should, however, still be possible to maintain;

— Wages. In many cases wages are set below or at the lower end of market wages, though in Sweden usually market wages have been used. One the one hand trade unions may want market wages for the specially created public sector jobs; on the other hand, these jobs must not be so attractive as to compete with jobs on the ordinary labour market;

— Promote job creation. The chances creating new jobs for new workers may be greater if they are geared towards new types of activities and disadvantaged workers whose skills may not be a substitute for those of ordinary workers (OECD, 1992c).

In works for the disabled an important choice is between sheltered workshops, subsidies to public and private employers, and quota systems as mentioned in Section III.1. Sheltered workshops tend to be very expensive, sometimes requiring subsidies well in excess of the wages of the employees, though the workshops are supposed to operate commercially and sell their products on the market. The transfer rate to the regular labour market can also be quite low. Sometimes results in both these respects are better with subsidy systems (OECD, 1990b). With quota systems the costs are transferred to the employers which on the one hand can result in different kinds of manoeuvres among them to avoid the regulations and on the other hand creates inefficiencies if these rules are not globally applied.

Assessment[17]

(a) Public sector employment

The important questions when public sector employment is used as a counter-cyclical measure are:

— whether idle resources are raised and used and with what productivity;

— whether these resources transfer smoothly to other sectors when demand increases;

— whether this public spending is unnecessary, inflation creating or otherwise leading to inefficiencies.

As a long-term measure public sector employment has to be judged more as an investment: what happens to employment, earnings and the quality of the job of the individuals after the public sector job (Stevenson, G., 1992)?

As for timeliness and responsiveness, public employment has had a rather good reputation in Europe. In the United States it has been judged more on its ability to reinforce the recovery than to alleviate the downturn. Public sector employment seems to have quicker effects on employment than monetary and fiscal policies.

Displacement has in some studies been estimated at 10-20 per cent but this depends on the precise structure of the programme. Also the displacement effects have been found to increase over time.

To increase the transfer rate out of the programmes compulsory job search activities have been tried but apparently not with any good results.

The EC study (Commission of the European Communities, 1992b) evaluates two types of activities: public works and "works of community benefit". From a long-term perspective it found neither of these measures to be very useful. The former was among the most expensive per job created, had a variable deadweight and a high displacement rate. The latter were also rather expensive and had questionable results as to their usefulness for further activities in the private sector. Moreover, the public sector employment projects did not seem to manage to target disadvantaged groups better than other projects.

Already in the "Framework" public sector employment was less popular with the OECD. The efficiency problems connected with public sector employment have

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17. Major references for this discussion are: Björklund, A., R. Haveman, R. Hollister, and B. Holmlund, 1991; ILO, 1992b; Mangum, S., G. Mangum and J. Bowen, 1992; OECD, 1990b; OECD, 1991a; OECD, 1992c; OECD, 1992j.

been regarded as difficult to solve and strained budgets. Inflation problems and the necessity to restructure and cut down the public sector have not made it more popular. Also with skill shortages coming more and more to the fore it has been thought probable that public works will remain at a low level in the future (OECD, 1992c; Schwanse, P., 1991).

The OECD survey (OECD, 1993b) once again concludes that positive employment results after participation in public works are generally only found in specialised schemes for subgroups of unemployed.

(b) Work for disabled

Studies in Sweden and Norway have indicated that both wage subsidies and sheltered work can be interesting investments for governments (EFA, 1993).

However, great improvements in these measures seem possible if:

— social and labour market agencies in each case co-operate from the very beginning;

— a step-by-step approach towards employment and economic independence is used;

— wage subsidies are closely monitored particularly as to training content and transfer rates;

— transfer rates in public and sheltered employment are highlighted.

III.6 Income support

Resources

Unemployment compensation exists in all OECD countries except Turkey. In terms of GDP, the lowest costs are about 0.3-0.4 per cent (Portugal, Japan, Switzerland, and Italy). Countries who have shares above 2 per cent are Canada, Spain, Ireland, and Denmark (where costs are as high as 3.48 per cent). Eleven countries have had to increase their expenditures over the 1985-1991 period but eleven also managed to reduce them. In one country they remained unchanged.

Only two countries increased their expenditures for early retirement over the 1985-1991 period (Finland and Italy) while eight countries reduced them. Fourteen countries do not provide for early retirement by labour market authorities. Most countries are in the same position today as they were in 1985. The highest GDP costs are in France, Belgium and Denmark (1.24 per cent).

Activities and strategies

The unemployment compensation systems in the OECD countries vary in

many respects. As regards unemployment insurance, payments typically depend on past contributions and are supposed to permit the unemployed to concentrate on job search without having to drastically change their way of life. Social assistance aims at relieving poverty and becomes operative when unemployment insurance ends as well as for those who do not qualify for payments from the insurance system. Normally insurance payments are higher than social assistance payments and not means tested or discretionary.

(a) Level and duration of benefits. Qualifying conditions for employment insurance benefits are normally a working record, the duration of which can vary from a few months to years. Sometimes there is a waiting period though often of rather short duration, up to 2-3 weeks (but longer duration, up to 20-25 weeks, for those who voluntarily quit their jobs if they qualify at all for unemployment insurance). Payments can be at a low or high level of income replacement and be at a fixed rate or related to earnings, often with a ceiling. Sometimes the payments decline over the unemployment period.

The duration of benefits varies from a few months to a more or less indefinite time period. The duration can sometimes be increased by the unemployed if, for example, public work and employment training are qualifying for unemployment benefits and they can get into these activities.

(b) Requirements and enforcement mechanisms. Usually the unemployed are required to be immediately available for work and to search for work actively. The employment offices can test the availability and willingness to work by calling the unemployed to interviews, offering jobs, search activities, training etc.

In case of a refusal to accept training and job offers different enforcement mechanisms are applied with more or less vigour. They include reduced unemployment payments for a shorter or longer time period.

Some countries admit part-time work and part-time unemployment compensation. An alternative is separate in-work benefits.

Sometimes the employment services may have a special fraud service at its disposal. One of its tasks could, for example, be to work with computerised cross-checking of different earnings records.

(c) Financial sustainability. Unemployment insurance can be financed by contributions from employers, employees and government funds or combinations of these sources. Earnings-related unemployment benefits financed by payroll taxes, for example are consistent with an unemployment rate fluctuating within rather narrow limits. This was roughly the situation when the OECD countries introduced their present systems for unemployment compensation. With increasing rates of unemployment the financial sustainability of the systems has been eroded. Moreover, the systems were not designed to deal with the social problems of the long-term unemployed or the growing numbers of young people who have found it more and more difficult to find an entry-level job (OECD, 1991c).

(d) The combination of elements. The elements that make up the compensation system can be combined in many different ways, with different impacts on job search incentives and equity — for example, in the United States, there is a rather low level of income replacement and short duration of payments; in Switzerland and Sweden, the replacement level is higher but the administrative and enforcement system is strict (OECD, 1991a).

Assessment

(a) Unemployment compensation

The unemployment insurance and assistance system influences unemployment and job search behaviour in a number of ways. Though all these aspects have not been fully evaluated, the consensus seems to be that there are negative effects on unemployment of systems that are open-ended; with weak control mechanisms; with high and continuously high income replacement rates; with no waiting periods and high short-term payments (for seasonal and temporary lay-off unemployment) (Fretwell, D., 1992; OECD, 1988; OECD, 1992c; OECD, 1992d).

