

Chapter 1

RECENT LABOUR MARKET DEVELOPMENTS AND PROSPECTS

Special Focus on Labour Market Policies: How the Money Has Been Spent

Summary

The special section of this chapter describes trends in public spending on labour market programmes, using the Labour Market Programme (LMP) database developed by the OECD, and explores their relationship with the unemployment rate. In particular, following the OECD Labour Ministerial agreement in 1992, it addresses the question, “Have OECD governments heeded the call to put more emphasis on ‘active’ labour market programmes?” (“active” programmes are those designed to help the unemployed back into work, as opposed to “passive” measures concerned with the payment of unemployment benefits and early retirement payments). It also reviews the changes in the structure of expenditure on labour market programmes and the recent developments in policies and measuring instruments emerging out of the experience of the past two decades.

The results show some evidence of a cautious move towards “active” programmes, in many countries. At the same time, experience with active labour market programmes has shown the importance of more careful design and much greater emphasis on rigorous short- and long-term evaluation. Some relatively inexpensive policies (notably assistance with and active encouragement of job-search) have been found to be among the most cost-effective for substantial numbers of the unemployed and careful targeting has also been emphasised. Another widely accepted priority is to continue to integrate active and passive labour market programmes and to improve the delivery of “passive” unemployment and welfare benefits, so as to encourage active participation in the labour market. Thus the small shift towards “active” programmes recorded in the data may not have fully captured the changes that have taken place in the orientation of labour market policy.

Introduction

After a year of particularly strong performance, economic growth in the OECD area has been weakening since the autumn of 2000. The 2001 growth rate is projected to be half that of 2000, at around 2%, and the long-running reduction in unemployment is projected to come to a halt. However, the forces dampening economic growth are projected to dissipate in the second half of 2001, leading to a growth rate of 2.5 to 3% over the next twelve months. Inflation is expected to remain low.

Section I of this chapter reviews economic and employment developments in the OECD area, paying particular attention to labour market prospects for 2001 and 2002. It also investigates the possible existence of skilled-labour shortages and structural change in OECD labour markets, through an analysis of Beveridge curves. Section II is a

special section which documents trends in spending on “active” and “passive” labour market programmes since 1985, reviews the changes in the structure of active labour market policy expenditure, and notes some of the recent developments in policy instruments.

I. Recent developments and prospects

A. Economic outlook to the year 2002

In 2000,¹ all OECD countries experienced positive real GDP growth. The figure for the area as a whole was 4.1%, the highest for 12 years. Particularly strong growth was seen in Korea, Mexico, the United States and Ireland (at 11%, the highest in the OECD area, see Table 1.1). However, over 2001, economic

Table 1.1. Growth of real GDP in OECD countries^{a, b}

	Share in total OECD GDP 1995	Annual percentage change			Projections	
		Average 1988-1998	1999	2000	2001	2002
North America						
Canada	3.2	2.1	4.5	4.7	2.3	3.2
Mexico	2.9	3.4	3.8	6.9	3.7	4.7
United States	35.0	2.9	4.2	5.0	1.7	3.1
Asia						
Japan	13.9	2.2	0.8	1.7	1.0	1.1
Korea	2.9	5.6	10.9	8.8	4.2	5.5
Europe						
Denmark	0.6	1.9	2.1	2.9	2.0	2.0
Finland	0.5	1.7	4.2	5.7	4.0	3.7
Norway	0.5	3.3	0.9	2.2	2.0	2.0
Sweden	0.8	1.3	4.1	3.6	2.8	3.0
Greece	0.6	1.9	3.4	4.1	4.0	4.4
Italy	5.5	1.6	1.6	2.9	2.3	2.5
Portugal	0.6	2.9	3.0	3.2	2.6	2.8
Spain	2.8	2.7	4.0	4.1	2.9	2.9
Czech Republic	0.6	..	-0.8	3.1	3.0	3.5
Hungary	0.4	..	4.5	5.1	5.1	4.7
Poland	1.3	..	4.0	4.1	3.8	3.9
Slovak Republic	0.2	..	1.9	2.2	2.8	3.6
Austria	0.8	2.5	2.8	3.2	2.3	2.5
Belgium	1.0	2.1	2.7	4.0	2.8	2.7
France	5.7	1.8	3.2	3.2	2.6	2.7
Germany ^c	8.3	2.4	1.6	3.0	2.2	2.4
Iceland	0.0	1.8	4.1	3.6	1.5	2.4
Ireland	0.3	6.4	9.8	11.0	7.8	7.8
Luxembourg	0.1	5.4	7.5	8.5	5.6	5.5
Netherlands	1.6	3.0	3.9	3.9	3.0	2.8
Switzerland	0.9	1.2	1.5	3.4	2.1	2.0
Turkey	1.6	4.3	-4.7	7.2	-4.2	5.2
United Kingdom	5.2	1.9	2.3	3.0	2.5	2.6
Oceania						
Australia	1.8	3.4	4.7	3.7	2.0	3.8
New Zealand	0.3	2.0	4.0	3.0	2.2	3.0
OECD Europe^d	39.9	2.2	2.2	3.5	2.4	2.8
EU	34.4	2.1	2.6	3.3	2.6	2.7
Total OECD^d	100.0	2.6	3.2	4.1	2.0	2.8