Though the present unemployment crisis in the OECD countries cannot be blamed on the unemployment benefit systems, they should nevertheless be better designed and structured so as to encourage workforce participation taking into account the level of compensation, the duration of payments and enforcement mechanisms and contacts (monitoring availability-for work test, job-search, training etc.) between the unemployed and the Employment Services (Holmlund, B. 1993; OECD, 1993c)

The duration of benefit payments has been found to influence unemployment (and long-term unemployment) more than the level of compensation (Calmfors, L., 1993a, 1993b, 1993c; OECD, 1993b). Where the unemployment benefit systems have been regionally differentiated (as in Canada with regard to qualification periods and the duration of payments) in line with regional differences in unemployment, they have been found to distort the labour market and reduce the outflow of unemployed from the regions favoured by the conditions for unemployment benefit compensation. However, such a differentiation may be warranted for equity reasons and it was found to reduce the number of benefit claimants in Canada.

During the 1980s, a number of countries reduced the generosity of their unemployment benefit systems. Examples are the United States, Japan and France where the maximum duration was markedly cut during the 1980s. Also in most countries the replacements rates have tended to fall, especially in Germany, the United Kingdom, Canada and the Netherlands. Sweden is now also following the lead by introducing waiting days and a lower rate of replacement in 1993.

During the 1960s and the early 1970s, on the contrary, the generosity of the systems was generally increased. Only in a few countries, like Norway, has this tendency continued during the 1980s (OECD, 1993b).

More fundamental reforms of the unemployment benefits system have also begun to be discussed. The general idea behind many of the new proposals is to make the main interested parties and financiers take a greater responsibility in the workings of the system.

Experience rating of firms has already been used to some extent in Sweden and the United States, while in France and Sweden the social partners have partly been responsible for the system. Such features could be further developed. If the employers and employees finance the system to a greater extent they may become more sensitive to the relationship between wages and unemployment. If the employer fees are differentiated as between sectors according to the level of unemployment, the high-risk sectors would no longer benefit from the subsidy that a uniform fee implies.

A competitive market for unemployment benefit insurance could also be opened up. It might even be possible to engage the insurers on such a market to take an interest in active measures to get the unemployed back to work. However, some state guarantees would probably always be necessary on this market both for efficiency and equity reasons.

(b) Early retirement

The early retirement systems, though earlier used on a relatively large scale in the OECD countries, have not been thoroughly evaluated but, as already discussed in Section III.1, there is little evidence that they reduce the overall rate of unemployment. They rather tend to lower production and at the same time strain government budgets. Moreover, they have long-term effects that may be harmful when labour market conditions change and the old rules cannot be readily reinstated. Therefore, early retirement does not seem very helpful as a device to help to solve general unemployment problems. Carefully targeted however, they may be useful, perhaps unavoidable during industrial restructuring (Mitchell, O., 1992; OECD, 1992h).

Given the demographics of the OECD countries it is less probable that early retirement will be much used as a labour market policy measure in the future (OECD, 1992h; Schwanse, P., 1991).

III.7 Summary

(a) Legal framework and institutions

The OECD countries have a lot of experience in these areas that can be useful for other countries but evaluations are still rather few.

Recent research has produced a complex picture of economically efficient bargaining systems which have to be adapted to specific national and industrial conditions. In some cases, centralised negotiations can be less harmful, e.g. when international competition is vigourous, than in others, e.g. when relative wage adaptations are precluded or when centralised bargaining *de facto* turns into multilevel negotiations. Negotiations at the firm level are generally more effective if there are many firms and provide perhaps the best model for the public sector. A consensus around firm-level bargaining (with co-ordination achieved through some big enterprises in international competition as trend setters) seems to be evolving at least as a first best approximation of an efficient organisation of collective bargaining.

Minimum wages are suspected of increasing unemployment, especially when combined with strict labour protection legislation.

A new and different type discussion concerns wages related to firms' future results. Only in Japan does "share income" form a sizeable part of total employee compensation. Such systems are supposed to have a strong stabilizing influence on employment over the business cycle but it is less clear if they have any employment-generation effects.

To some extent, countries eased their employment protection legislation on dismissals, fixed-term and part-term contracts, out-contracting to temporary work agencies, severance payments and notice periods during the 1980s. The general theoretical and empirical finding is that employment protection reduces the variability of employment over the business cycle. It represents costs to the employers and makes them hesitant both to hire and fire employees. There is no definite evidence that employment protection is related to the level of unemployment, though long-term unemployment may be increased.

Legislation of working time has been tried to solve unemployment problems by reducing working hours, promoting part-time work and work-sharing, and introducing early retirement systems and relaxation of eligibility criteria for invalidity pensions. Of course, all changes that promote voluntary flexibility and adjustments in pensions schemes that are actuarially neutral, will increase efficiency on the labour market. Problems, however, arise when these measures are supposed to reduce unemployment. They can give some short-term relief but they can diminish the supply of labour which makes for more wage pressure and higher unemployment.

One rule that has a rather good reputation is the one on advance notice of lay-offs which seems to be efficient. For vacancy reporting the evidence is less clear.

As for regulations geared to the actors of the labour market and other basic processes striking a balance between employers, employees and other interested parties, not much in the way of evaluations can be reported. In this area there does not even seem to be much documentation on an internationally comparable basis. This does not mean that the OECD countries do not have a lot of experience that can be useful for other countries only that it will be more difficult to get hold of and perhaps has to be dealt with using detailed consultation and technical assistance.

(b) Employment services

The experience of the OECD countries shows that the core activities of the employment services, such as counselling, job search training, relocation assistance, programmed contacts with long-term unemployed and mass lay-off services are generally cost-effective and economically efficient. For the organisation of the employment services to be efficient the following aspects seem particularly important:

— the relations between the public employment services and private employment services, private enterprises and local agencies that may complement the public employment services and make the work of the public employment services more efficient;

— a decentralised and locally flexible framework for the public employment services;

— co-ordination between core employment activities, active programmes, passive programmes and social security.

In terms of resources, the system should preferably be such that financial and staff resources devoted to the different types of activities are deliberately decided upon and not a result of the passive programmes crowding out the core activities and active programmes.

Co-ordination does not automatically mean that all these activities have to be integrated in the same agency. While the public employment services can, for example, keep the responsibility for the training programmes, they may very well buy the courses from other actors.

Targeting, counselling, and evaluations are basic activities that are necessary for the employment services to be able to work efficiently and to co-ordinate the different types of programmes.

To be able to combine efficiency and equity, the public employment services both have to work with disadvantaged groups and other groups, and with job-seekers and employers.

Even with well organised, well staffed, and efficient public employment services their share of placements will perhaps reach one third of the market, advertisements and private contacts being the other two large search and placements

channels.

(c) Training and vocational rehabilitation

Training and vocational rehabilitation are expensive measures and they should not be used when counselling, job search and other placement activities would do. When used for special groups and targeted, as in on-the-job training for disadvantaged groups, they may be effective though it might still be possible to obtain the training effects at lower costs through combined work and training schemes.

To be able to organise training efficiently the public employment services need flexibility and adaptability in courses. Subcontracting can be one alternative to achieve flexibility. Good information about the demand for different skills is also a necessity.

(d) Private sector employment and self-employment

Subsidies to create jobs in the private sector are often regarded as more efficient than public sector employment, even for training.

The public employment services can influence the outcome of the use of wage subsidies and assistance to create self-employment in a number of ways:

— by careful timing, swift implementation and outreach but also phase out;

— by trying to reduce displacement and deadweight effects by using, for instance, marginal subsidies and aiming at new and expanding types of activities; and,

— by co-operation with intermediary agencies.

Wage subsidies can also be useful in a long-term perspective for disadvantaged groups even if displacement is quite high.

(e) Public sector employment

Both as a counter-cyclical measure and a long-term measure, public sector employment by now has a rather bad reputation. To some extent it is based on evaluations but it is also based on more general considerations:

— Labour market policy should not so much be concerned with counter-cyclical activities especially when the unemployment problem is mostly long-term and structural; and

— The public sector has to be restructured and decreased rather than increased and in that perspective it is more efficient even as a counter-cyclical policy to try to get the unemployed into the private sector.