.. Data not available.

a) The OECD Secretariat's projection methods and underlying statistical concepts and sources are described in detail in "Sources and Methods: OECD Economic Outlook" which can be downloaded from the OECD Internet site (www.oecd.org/eco/out/source.htm).

b) Aggregates are computed on the basis of 1995 GDP weights expressed in 1995 purchasing power parities.

c) The average growth rate has been calculated by chaining on data for the whole of Germany to the corresponding data for western Germany prior to 1992.

d) Averages for 1988-1998 exclude the Czech Republic, Hungary, Poland and the Slovak Republic.

Source: OECD (2001c), *OECD Economic Outlook*, No. 69, June.

growth for the OECD area is projected to slow to 2.0%, before recovering somewhat to 2.8% in 2002. The pattern varies considerably between the major OECD regions. In the United States, the growth rate is projected to fall particularly strongly between 2000

and 2001, before recovering to slightly over the OECD average in 2002. The weaker prospects for Japan are expected to continue. On the other hand, the European Union is projected to experience only a small decline in growth.

The projections for a recovery in growth in 2002 are based on a number of observations, and assumptions. The interest rate reductions that have taken place, together with some shifts towards lower tax burdens, are assumed to combine with lower oil prices to spur aggregate demand over the coming months. In addition, the sustained growth in productivity in the United States over recent years is taken as suggesting that such gains are durable and may spread to other countries. Finally, there are as yet no signs of inflationary pressures in much of the OECD region, leaving scope for monetary policy to support activity further in the period ahead, if need be. However, the risks to the outlook are considered to be on the downside, stemming *inter alia* from the possibility of continued share price declines, increased indebtedness in some countries, and a deterioration in confidence.

B. Employment and unemployment

In 2000, employment growth in the OECD area benefited from the generally strong economic growth, to reach 1.2% (Table 1.2). It was highest in Ireland and Spain, at a little under 5%, though negative in the Czech Republic, Japan and Poland. With the exception of Japan and Turkey, all OECD countries are projected to experience positive employment growth in 2001 and 2002, although the area-wide growth rate is projected to decline to 0.6% in 2001 and 0.9% in 2002. Following the pattern of economic growth, the projected slow-down is stronger in the United States than the European Union.

The 2000 unemployment rate in the OECD area was the lowest since 1990, at 6.3% (Table 1.3). The decline since 1999 was widespread, with a full percentage point decrease in the European Union. For the OECD area as a whole, the outlook is for a continuation of these comparatively low levels. However, increases are projected for the United States, up to the end of the projection period, and for Japan in 2001. Decreases in unemployment rates are projected for most of the EU member states.

C. Compensation and labour costs

For the OECD area as a whole, the growth of compensation per employee in the business sector was 3.6% in 2000, a small increase from the figure of 3.5% observed in 1999 (Table 1.4). Countries with, or near to, double-digit growth rates included Hungary, Ireland, Korea, Mexico, Poland and Turkey, of which only Hungary and Ireland experienced an acceleration in the rate of growth. At the same time, the growth of unit labour costs in the OECD area decelerated slightly from 1.3% growth in 1999 to 1.1% in 2000. These favourable

developments, in the face of increases in energy prices, have been a surprising feature of the recent business cycle. Even in the tight labour market of the United States, unit labour costs increased by only 1.0% in 2000, compared with 1.6% in 1999. The projections are for a further, small increase, to 3.8%, in the growth of average compensation per employee for the OECD area in 2001, before a slight reduction to 3.7% in 2002. Unit labour costs are projected to rise more significantly, to 2.3% in 2001, falling to 1.6% in 2002. In the United States, the growth in unit labour costs is projected to be 3.5% in 2001 and 1.8% in 2002.