However, when public sector employment is used, much more could probably

be done to increase its efficiency than hitherto by better programme management to avoid deadweight and displacement effects, by better timing, by subcontracting and by increasing transfer rates to private sector employment.

(f) Work for the disabled

Sheltered workshops, wage subsidies to public agencies and private enterprises, quotas forcing private and public employers to engage disabled people — not much is known about the respective efficiency of these different types of arrangements. Some countries are moving towards wage subsidies as a complement to other measures for the disabled (e.g. Sweden) others towards regulation as a complement to other activities (e.g. the Netherlands). However, both wage subsidies and sheltered work can be interesting investments for governments though great improvements in these measures seem possible if:

— social and labour market agencies in each case co-operate from the very beginning;

— a step-by-step approach towards employment and economic independence is used;

— wage subsidies are closely monitored, particularly in regard to training, content and transfer rates; and if

— transfer rates in public and sheltered employment are highlighted.

(g) Unemployment benefits

From a labour market point of view, unemployment benefits are most interesting for what they do to work and job search incentives. A consensus seems to exist about the negative effects on unemployment of systems with the following characteristics:

— open-ended systems;

— systems with weak control mechanisms;

— systems with high and continuously high replacement rates;

— no waiting periods and high short-term payments.

Generally, the duration of benefit payments has been found to influence overall and long-term unemployment more than the level of compensation.

Though the present unemployment crisis in the OECD countries is not due to the unemployment benefit systems (these were generally rather generous in the 1960s but since then have been tightened up considerably both as to the level of recompensation, the duration of payments and enforcement mechanisms), they can still be improved and combined more efficiently with active labour market policies. It is

also important to have a system that is financially sustainable. With increasing rates of unemployment the financial sustainability of the OECD systems has been eroded — which also explains why many OECD countries have had to reduce the generosity of their unemployment benefit systems.

More fundamental reforms of the unemployment benefits system are, however, also being discussed. The main interested parties should perhaps take a greater responsibility in the workings of the system. If the employers and employees finance the system to a greater extent they may become more conscious about the relationship between wages and unemployment. If the employer fees are differentiated as between sectors according to the level of unemployment the high risk sectors would no longer benefit from the subsidy that a uniform fee implies. On this basis a competitive market for unemployment benefit insurance could then be opened up. It might even be possible to engage the insurers on such a market to take an interest in active measures to get the unemployed back to work though some state guarantees would probably always be necessary on this insurance market both for efficiency and equity reasons.

(h) Early retirement

The early retirement systems, though formerly used on a relatively large scale, have not been thoroughly evaluated. However, there is little evidence that they help to reduce the overall rate of unemployment. Rather they tend to lower production and at the same time strain government budgets. Moreover, they have long-term effects that may be harmful when labour market and demographic conditions change and the rules can't be readily returned upon. Therefore, they do not seem very interesting as instruments to solve general unemployment problems though carefully targeted they may be useful, perhaps unavoidable, during industrial restructuring.

III.8 Overview

Table 3.1 shows the resources the OECD countries devote to different types of labour market policy measures juxtaposed with our evaluations of the different policy measures reported above. The ranking goes from 1 to 5 starting with the generally most efficient measures.

Comparing the two columns in the table, it seems that the efficiency of the labour market policy in the OECD countries could be increased by devoting more resources to:

— public employment services;

— job-creation in the private sector;

and if resources have to be reduced, to reduce the outlays on:

— unemployment compensation;

— early retirement;

— training.

It may also be interesting to look at a similar table for our sample countries. According to the figures in Table 3.2 for Austria, Canada, Germany, Japan, Sweden, Switzerland, and the United States, it is Japan, Sweden, Switzerland, and the United States that have the best profiles for their labour market programmes, measured as the highest percentage share for programme categories 1-4 of the total. Measured as the highest percentage share for programme categories 1-2 of the total, it is Japan and Switzerland that have the best profiles.

BOX A: JOB CLUBS

The Canadian job-finding clubs were the originators of this innovation, which spread to the United States and New Zealand before being introduced to Europe. In the United Kingdom for instance, job club members typically receive coaching and expert advice on job-seeking techniques for two weeks. After that, members are left to make applications and search for unadvertised vacancies with the help and guidance of the job club leaders and the support of the other club members. To enable them to undertake an effective search they have free use of facilities such as stationery, stamps, telephones, and typewriters (Commission of the European Communities, 1992b; OECD, 1992e).

Source: Commission of the European Communities, *ERGO Programme Phase One Final Report*, Brussels, 1992; OECD, *The Long-Term Unemployed and Measures to Assist Them*, Labour Market and Social Policy Occasional Papers No. 7, Paris, 1992.

BOX B: PROGRAMMING OF CONTACTS DURING AN UNEMPLOYMENT SPELL, UNITED KINGDOM

Event	Duration in unemployment	Annual throughput	Employment Service action	Person to contact
Walk-in	Day 1	4.5 million	Appointment booked. Basic check of entitlement, some claims deflected. Benefit forms issued.	Receptionist
Appointment	Day 1-6	4 million	Benefit claim taken, explain the "benefit contract"[a] and agree "Back to work Plan".	New Client Adviser (NCA)
Sign on	Day 7-14 and every 2 weeks thereafter			Signing clerk
Payment	Day 14-21		Payment of benefit.	Benefit section
	Week 11		Active signing letter.	Signing clerk
	Week 13	1.5 million	Actively signed with a review of the "Back to work plan" and job-search advice. Selection for the week 15-17 interview.	Signing clerk
Job Review interview	Week 15-17		Check entitlement. Advise on in-work benefits[b], make a new "Back to work plan".	Claimant Adviser (CA)
First Restart interview	Week 26	1 million	Review "benefit contract". Access to main programmes[c]. In-work benefit advice. Selected claimants pur on "caseload"[d]. New "Back to work plan".	Claimant Adviser
Second Restart interview	Week 52	0.4 milion	As week 26.	Claimant Adviser
Third Restart interview	Week 78	0.3 million	As week 26, "warning" that attendance at a Restart course could be mandatory[e].	Claimant Adviser
2-year Restart	Week 104	0.1 million	As week 26, plus mandatory attendance at one-week Restart course[e].	Claimant Adviser
Restart interviews are continued every 6 months thereafter.				

a) "Benefit contract": indicates that the claimant's rights and obligations under law are clearly explained.
b) "In-work benefit": refers to Family Credit.
c) "Access to main programmes": programmes such as Employment Training and Jobclubs are available to persons unemployed for more than 6 months.
d) "Put on caseload": assigned to a particular PES officer sometimes in a specialised function, who follows developments regularly.
e) Attendance at a Restart course is mandatory only when the claimant has refused all offers of a place on other porgrammes.

Source: OECD, *Employment Outlook*, Paris, 1992.

BOX C: MASSACHUSETTS INDUSTRIAL SERVICE PROGRAMME (IPS), USA

ISP is an umbrella agency that oversees several services geared towards mature manufacturing industries and their workers. It is a unique agency for a US state, in that it is jointly administered by the Secretary of Economic Affairs and the Secretary of Labour.

AMONG THE TYPES OF SERVICES ISP OFFERS ARE:

The Business and Financial Services/Economic Stabilization Trust to help struggling firms to turn their situations around. The Business and Financial Services staff provides management assistance to help failing companies design and implement new strategies — for example, in marketing, management and financing — to restore the health of the business. The staff draws on the resources of the Economic Stabilization Trust to offer at least some high-risk financing to help ailing companies. The Business and Financial Services of ISP are provided free. Usually, a company or union contacts the ISP. Since its inception in 1985, the Business and Financial Services staff has aided 392 companies through finance and technical assistance, roughly 100 companies per year. Altogether, these firms have employed 16 000 workers. In terms of lending activity, through 1989, 38 loans totalling $8.06 million have been made, which has leveraged over $78.2 million in private financing.

The industry Action Project brings together industry, labour and community leaders to identify and tackle the problems of key regional industries. ISP provides funding for strategic analysis of an industry within a particular community, and then follows through with additional funding for specific projects to assist that industry for a number of years, improving its competitiveness. Based on an initial survey, specific initiatives will be undertaken such as increasing workers' range of skills to enable them to better adapt to the industry's needs; investigating new market opportunities for a group of firms; providing technology assistance to met a particular firm's need; or producing a newsletter on industry information and trends. The Needle Trades Action Project in south-eastern Massachusetts involves an area covering 80 firms, of which approximately half are receiving or have received assistance through the project. The other ISP project, the Machine Action Project in Springfield, has been working in an area with 350 small and medium-sized precision machining shops of which a third are involved in some activities of the project.

RE-EMPLOYMENT ASSISTANCE CENTRES to train laid-off workers and find new employment opportunities for them. These centres come in two principal forms: one is an Emergency Assistance Centre that responds to a major layoff or plant closing, and the other is a Flexible Capacity Centre that is available to serve a community rather than a specific plant closing. Altogether, there have been 67 Workers Assistance Centres created since January 1984, serving over 33 435 participants with a 80 per cent placement rate and an average placement wage equal to 92 per cent of their previous wage. Currently, there are 30 Worker Assistance Centres operating (last year, by comparison, there were 15). The typical worker assisted is a high school graduate (though 29 per cent have less than 12 years of education) and are over 30 years old, with 30 per cent 40 to 54 years old.

THE EMPLOYEE OWNERSHIP AND INVOLVEMENT PROJECT, recently established to demonstrate the use of Employee Stock Ownership Plans (ESOPs) in times of owner transitions. Among its services are informational education on worker ownership, feasibility analyses, specialist advice (e.g. establishing ESOPs, legal assistance, stock valuation and worker communication), and financing from the ISP.

The ISP is unique in its ability to assist in preventing long-term unemployment from plant closure, both at the worker and company level. The programme achieves much more than would separate efforts in aiding troubled companies and dislocated workers. For instance, through its business and finance assistance, ISP can identify companies about to close that are best suited for worker-assistance programmes. But beyond the benefits of better co-ordination and identification, ISP is able to walk in both the worlds of both labour and management, and can often bridge the gap in understanding that separates the two. It is seen as an expert neutral party that can help both sides evaluate the realities they face. ISP also has been innovative in its ability to lever resources and maintain a diversified funding base. Since its formation, it has received close to $20 million in federal aid. $10 million in company contributions, and several million in state appropriations. In addition, its $8 million in lending activity has leveraged $78 million in private bank financing. Further, ISP has succeeded in fostering worker involvement in dealing with the transition problems affecting mature manufacturing industries. A Worker Assistance Centre must hire its staff from among the dislocated. Industry Action projects build co-operative efforts between workers, management and community economic development agencies. The Business and Financial Assistance division is often introduced to companies through local unions as a last resort before a plant closure.

Source: Commision of the European Communities, *ERGO Programme Phase One Final Report*, Brussels, 1992.

BOX D: EMPLOYMENT CREATION SCHEMES IN THE NON-PROFIT SECTOR

In France there are three types of measure for economic reinsertion operating:

i) Local Reinsertion Programmes (PIL) were introduced in April 1987 to provide a way back to employment for people who have exhausted their right to unemployment benefit, and are in receipt of "National Solidarity Allowances". The work is typically maintenance of public property, administrative tasks, environmental protection and social or socio-educative tasks. It is provided by the same sorts of bodies which provided community projects for the young unemployed (travaux d'utilité collective, TUC), i.e. local and regional authorities (47 per cent), non-profit making associations (35 per cent), and public undertakings (4 per cent). Some 4 200 were on the scheme in 1987. In September 1989 this scheme was combined with the Community Work Contract (TUC) and two smaller schemes to form a single mechanism. Employment Solidarity Contract *Contrat Emploi Solidarité*, the main result of which has been the creation of a genuine work contract.

ii) Local Supplementary Income Support (LCR) is system, introduced in 1986, to provide minimum income for people without regular income and unemployed, in return for part-time work. The work is carried out under individual contracts within the framework of agreements between the departments and the State. Some 12 500 people entered the scheme in the year ending December 1987. 58 per cent of the participants were male, presumably as a consequence of the physical nature of much of the work, e.g. road maintenance. (During 1989 this measure was gradually superseded with the introduction of the more general scheme of Minimum Income for Insertion (*Revenue minimum d'insertion*, RMI), introduced by the law of 1st December 1988).

iii) Intermediary Associations (AI) were established in 1987 to engage unemployed people and hire them out to other bodies to do work which is not in competition with existing employment. The AI have the status of non-profit making organisations, and do not have to pay social security contributions for those working less than 200 hours a quarter, except for accident and unemployment insurance. There were some 10 800 beneficiaries of the scheme in 1987, and 46 per cent of the workers were drawn from the LTU. Employment is mainly directed at the commercial sector (44 per cent) and the household sector (29 per cent).

Source: OECD, *The Long-Term Unemployed and Measures to Assist Them*, Labour Market and Social Policy Occasional Papers No. 7, Paris, 1992.

BOX E: JAPAN'S RE-EMPLOYMENT BONUS

Re-employment Bonus is paid when beneficiaries start a new job within the first half of their benefit entitlement period. Depending on the original benefit entitlement and the timing of the start in the new job, the bonus is equivalent to between one-third and two-thirds of the capitalised value of the remaining benefit entitlement. For example, when the original entitlement to benefit is 90 days, as long as fewer than 45 days have actually been paid, a bonus equivalent to 30 days of benefit can be paid as a lump sum upon finding work. During the first half of the benefit entitlement period, this sharply reduces any disincentive to job-search that benefit entitlement might otherwise represent.

Because of the large sums of money involved (the average payment in Tochigi in 1990 was 285 000 yen, over US$2 000) there may be a risk that the Re-employment Bonus will distort behaviour. It may be that workers who have built up a sufficient record of insurance contributions, and who have no difficulty in finding work, are tempted by the possibility of arranging to be laid off, with the intention of restarting work soon afterwards so as to collect the Re-employment Bonus. One special provision that limits the possibilities for this type of abusive exploitation is that workers can claim the Re-employment Bonus only once in any three-year period. A second special provision relates to the cause of entry into unemployment. Immediate payment of insurance benefit is limited to workers who were laid off for reasons beyond their control.

In the case of voluntary quit, the start of regular benefit payments is postponed for three months. During the postponement period (as well as the first half of the entitlement period, thus during at least four and a half months in all) Re-employment Bonus can be paid, but during the first two months of the postponement period only jobs found through the PES qualify. Thus, it is relatively difficult for a worker who arranges his or her new job before quitting the old one to claim the Re-employment Bonus, because the employer in such cases would not normally notify the vacancy to the PES; if he did so he would risk detection.

Owing to the detailed provision described above, one side-effect of the Re-employment Bonus may be to create an indirect incentive for employers to register their vacancies. An employer who does not notify jobs to the PES may occasionally learn that the worker hired has lost a large sum of money because the hiring was not through the PES; conversely, an employer who notifies vacancies to the PES may find some applicants from the PES particularly enthusiastic to start.