D. The unemployment-vacancy relation: a Beveridge curve analysis

Over the past year, anecdotal reports of skilled-worker shortages have increased in frequency in many countries. Such reports have suggested skilled-labour shortages in areas ranging from information and communication technology sectors to more traditional sectors such as construction and agriculture.² This subsection uses Beveridge curves (see Box 1.1), to shed light on possible labour and skill shortages in the current period, while at the same time examining possible structural changes in OECD labour markets. The current recovery is compared to the previous one, where possible.³ Countries experiencing rapid recent wage growth would naturally be given special attention in any analysis of skill shortages. However, the available data generally show little evidence of any acceleration of wages. The country experiencing the strongest acceleration in wage growth in the past year has been Ireland, where the annual growth in compensation per employee increased from 4.0% in 1999 to 8.3% in 2000 (see Table 1.4).

Evidence of a skilled-worker shortage?

There are a number of countries where the combination of unemployment and vacancy rates seen in the current period, taken in the light of those at the end of the previous recovery, appears to suggest tight labour markets and the possible approach of labour and skill shortages (see the Beveridge curves in Chart 1.1). These include the Netherlands, Portugal, Spain and the United Kingdom, where unemployment rates are similar or lower to those at the end of the previous recovery but vacancy rates are higher. In addition, for the United States, unemployment rates are lower and vacancy rates are at similar levels. For Canada and France, both variables are at similar levels.⁴ Denmark is an exception: vacancies appear to have been falling at the same time as unemployment, contrary to the pattern observed in the previous recovery. It is noticeable that