In the Japanese system of unemployment insurance before 1975, the Outfitting Allowance (the term "outfitting" refers to the costs of starting a new job) played a role similar to that of the current Re-employment Bonus. Payments of the Outfitting Allowance expanded rapidly from about 1967/68 onwards, and under boom conditions in 1973 actually exceeded payments of the basic allowance (regular benefits) in cash terms (in statistics for Tochigi prefecture). The Outfitting Allowance was criticised on the grounds of its distributional consequences, because it was paid to workers with good employment prospects (the skilled, workers in high-employment areas, etc.) more often than those with the greatest labour market difficulties. In the major reform of 1975, the Outfitting Allowance was substantially reformed by restricting it to special cases such as older, handicapped and seasonal workers, and to a fixed rate equivalent to 30 days of regular benefit. However, with the introduction of the Re-employment Bonus in 1985, that type of benefit again became available to regular workers. the Japanese administration has taken the view that the merits of such a job-finding bonus, in creating an additional incentive to take work, are enough to justify the expense.

In countries where regular benefits have long or indefinite duration, a bonus which pays an unemployed person his or her remaining benefit entitlement is impractical; a fixed bonus similar to Japan's current Outfitting Allowance is possible, but is perhaps less likely to be a major element in the employment decision.

Source: OECD, *Employment Outlook*, Paris, 1992.

Table 3.1 **Percentage shares of GDP devoted by the OECD countries to different labour market policy measures and their classification according to evaluation results**

Classification	GDP share	Ranking
Public employment services	0.02-0.22	1
Training	0.20-0.81	3
Youth measures	0.00-0.69	3
Vocational rehabilitation	0.00-0.23	3
Private enterprise employment	0.00-0.12	2
Self-employment	0.00-0.21	2
Public sector employment	0.00-0.58	4
Work for disabled	0.00-0.68	4
Unemployment compensation	0.00-3.48	5
Early retirement	0.00-1.24	5

Source: OECD, *Employment Outlook*, Paris, 1992.

Table 3.2 **Shares of GDP devoted by eight OECD countries to different labour market policy measures**
(1 % of GDP = 100 in the table)

	Austria	Canada	Germany	Japan	Sweden	Switzerland	US
Pub employment services	11	22	22	2	21	7	8
Training	12	36	47	3	80	2	9
Youth measures	1	2	5	—	12	—	3
Voc. rehabilitation	3	—	13	1	10	11	5
Pri sector employment	1	—	4	6	3	—	—
Self-employment	—	—	—	—	1	—	—
Pub sector employment	4	2	20	—	11	—	1
Work for disabled	2	—	9	—	68	5	—
Unemployment comp.	100	225	152	32	160	37	59
Early retirement	9	—	1	—	8	—	—
Total	144	287	273	44	375	61	84

Note: The total and the sum of different elements do not always agree due to round errors.

Source: OECD, *Employment Outlook*, Paris, 1992.

IV. OECD APPROACHES AND THE DEVELOPING COUNTRIES

The some 160 countries which are not members of the OECD form a very heterogenous as well as a very large group. Among possible sub-groupings is one made up of (a) the Central and Eastern European countries and those that used to be part of the Soviet Union (collectively this group is often described as the economies in transition signifying their common endeavour to shift from a command to a market-based economy), (b) the lowest income group of countries (mainly Asian and African countries), (c) a group of middle income countries and (d) a group of upper middle income countries with many features similar to those found among the poorest OECD Members (World Bank, 1993).

Common to all except the economies in transition and a handful of other countries, is a much faster rate of growth of the labour force than is found among the OECD countries, a reflection of past high rates of population growth. Most developing countries can expect this rapid labour force growth to continue for many years: collectively, this process will add some 1 billion additional workers over the next 25 years and the increases are likely to be particularly strong in the Middle East and in Africa. Developing countries will account for almost the entire increment to the world's labour force over the next quarter century. They will need to increase employment by about 2 per cent per annum for the foreseeable future to match the increase in supply. It will not be easy to do this; the OECD countries have managed only about 1 per cent per annum and they failed to prevent a rise in unemployment from 2 to 3 per cent in the mid-1960s to close to 8 per cent in the 1980s (Turnham, D., 1993a).

In terms of employment, the poorest countries are predominantly agricultural and rural economies although some — like China and India — also have a very important industrial sector. Employment is dominated by self-employment and family enterprise so that the degree of formality in the labour market — as indicated by the share of wage and salaried workers in total employment — is low. Among the African countries especially, these economies are typically lacking in educated manpower and institutional structures and the legal and regulatory frameworks are often not well developed.

As indicated in Table 4.1, the progression from low to higher levels of income is marked by a shift in employment structures and other attributes towards those found in the OECD industrialised countries (e.g. population growth rates and education). Frequently the progression is associated with the expansion of the urban share in population as it is in the urban areas that most formal employment is mostly to be found. Even so, employment in the urban areas also includes a large informal sector and self-employment continues to account for a much higher share of the urban workforce than is true in the industrialised and developed OECD countries (Loufti, M., 1991).

In general, the labour markets in the developing countries are very different from those in the OECD countries. In most countries, especially the poorer ones, social security systems are virtually absent and unemployment benefits are extremely rare and always very partial in their application. Personal savings are often too low to provide much of a margin in times of reduced income. Thus, the motivation to retain work (and to scramble for it when unemployment threatens) is very powerful and there is a crowding into employment which affects any occupation not shielded from competition by entry barriers such as skills or other assets (including land in the case of would-be farmers). Part of the difference between OECD countries and others in respect to the share of self-employment is accounted for by self-employment in the form of survival activities at minimal income and productivity, a form of disguise for what in the OECD context would likely be classed as unemployment.

Despite the absence of social security and the urgency of the need for employment of some type, measured unemployment rates in developing countries are often quite high. This is especially true of the urban areas (even in some of the poorest countries, as in Africa) and in the middle income countries which have labour market conditions closer to those of the OECD countries. Excluding the economies in transition and a group of so-called "dynamic Asian economies " (DAEs), the average rate of unemployment in the urban areas of a group of about 30 developing countries with survey data was some 12 per cent in the late 1980s. Generally speaking, a large element of the problem is associated with urban youth in search of a first job, but unemployment may also be high among casual workers and among older educated women. However, particularly for women, the likely reaction to a dearth of opportunities is a withdrawal from the labour market, often signalled through low participation rates. In rural areas, the employment problem is usually an earning problem as family farms typically provide jobs for all members, at least on a part time basis. However, casual workers without farmland often suffer from unemployment and need to be highly mobile, seeking work on a seasonal basis in various rural areas and in towns.

The following sections deal with the employment situation and problems in the three distinct environments presented by the economies in transition, the dynamic Asian economies, and the other developing economies. A concluding sections has some general points regarding the applicability and relevance of the OECD experience.

IV.1 Economies in transition, Central and Eastern Europe and the ex-Soviet Union

Typically, these are relatively industrialised countries and much of the labour force has been employed as wage workers in state enterprise. Formerly centrally planned and highly regulated, the bureaucratic apparatus of the state is well developed and the level of education is relatively high. The reform and structural adjustment towards adoption of a market economy is the fundamental challenge facing all these economies. In the process, considerable dislocation in the labour

market is an inevitable byproduct. Our discussion is based primarily on materials drawn from selected Central and East European countries including Bulgaria, the former Czechoslovakia, Hungary, Poland, and Romania, hereafter this group is referred to as the CE5.

Employment problems

The transition to a market economy in Central and Eastern Europe has been accompanied by reduced production and increased inflation and unemployment. The big structural challenge is to reduce the weight of public sector and the heavy industrial sector and to increase private sector activities and the service sector (OECD, 1992c; Sohlman, A., 1992a and 1992b).

Table 4.2 gives a few indicators of these problems for 1991 and 1992. As can be seen the fall in output was substantial in 1991 with industry being particularly hard hit (-10 to -30 per cent). A comparative figure for the reduction in industrial production in eastern Germany is 70 per cent in 1990 with a levelling off of production decreases in 1991.