Table 1.2. Employment and labour force growth in OECD countries^a

	Annual percentage change											
	Employment						Labour force					
	Level 1999 (000s)	Average 1988-1998	1999	2000	Projections		Level 1999 (000s)	Average 1988-1998	1999	2000	Projections	
2001					2002	2001					2002	
North America												
Canada	14 533	1.0	2.8	2.6	1.2	1.3	15 722	1.0	2.0	1.8	1.6	1.4
Mexico ^b	18 457	3.0	1.3	3.4	2.0	2.5	18 950	3.0	0.7	3.1	2.2	2.6
United States	133 501	1.3	1.5	1.3	0.4	0.4	139 380	1.2	1.2	1.1	1.0	0.9
Asia												
Japan	64 620	0.8	-0.8	-0.2	-0.1	0.2	67 793	1.0	-0.2	-0.2	0.1	0.2
Korea	20 281	1.7	1.4	3.8	0.5	2.0	21 634	2.2	0.8	1.5	0.6	1.8
Europe												
Denmark	2 708	0.0	0.9	0.8	0.6	0.5	2 856	0.0	0.8	0.3	0.6	0.5
Finland	2 287	-0.9	3.3	1.7	1.7	1.6	2 548	-0.1	2.0	1.2	0.9	1.0
Norway	2 258	0.6	0.4	0.5	0.6	0.7	2 333	0.6	0.4	0.7	0.6	0.6
Sweden	4 067	-0.9	2.2	2.2	1.6	1.0	4 308	-0.5	1.2	1.2	1.0	0.8
Greece	3 893	0.7	-0.7	1.2	1.1	1.4	4 426	1.1	0.2	0.4	0.4	0.6
Italy	20 492	-0.3	1.2	1.9	1.6	1.7	23 162	-0.1	0.8	0.9	0.8	0.8
Portugal	4 791	1.0	1.9	1.7	1.0	1.0	5 012	0.9	1.2	1.2	1.1	1.1
Spain	13 817	0.9	4.6	4.8	2.9	2.2	16 422	0.9	1.0	2.6	1.9	1.5
Czech Republic	4 709	..	-2.3	-0.7	0.2	0.1	5 163	..	0.2	-0.7	-0.2	-0.3
Hungary	3 750	..	3.6	0.9	1.3	1.2	4 035	..	2.6	0.3	1.1	1.0
Poland	14 757	..	-3.9	-1.6	0.0	0.0	17 148	..	-0.1	1.0	0.6	0.8
Austria	4 011	0.7	1.4	1.0	0.3	0.6	4 237	0.9	0.9	0.3	0.3	0.4
Belgium	3 906	0.4	1.3	1.7	1.1	0.9	4 283	0.4	0.5	-0.2	0.8	0.7
France	23 222	0.3	1.4	2.4	1.6	1.5	26 146	0.5	0.7	0.6	0.5	0.9
Germany ^c	37 942	0.4	1.1	1.5	0.9	0.8	41 370	0.6	0.3	1.0	0.4	0.2
Iceland	137	0.4	2.7	2.0	0.1	0.6	139	0.6	1.8	1.4	1.0	1.0
Ireland	1 616	3.2	6.3	4.7	3.7	3.1	1 711	2.2	4.0	3.3	3.2	3.1
Luxembourg	178	1.0	2.5	2.9	1.8	1.6	183	1.2	2.3	2.6	1.7	1.6
Netherlands	6 805	2.1	3.0	2.5	1.7	1.3	7 027	1.7	1.9	1.7	1.5	1.4
Switzerland	3 867	0.6	0.7	1.0	0.7	0.7	3 966	0.9	-0.4	0.3	0.7	0.7
Turkey	21 913	1.4	2.5	-3.8	-2.0	2.0	23 687	1.2	3.4	-4.9	-1.5	1.8
United Kingdom	27 649	0.4	1.3	1.0	0.6	0.4	29 428	0.2	1.4	0.5	0.5	0.5
Oceania												
Australia	8 811	1.5	2.3	2.9	1.0	1.8	9 491	1.6	1.4	2.2	1.8	1.7
New Zealand	1 751	1.4	1.5	1.6	1.0	1.0	1 878	1.6	0.7	0.8	0.6	1.0
OECD Europe^{d, e}	208 776	1.0	1.3	1.0	0.8	1.1	229 590	1.1	1.1	0.3	0.5	0.8
EU	157 385	1.0	1.7	2.0	1.3	1.2	173 119	1.1	0.9	1.0	0.8	0.7
Total OECD^{d, e}	470 727	1.2	1.1	1.2	0.6	0.9	504 438	1.2	0.9	0.7	0.7	0.9

.. Data not available.

a) See note a) to Table 1.1.

b) Data based on the National Survey of Urban Employment (see "Sources and methods: OECD Economic Outlook", www.oecd.org/eco/out/source.htm).

c) The average growth rate has been calculated by chaining on data for the whole of Germany to the corresponding data for western Germany prior to 1992.

d) Averages for 1988-1998 exclude the Czech Republic, Hungary, Poland and the Slovak Republic.

e) Countries shown.

Source: OECD (2001c), *OECD Economic Outlook*, No. 69, June.

the most recent movements of the 1990s Beveridge curves are often inward. However, it is difficult to determine to what extent this might be due to improved labour market functioning as opposed to some slackening off in employment demand, leading to a fall in vacancies.

Evidence of structural change?

An outward shift of the Beveridge curve is apparent in Finland, France, New Zealand, Norway, Sweden and Switzerland.⁵ While this might be taken as a sign of poorer labour market functioning, for Finland and