Since 1989, when the transition started, experience has been worse than in the OECD countries. However, the rate of open unemployment in 1992 was not higher than the average rate of unemployment in the OECD countries. As we saw in section 3.2, only five of the OECD countries had unemployment rates at or below 4 per cent and the highest figures reached the 17-18 per cent level (Ireland and Spain). In the CE5 the rate of unemployment varies from 5 per cent to 13 per cent but it is increasing. It will probably continue to increase: the restructuring of the big public industrial enterprises has hardly yet begun and it may be difficult for the private sector to expand at a much more rapid rate to compensate. For Poland it has been calculated that given the present unemployment flows the steady-state rate of unemployment lies around 20 per cent (OECD, 1993f). In eastern Germany the rate of unemployment was already 17 per cent in January 1992.

Long-term unemployment has also increased in the Central and Eastern European countries, accounting for 30 per cent of those unemployed in Bulgaria and Czechoslovakia, 40 per cent in Hungary and over 60 per cent in Poland (the long term unemployed are those with an unemployment duration of more than six months) (OECD, 1993d). Comparable figures for OECD countries are 17 per cent in Finland, and 25 per cent in the United Kingdom. Unemployment among women and among young people is generally comparable with experience in the OECD countries. Labour force participation rates have traditionally been high in the Central and Eastern European countries compared with the OECD countries. As can be seen in Table 4.3 this still seems to be the case. These economies also have a big agricultural sector and a small service sector compared with the OECD.

It is especially in agriculture and heavy industry that employment has decreased during the recent transition. The share of employment in light industry and

services has increased, not due to employment increases but to smaller reductions of employment in those activities. Restructuring has also increased the private sector at the expense of the public sector; and the employment structure by size of enterprise has changed in favour of smaller enterprises (Commission of the European Communities, 1991).

Education levels are quite high in most Central and Eastern European countries, with 6-17 per cent of the population having higher education. A comparable figure for some OECD countries would be 20 per cent in the United States and around 10 per cent in many other OECD countries e.g. Canada, Japan, Sweden, and Switzerland. Evidently, the value of this education in a market economy setting could be questioned though probably more so for the vocational education than for general education.

Labour market policies[18]

Resources are being devoted to labour market policies but on a rather modest scale. The resources devoted to labour market programmes in some Central and Eastern European countries are shown in Table 4.4. The figures for passive measures would put Bulgaria, the Czech and Slovak republics and Romania among the OECD group with the lowest figures and Hungary and Poland in the highest OECD group. For active measures all these countries except the Slovak Republic would be in the lowest OECD group.

(a) Legal framework and institutions

To adapt and improve the functioning of the labour market the Central and Eastern European countries have had to create a whole set of new or more-or-less completely revised institutions early in the transitional period. Laws created or amended include the whole range of labour legislation covering trade unions, collective bargaining arrangements and arbitration, labour codes, notification of lay-offs and registration of vacancies, employment laws to define the rights and duties of the unemployed, to set up systems for unemployment compensation, employment services, financial instruments for the unemployment compensation and active employment policies; and, finally social security laws to take care of those who cannot work and do not qualify for unemployment benefits.

(b) Active labour market policies

The public employment services in the CE5 countries are normally responsible both for active and passive programmes. In some instances they are

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18. Major sources for this section are: Commission of the European Communities, 1991; Fretwell, D., 1992; OECD, 1992c; OECD, 1993f; OECD/CCEET, 1993; Sohlman, A., 1992a and 1992b.

even responsible for social assistance and run training centres of their own (Romania). Sometimes the public employment services have a certain autonomy (Hungary) sometimes they are integrated in the ministry of labour (Romania). The new Employment Law of 1990 in Poland introduces a three-level organisation with local, regional and national labour offices under the guidance of the Ministry of Labour and Social Protection. However, the regional and local offices are at the same time integrated in the regional and the local administrations as well. A tripartite consultative body also exists at each level.

Private employment services are tolerated in some CE5 countries e.g. Poland and in Hungary they have reached a certain level of development with an emphasis on head-hunting, temporary work and export of labour.

These activities can be financed from a variety of sources: payroll taxes, employee contributions and state budgets. In Hungary, employers and employees finance the active and passive programmes but through two different funds. In Poland they are financed by state and payroll taxes. As of 1993, Czechoslovakia will have a combined financing system like the one in Hungary. Bulgaria finances its labour market policy through employer taxes and Romania by state funds.

The employer and employee tax base is, however, eroding. With a more-or-less constant budget, passive measures tend to crowd out the active measures. Thus in Poland they have increased from 50 per cent of the budget for labour market programmes in 1990 to 90 per cent in 1992.

As the employment services are responsible for active and passive measures, the increase in unemployment also tends to crowd out the staff resources for active measures. This was one reason why in the new Polish system the benefits administration will be separated from the job placement services. However, the employment services are already understaffed. While in the OECD countries one staff member in the employment services serves 400 - 10 000 members of the labour force the corresponding range in CE5 countries is from 5 000 - 25 000. The ratio of unemployed per staff member in the employment services ranges from 57 in the Czech republic to 320 in Poland. In the OECD countries the range is from 10 unemployed per staff member in a few cases, to others in the range of 40-50 and some around 100 (except for Turkey with 1380).

It should also be kept in mind that the staff mostly lack experience and modern information systems. Training of the staff has, however, started in all Central and Eastern European countries and computerised information systems are being introduced, often starting with the calculations of unemployment benefits and local registrations.

An important basic task for the employment services is to keep records of job-seekers and vacancies, develop occupational classification and assessment systems, provide labour market information, make labour market analysis and

evaluate the labour market programmes. However, for these purposes administrative records are not always sufficient. They have to be complemented with household and enterprise surveys which is a rather new field of action in the Central and Eastern European countries.

The volume of training and retraining programmes has generally been rather low and even decreasing, with a level of 5-6 per cent of the unemployed in 1991 in Bulgaria, Czechoslovakia, and Hungary. In eastern Germany the figure is much higher, over 30 per cent in 1991. Rumania also reports a high figure for 1991, 20 per cent. Very little is known about the results of this training. During training, benefits are normally paid that are somewhat higher than unemployment benefits, though sometimes not very much so. Some targeted training programmes have been introduced for the long-term unemployed, youth and refugees in Hungary and Poland.

Employers have been subsidised to hire (and train) handicapped workers, the unemployed (Poland), school-leavers (Czech and Slovak republics, Poland, Romania).

Loans to the unemployed to start up their own business have been implemented in some Central and Eastern European countries (Czechoslovakia, Hungary, and Poland). Public works and community services have also been introduced to give work to the unemployed (Czechoslovakia, Hungary, and Poland). These private and public sector employment programmes have been rather small scale, reaching 8 per cent in Romania (for school-leavers), 2.5 per cent in Hungary (public works) 2-3 per cent of the unemployed in Poland (self-employment assistance).

In Hungary, Poland, and Romania employers are required to give 30-90 days advance notice for mass lay-offs and to notify the public employment services of vacancies. In Poland there is also a special programme for "crisis regions" and Hungary and Poland are introducing mass lay-off services.

(c) Passive labour market policies

Before the transition, social protection for workers was to a large extent handled by the enterprises and the trade unions. With the introduction of the market economy they have had to be relieved of these functions and other mechanisms for social protection were created, notably new schemes of unemployment compensation (Commission of the European Communities, 1992a; OECD, 1991c).

Unemployment compensation systems in the CE5 countries have both insurance and assistance elements. Normally the benefits are related to previous earnings, financed by payroll taxes, not subject to means testing, and eligibility governed by a minimum employment period. However, in Hungary, Poland, and Romania school leavers have been entitled to unemployment benefits though after a certain waiting period.

Benefits are paid for 6-18 months. Except for Poland, replacement rates as compared with wages still seem to be rather high, varying from 50 per cent to 70 per cent though with different types of maximum and minimum levels and often with benefits declining over time (in Poland a flat rate of compensation of 36 per cent of the average wage in the last quarter is paid).

The conditions both as to eligibility criteria, replacement rates and duration have been tightened in many CE countries during 1991 and 1992. Further reductions may be expected thus raising the question of better safety nets for last resort assistance.

Other passive measures have also been tried in the CE5 countries to postpone lay-offs and avoid unemployment e.g. various forms of subsidised short-working as in Romania, Czechoslovakia, Hungary; extended paid leave (Romania); and early retirement (Poland, Romania). Many of these subsidies are costly and were used at an intermediate stage while the unemployment benefits were being introduced, e.g. in Romania.

(d) Conclusions

Within the budget constraints, the following elements seem likely to be important for the public employment services (ILO, 1992b; OECD, 1991c):

— More and better trained staff equipped with improved work methods and materials are needed to be able to work more efficiently with the unemployed but also with the employers;

— decentralisation and simplification of rules from above so that local offices can adapt to local conditions and draw upon different local resources and initiatives;

— subcontracting in all cases when it is not absolutely necessary that the public employment service itself undertake the implementation: e.g., subcontracting with training providers, intermediate agencies and institutes for vocational rehabilitation. Whether or not the public employment services should be complemented by private agencies ought to be clarified;

— targeting groups with special problems such as the long-term unemployed, women, youth, the disabled, ethnic minorities and refugees. Such groups have already started to increase in importance and they will need to be given special attention; finally,

— more emphasis to promising measures such as mass lay-off services and relocation assistance (if this is physically possible given the housing situation and politically acceptable). In certain programmes it might also be

possible to introduce a bonus for quick adaptations by the affected workers.

Training is expensive and should only be used for targeted groups and after counselling. The incentive structure for trainees might also need to be revised. The needs of the employers must always be followed up and integrated into the training courses offered. Wage subsidies might perhaps be reserved for disadvantaged groups. Assistance to self-employment is important but here again targeting is necessary as well as supplementary support. Public sector employment is last resort employment. Its usefulness has been questioned but in some situations it may be better than the alternatives depending on how it is managed and structured.

The system for unemployment benefits has to be financially sustainable. A flat rate at a low level may be necessary in a situation when an insurance type of system actually cannot be introduced because of the uncertainties about the future course of unemployment. The young and other groups without previous labour market experience may be better served by active programmes than unemployment benefits. The systems also need to be simplified, not least for administrative reasons.

IV.2 High growth, low unemployment developing economies

Creating the conditions for rapid, labour-intensive growth is a challenge that a few countries have successfully met, but a few countries located in Asia have achieved outstanding results. The so-called Dragons — Hong Kong, Singapore, Korea and Taiwan — are the leaders in this respect but others including Malaysia, Thailand and at a lower level of development Indonesia have made considerable progress. The differences among these countries are, however, often very important. Thailand and Malaysia have a relatively low GDP per capita. South Korea is at an intermediate level while Hong Kong, Singapore and Taiwan have the highest GDP per capita among the DAEs. Their GDP per capita is in the same range as that found in the less developed OECD countries (OECD, 1991b).

The agricultural sector is especially important in Indonesia and Thailand but it is also large in Malaysia and South Korea. Only Hong Kong, Singapore and Taiwan have shares of employment in the agricultural sector that is typical of the range found in the OECD countries. For the service sector the situation is somewhat similar. Thailand has the smallest service sector. South Korea, Taiwan, and Malaysia are at an intermediate level while Hong Kong and Singapore have shares like those in the OECD countries.

A common feature for the DAEs has been their rapid economic growth. During the 1969-1989 period they all had GDP average growth in excess of 6 per cent per year — much more than achieved by the OECD countries. Only Japan had a GDP growth in the DAE range. The educational status of the DAEs as indicated by the rate of secondary school enrolment is generally somewhat lower than in the OECD countries, and particularly so in Thailand, however, most of these economies are fast

catching up to OECD levels.

Labour force participation varies from about 60 per cent to 75 per cent for men — somewhat lower than is found in most OECD countries. For women the spread in the DAEs is from about 30 per cent to 50 per cent, similar to the range common in the less developed OECD countries. Here too in countries such as Korea and Taiwan, female participation has been increasing rapidly.

Employment problems

Reflecting the very rapid and sustained growth in employment — 3 to 3.5 per cent a year has been typical — the rate of unemployment is low among the DAEs. Malaysia used to be an exception, but the average rate of unemployment has been falling since the mid-1980s and was only 4.2 per cent in 1992. Youth and female unemployment rates tend to be relatively high but the figures are very low compared with those found in many OECD countries in recent years. With a young labour force, the considerable structural change in occupations and high rates of rural to urban migration has been accomplished without great difficulty through inter-generational mobility. In many instances, the DAEs have a problem of labour shortages, particularly for agricultural work and in construction, and there has been considerable international migration from less successful neighbouring countries such as the Philippines (as well as the poorer areas of Indonesia) as a result.

Employment policies

Policy makers in these economies found ways of adopting and continuing to enforce strategies that respected their factor endowments — among the original Dragons, endowments were nowhere very rich in natural resources and initially consisted in large part of unskilled labour. This was done through policies with impact at the macro, sectoral and micro levels, with a good deal of common ground among the various countries, especially in the most recent years. In terms of labour market policies, the special emphasis given to education and human capital development in many of the countries is noteworthy. Except for the economies in transition of Central and Eastern Europe and the ex-Soviet Union, these countries are at the top of the developing countries ranked by number of years of education per worker.

In various past times, some East Asian governments have been prepared to intervene forcefully to prevent restrictive practices and aggressive pursuit of wage claims by organised labour. In general, the legislative philosophy has tended towards minimalism in respect of mandatory protection, job security and fringe benefits although this did not prevent large real income gains among wage workers, especially in the most advanced economies. This situation has evolved considerably in recent years however.

As these economies become more and more similar to those of the OECD, so a range of labour market instruments are becoming more relevant, notably those

addressed to the problems of labour market efficiency and structural adjustment, including employment services, matching of workers to appropriate opportunities and information services. If these economies continue to display strong growth, they should be able to avoid the emergence of high unemployment although further sectoral restructuring is probably inevitable, perhaps with more serious redundancy problems and skill mismatches and shortages. Thus far, social welfare systems and safety nets — which are being actively developed in a number of cases — have relied very little on a system of unemployment benefits.

IV.3 Other developing countries

Employment problems

As indicated in table 4.1, the other developing countries are an even more heterogeneous group. In most cases a disappointing economic performance in the 1970s and 1980s has been combined with rapid population and labour force growth. Thus, employment conditions have not much improved and may have worsened in a number of cases (Turnham, D., 1993a; Turnham, D., B. Salomé and A. Schwartz, 1990).

The basic employment problem of most developing countries is the long-term lack of jobs and the way to deal with this problem is through general economic policies and institutional reforms of the type pursued with success in East Asia during the past quarter of a century. During the 1980s, many countries began to adopt policies with just these objectives in mind, in some cases, such as Chile, Sri Lanka, Bangladesh, Mexico, Mauritius and Tunisia with a measure of success, although in many instances the income and employment benefits are yet to be fully realised. Restructuring programmes have added to unemployment in some cases and have also created hardship among some low-income populations. Thus, in Latin America and in Africa there is evidence of a return to the countryside as urban conditions worsened and of an expansion in the informal sector, as factory jobs and some public sector employments were lost. However, the scale of the transformation that is needed is generally more limited than in the economies in transition and in some respects, notably the need to give more attention to agricultural development — as in most parts of Africa — is helpful for employment and incomes among the poorer parts of the community.

Employment policy

Virtually none of these countries has unemployment benefits or other publicly funded income support system and the often vestigial employment service is usually confined to the urban areas and has a limited outreach. Since the basic institutions for labour market policies hardly exist a strategy for their development has to be established corresponding to the emerging needs (ICFTU, 1989; ILO, 1992b).