Table 1.3. Unemployment in OECD countries^a

	Percentage of labour force					Millions				
	Average 1988-1998	1999	2000	Projections		Average 1988-1998	1999	2000	Projections	
				2001	2002				2001	2002
North America										
Canada	9.4	7.6	6.8	7.2	7.2	1.4	1.2	1.1	1.2	1.2
Mexico ^b	3.7	2.6	2.3	2.5	2.6	0.6	0.5	0.5	0.5	0.5
United States	5.8	4.2	4.0	4.6	5.0	7.5	5.9	5.7	6.5	7.1
Asia										
Japan	2.8	4.7	4.7	4.9	4.8	1.8	3.2	3.2	3.3	3.3
Korea	2.8	6.3	4.1	4.1	4.0	0.6	1.4	0.9	0.9	0.9
Europe										
Denmark	7.5	5.2	4.8	4.7	4.8	0.2	0.1	0.1	0.1	0.1
Finland	10.6	10.2	9.8	9.1	8.6	0.3	0.3	0.3	0.2	0.2
Norway	4.8	3.2	3.4	3.4	3.3	0.1	0.1	0.1	0.1	0.1
Sweden	5.4	5.6	4.7	4.1	3.9	0.2	0.2	0.2	0.2	0.2
Greece	9.0	12.0	11.3	10.8	10.0	0.4	0.5	0.5	0.5	0.5
Italy	10.5	11.5	10.7	10.0	9.2	2.4	2.7	2.5	2.4	2.2
Portugal	5.7	4.4	4.0	4.1	4.2	0.3	0.2	0.2	0.2	0.2
Spain	19.6	15.9	14.1	13.2	12.6	3.1	2.6	2.4	2.3	2.2
Czech Republic	..	8.8	8.8	8.4	8.1	..	0.5	0.5	0.4	0.4
Hungary	..	7.1	6.5	6.3	6.1	..	0.3	0.3	0.3	0.3
Poland	..	13.9	16.1	16.6	17.3	..	2.4	2.8	2.9	3.0
Slovak Republic	..	16.4	18.8	18.3	17.5	..	..	..	..	..
Austria	5.0	5.3	4.6	4.6	4.4	0.2	0.2	0.2	0.2	0.2
Belgium	8.6	8.8	7.0	6.8	6.5	0.4	0.4	0.3	0.3	0.3
France	10.9	11.2	9.7	8.6	8.1	2.8	2.9	2.5	2.3	2.2
Germany	7.5	8.3	7.8	7.3	6.8	2.9	3.4	3.2	3.1	2.9
Iceland	3.1	1.9	1.3	2.2	2.6	0.0	0.0	0.0	0.0	0.0
Ireland	13.2	5.6	4.3	3.9	3.9	0.2	0.1	0.1	0.1	0.1
Luxembourg	2.3	2.9	2.6	2.5	2.5	0.0	0.0	0.0	0.0	0.0
Netherlands	6.3	3.2	2.4	2.2	2.3	0.4	0.2	0.2	0.2	0.2
Switzerland	3.0	2.7	2.0	1.9	1.9	0.1	0.1	0.1	0.1	0.1
Turkey	7.7	7.5	6.4	6.9	6.7	1.6	1.8	1.5	1.5	1.5
United Kingdom	7.9	6.0	5.5	5.4	5.5	2.3	1.8	1.6	1.6	1.7
Oceania										
Australia	8.6	7.2	6.6	7.4	7.2	0.8	0.7	0.6	0.7	0.7
New Zealand	7.7	6.8	6.0	5.6	5.6	0.1	0.1	0.1	0.1	0.1
OECD Europe^c	9.2	9.1	8.4	8.1	7.9	17.7	20.8	19.4	18.8	18.3
EU	9.6	9.1	8.2	7.7	7.3	15.9	15.7	14.3	13.5	13.0
Total OECD^c	6.9	6.7	6.3	6.3	6.3	30.5	33.7	31.5	32.0	32.2

.. Data not available.

a) See note a) to Table 1.1.

b) See note b) of Table 1.2.

c) Averages for 1988-1998 exclude the Czech Republic, Hungary, Poland and the Slovak Republic.

Source: OECD (2001c), OECD Economic Outlook, No. 69, June.

Sweden the explanation lies in the severe economic crises of the 1990s, which make it difficult to compare the current expansion with the previous one. For France, the outward movement is very slight, and the most recent figures available can be interpreted as showing that labour demand is higher than at the end of the previous recovery, while unemployment is at a similar level. It is too early to

attempt to assess the impact of the 35-hour week legislation which began to come into force in January 2000, and which was designed to increase labour demand. Early indications appear to suggest that sectors which moved relatively quickly to the 35-hour week are not suffering particularly badly from skilled-labour shortages.⁶ However, the impact on other sectors is not yet known. For

Table 1.4. Business sector labour costs in OECD countries^{a, b}

	Percentage changes from previous period									
	Compensation per employee					Unit labour costs				
	Average 1988-1998	1999	2000	Projections		Average 1988-1998	1999	2000	Projections	
2001				2002	2001				2002	
North America										
Canada	3.5	2.6	3.6	3.2	3.4	2.3	0.7	1.4	2.1	1.4
Mexico	21.4	13.5	12.0	9.0	7.0	21.4	10.4	9.4	7.0	4.7
United States	3.5	4.3	4.5	4.7	4.4	2.0	1.6	1.0	3.5	1.8
Asia										
Japan	1.7	-1.1	0.1	0.3	0.4	0.3	-2.4	-1.7	-0.7	-0.5
Korea	10.9	12.2	8.0	6.6	6.8	6.5	2.1	2.9	2.7	3.1
Europe										
Denmark	3.7	3.8	3.8	3.8	3.9	1.3	2.2	1.1	2.0	1.9
Finland	4.5	3.1	4.7	4.5	4.4	0.9	0.9	0.0	1.9	2.1
Norway	4.0	5.7	4.5	4.5	4.8	1.7	4.8	2.9	3.3	2.8
Sweden	6.1	2.8	3.7	3.7	4.3	3.4	0.1	2.2	2.3	1.8
Greece	13.0	4.2	5.1	5.0	5.2	11.5	-0.4	1.9	1.7	1.9
Italy	5.3	2.1	2.9	2.6	3.0	3.3	1.3	1.4	1.5	1.9
Portugal	9.7	4.2	5.8	5.5	5.3	7.6	2.9	4.1	4.0	3.3
Spain	6.9	3.0	3.5	4.3	4.3	4.8	2.6	3.0	3.4	3.0
Czech Republic	..	4.9	7.0	7.1	6.5	..	3.2	2.8	3.9	2.7
Hungary	..	11.4	13.1	18.0	11.9	..	11.4	8.5	13.9	8.2
Poland	..	15.2	8.4	8.1	7.1	..	5.4	1.8	3.7	2.7
Austria	3.6	1.6	2.2	2.7	3.0	1.5	-0.1	-0.3	0.5	0.8
Belgium	3.7	2.0	2.7	3.3	3.2	2.0	0.5	0.3	1.4	1.2
France	2.6	2.3	1.4	2.7	2.9	0.8	0.3	0.7	1.6	1.6
Germany ^c	3.5	0.9	1.3	1.9	2.3	1.4	0.5	-0.1	0.5	0.6
Iceland	7.9	4.5	5.7	7.0	7.0	6.1	3.1	3.8	5.3	5.0
Ireland	3.8	4.0	8.3	7.8	7.6	0.2	0.3	1.6	3.4	2.7
Luxembourg	4.5	3.6	4.9	3.6	3.2	..	..	..	..	..
Netherlands	2.7	2.9	4.1	4.4	4.2	1.3	1.9	2.5	2.8	2.4
Switzerland	3.4	1.3	1.9	2.6	2.7	2.2	0.1	-0.6	1.1	1.3
United Kingdom	5.6	4.9	4.4	4.8	4.9	4.4	3.9	2.3	2.6	2.4
Oceania										
Australia	4.2	2.4	3.0	4.0	3.7	2.1	0.1	2.3	2.9	1.6
New Zealand	2.0	2.4	3.1	3.7	3.2	1.4	-0.2	1.1	2.4	1.1
OECD Europe^{d, e}	4.5	3.1	3.7	3.6	3.7	2.7	1.7	1.3	2.0	1.9
EU	4.6	2.5	2.8	3.2	3.5	2.7	1.4	1.2	1.7	1.7
Total OECD										
less high-inflation countries^{d, e, f}	3.6	2.6	3.1	3.3	3.4	1.9	0.9	0.7	2.1	1.4
Total OECD^{d, e}	4.4	3.5	3.6	3.8	3.7	2.7	1.3	1.1	2.3	1.6

.. Data not available.

a) See note a) to Table 1.1.

b) Aggregates are computed on the basis of 1995 GDP weights expressed in 1995 purchasing power parities.

c) The average growth rate has been calculated by chaining on data for the whole of Germany to the corresponding data for western Germany prior to 1992.

d) Averages for 1988-1998 exclude the Czech Republic, Hungary, Poland and the Slovak Republic.

e) Countries shown.

f) High inflation countries are defined as countries which had 10 per cent or more inflation in terms of GDP deflator on average between 1988 and 1998 on the basis of historical data. Consequently, the Czech Republic, Greece, Hungary, Korea, Mexico, and Poland are excluded from the aggregate.