In the urban areas particularly, as the demand for labour begins to pick up so

public employment services could be developed to help match labour demand and labour supply. More important in the early stages perhaps are efforts to help entrepreneurial skill development as part of a support programme to promote small-scale, labour intensive activities. Such programmes could usefully include skill and professional training, credit and market information. Labour market activities need to be closely related to other complementary programmes such as those seeking improvements in basic education. There are also potential gains through regulatory and legal system reforms (Fallon, P. and L. Riveros, 1989): if the costs are high of conforming with a too burdensome regulatory framework, there is a disincentive to invest and to expand the scope of business, in part because larger, more successful businesses are more difficult to hide from the regulators.

Harking back to an earlier era in the OECD countries, there is also a case for rural and in some instances urban public works and local community development programmes, notably in poorer and densely populated areas. Among the developing countries themselves there is quite a variety of favourable experience with such programmes — for example, in Bolivia, India, Indonesia and at earlier times in Korea — using low-wage labour employed under well-designed economic infrastructure construction and maintenance schemes (using contractors) to provide supplementary employment and income (Turnham, D., 1993b).

More direct use can perhaps be made of recent OECD experience in handling mass lay-offs in regard to the difficult problems brought about by the necessity of reducing employment in the public sector in some countries. Prompted by suspicion or hostility toward the private sector on ideological grounds, many countries chose in the 1960s and 1970s to invest heavily in public-sector enterprises. At the same time, government employment also increased rapidly, in part as a response to increased demands for health and education services, but in part, too, because governments found themselves acting as employer of last resort (especially for those with higher education) and/or providing patronage employment to the party faithful. Unfortunately, all too often workers in public enterprises and services are inefficiently used while their costs detract from needed government investments and other expenditures. The management of mass lay-offs remains however both deeply unpopular and politically extremely difficult and much remains as unfinished business for the reform programme of the 1990s.

Prospects

Many developing countries are working to improve their basic laws and institutions and in some instances, notably in Central and Eastern Europe, they are actively experimenting with different combinations of active and passive programmes. In Central and Eastern Europe, a number of OECD countries have participated in these projects and co-operation continues (ILO, 1993a; ILO, 1993b; OECD, 1993d).

For the coming years, there are a certain number of challenges that have to be tackled. Based on the OECD experience, firstly, it seems necessary to further

develop the basic laws and institutions and to monitor their working in terms of efficiency and flexibility. This holds not only for employment but also for closely connected fields such as:

— education and vocational training where the development has to be linked to that of the labour market and some co-ordination found between training providers for the educational, vocational and employment training systems; and, for many of the economies in transition and other relatively advanced developing countries;

— social security where the boundaries between the unemployment benefit system and social assistance has to be clarified and where models for co-operation between the agencies involved have to be developed.

Second, the desired relations between macroeconomic policy and active and passive labour market policies have to be clarified. It is necessary to work with realistic expectations about the results of labour market policies in different economic environments. Most important by far is successful implantation of a sustainable expansionary environment. Next in importance is the use of the very limited budgetary funds for labour market programmes in an effective way, focusing on a few active labour market programmes, usually including job matching, information and placement services.

In summary, in most developing countries as well as in the economies in transition the public employment services should concentrate on matching and on private sector employment creation. However, since the basic institutions and core activities of the public employment services have hardly been firmly established, even more attention than in the OECD countries has to be given to the efficiency aspects of the labour market and labour market policy measures influencing the flexibility of the labour market (wage bargaining and labour protection) and mobility.

Development indicators in different regions Table 4.1

Region/Country	No. of countries included	GNP per capita 1990	Average annual growth rate 1980-91	Population growth rates 1980-91	Mean years of schooling (+25 age gr.) 1990	Level of Urbanization (%) 1991	Share of agr. employment 1992
Low-Income Economies, of which:	**(38)**	**340 (350w)**	**2.5 (3.9w)**	**2.2 (2.0w)**	**2.7**	**33.1 (39.0w)**	**67.1**
China & India	(2)	350	5.6	1.7	3.6	46.0	65.9
Other Asia	(7)	378	2.7	2.5	3.1	25.7	61.5
Africa	(25)	295	-0.6	2.9	1.5	27.7	73.9
Lower-Middle-Income Economies:	**(42)**	**1 398 (1590w)**	**0.05 (-0.1w)**	**2.3 (2.0w)**	**4.0**	**52.8 (54.0w)**	**34.7**
Africa	(9)	1 168	-0.5	2.8	2.0	43.5	42.8
Asia	(6)	1 533	0.5	3.0	4.9	47.8	32.2
Latin America	(12)	1 310	0.1	2.4	5.0	62.3	29.1
C. E. Europe & Ex-USSR	(14)	1 827	...	1.2	...	53.7	...
Upper-Middle-Income Economies, of which:	**(20)**	**3 936 (3 530w)**	**0.8 (0.6w)**	**1.8 (1.5w)**	**6.0**	**69.5 (73w)**	**26.4**
Latin America	(6)	2 866	-1.1	1.5	6.3	79.5	15.3
C. E. Europe & Ex-USSR	(6)	3 166	...	-0.1	...	68.8	...
OECD Countries	**(22)**	**17 605**	**2.2**	**0.5**	**9.8**	**77.0**	**7.2**
"Economies in Transition"	**(20)**	**2 497**	**...**	**0.6**	**8.2**	**61.2**	**13.4**
"Dynamic Asian Economies"	**(7)**	**6 674**	**5.5**	**1.6**	**5.9**	**62.8**	**25.3**

Notes:
() = number of countries in each category.
(..w) = data are weighted averages as given in the World Development Report 1993.
... = not available.
- Mean years of schooling refers to the number of years schooling of the adult population (+25 except for Taiwan (+30)).
- The Latin American group under the upper middle income countries category excludes Puerto Rico.
- "Economies in Transition" include C. E. European and ex-USSR countries.
- "Dynamic Asian economies" include S.Korea, Hong Kong, Singapore, Taiwan, Malaysia, Indonesia and Thailand.
- Figures for the OECD countries exclude Iceland and Luxemburg.

Sources:
- World Development Report 1993, World Bank.
- UNDP Country Human Development Indicators 1992.- OECD Labor Statistics 1971-1991.- FAO Yearbook 1992.- Taiwan Statistical Data Book 1993 (figures go up to 1991).- Social indicators in Taiwan area of the Republic of China 990 (figures go up to 1990).

Table 4.2 **Percentage changes in GDP, industrial production, consumer prices, and employment and the rate of unemployment in some Central and Eastern European countries**

	Percentage changes 1991				
	GDP	Industrial production	Consumer prices	Rate of unemployment March 1992	Job los 1989-91
Bulgaria	-17	-28	334	13	-20
Czechoslovakia	-16	-21	58	6	-8
Hungary	-10	-19	35	9	-9
Poland	-9	-12	70	12	-9
Romania	-14	-19	445	5	-10

Source: OECD, *Employment Outlook*, Paris, 1992.

Table 4.3 **Labour force participation, agricultural and service sector employment (%) in some Central and Eastern European countries and in the OECD**

	Labour force participation	Agricultural sector	Service sector
Bulgaria	77	19	34
Czechoslovakia	80	12	41
Hungary	69	20	43
Poland	75	27	36
Romania	75	28	27
OECD	72	8	63

Source: OECD, *Employment Outlook*, Paris, 1992.

Table 4.4 **Active and passive labour market policy measures as a share of GDP in some Central and Eastern European countries in 1992**

	Passive	Active
Bulgaria	(0.70)	0.70
Czech Republic	0.19	0.32
Hungary	2.39	0.39
Poland	2.51	0.32
Romania	0.79	0.18
Slovac Republic	0.65	1.37

Source: OECD, *Employment Outlook*, Paris, 1992 and 1993.

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