Source: OECD (2001c), OECD Economic Outlook, No. 69, June.

New Zealand, the shift may partly reflect the major policy reforms since 1984. Part of the shift in the Norwegian curve can be explained through the success of the Public

Employment Service in increasing the market penetration of job vacancies.⁷ However, it may also reflect some deterioration in the matching of labour supply and demand.

Box 1.1. Beveridge curves

Beveridge curves provide a useful perspective on potential skilled-labour shortages, as well as on structural changes in the labour market. High and increasing levels of unfilled job vacancies, especially at low levels of unemployment, may denote skilled-worker shortages and labour market tightening. If combined with sustained levels of high unemployment, they may indicate a mismatch in the labour market between skills available and skills required. In addition, an outward (inward) shift of the curve over time may denote a decrease (increase) in the efficiency of labour market matching. However, any analysis of the Beveridge curve must bear in mind the deficiencies of currently available job vacancy data as indicators of unsatisfied labour demand.

Most job vacancy data are obtained from the Public Employment Service (PES). However, not all vacancies are reported to the PES. The definitions of job vacancies and the proportion of vacancies reported to the PES vary considerably across countries. Institutional changes may affect the proportion of vacancies that are notified, making it difficult to interpret both current trends and shifts over time. One example of such an institutional change is provided by Australia, where the Commonwealth Employment Service was shut down in May 1998 and replaced by the Job Network system, which depends on contracted employment service providers [OECD (2001a)]. A structural change of this nature might well have a significant impact on measured job vacancies.* Another example is the integration of information technology, including the Internet, into the delivery of labour market services in a number of countries. For example, the Flemish PES office has developed a large-scale electronic network since 1992, which appears to have increased the number of reported job vacancies considerably [OECD (2001b)].

While France maintains a series of new job vacancy data from its PES, changes in the method of compilation are thought to preclude comparisons between the 1990s and the 1980s. The only consistent information is provided by surveys of employers' reports of recruitment difficulties. For Ireland, data are available only on new vacancies reported to the Training and Employment Authority (FAS) since 1985. Finally, for Canada and the United States, the best indicator of unsatisfied labour demand is considered to be the "Help-Wanted Index", derived from a count of newspaper advertisements.

* Employers may list vacancies with the "employment service" in Australia via Job Network providers or directly via the Australian Job Search Internet site.

For Switzerland, the outward movement of the curve has occurred alongside a rapid rise in the proportion of long-term unemployment, adding weight to the possibility that the outward shift signals an unfavourable structural change in the labour market.

On the other hand, Canada, Denmark, the Netherlands, the United Kingdom and the United States have seen an inward shift in the Beveridge curve, suggesting increased market adjustment efficiency and better matching compared to the 1980s expansionary period. One reason for this may be an increased emphasis on mobilising the unemployed to fill available vacancies [Layard (2001)]. This was an objective of the Canadian Employment Insurance reform of 1996, the Danish unemployment insurance reform of 1994, the Netherlands Job-seekers Employment Act (WIW) of 1998, and the United Kingdom New Deal of 1997. Welfare reform in the United States may have had a similar effect for some groups of unemployed. As most of these measures affect only unemployed individuals receiving benefits and, in some cases, have been introduced rather recently, they cannot explain the entire shift.

However, it can be argued that policy in these countries has been moving in the direction of "activation" for some time and may have played a role in improving labour market functioning over the past economic cycle.

In conclusion, a comparison of the patterns of Beveridge curves over recent economic cycles does show some reason for concern over possible shortages of labour and of skilled workers. However, as noted above, there is little sign that any such shortages have yet been translated into wage inflation. Nevertheless, the issue should by no means be ignored. In addition, while many countries appear to show signs of favourable structural change in labour markets, some do not, and in general the process of reform needs to continue. Policy initiatives to make paid employment more financially attractive, working arrangements more flexible and lower-skilled workers more productive should help extend the employment gains of recent years. The following section reviews spending on a range of labour market policies across OECD countries and regions since 1985, and discusses the latest trends in policy development.

Chart 1.1. Job vacancies^a and unemployment

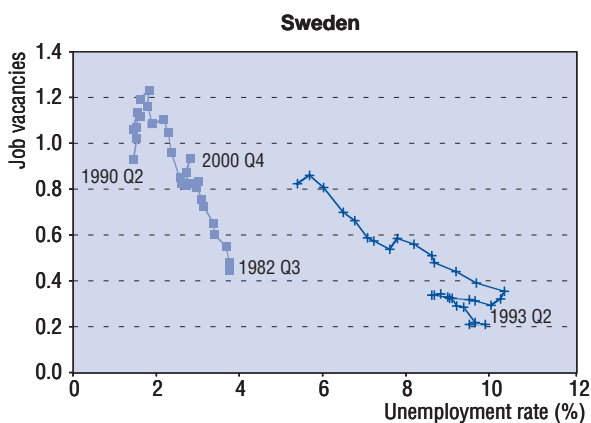
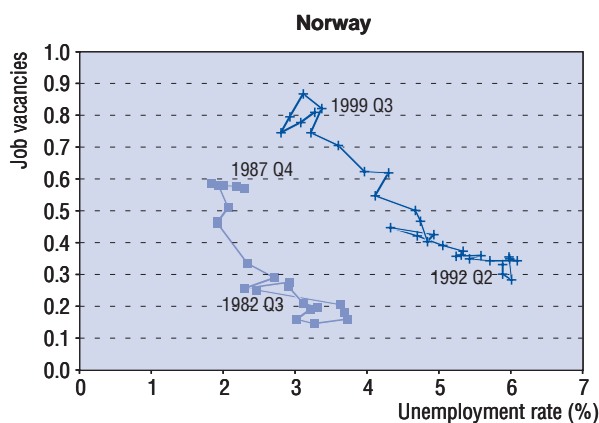
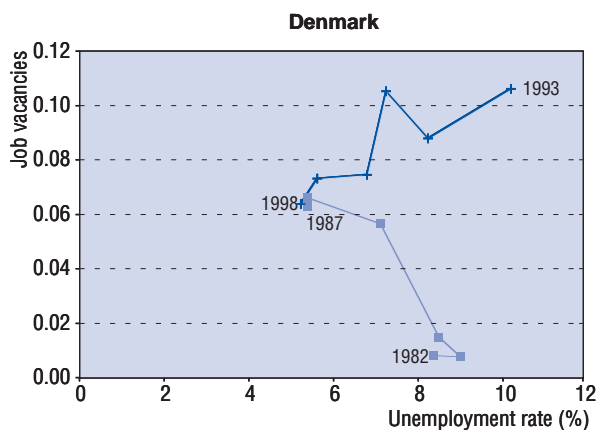
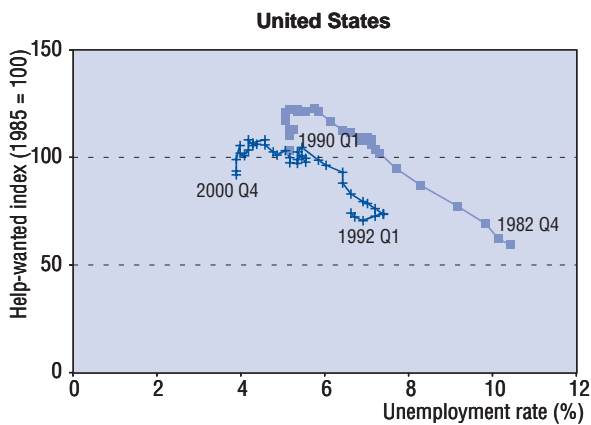
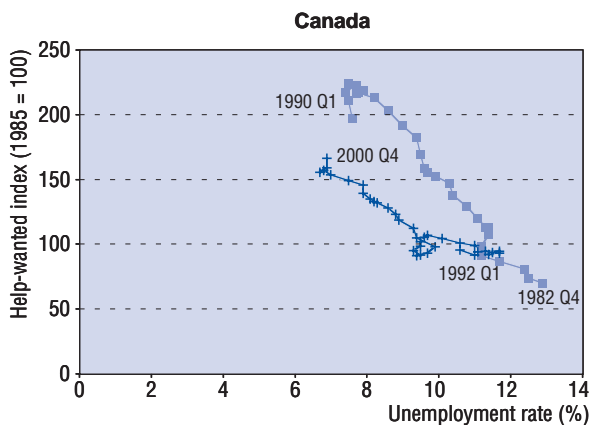


Chart 1.1. Job vacancies^a and unemployment (cont.)

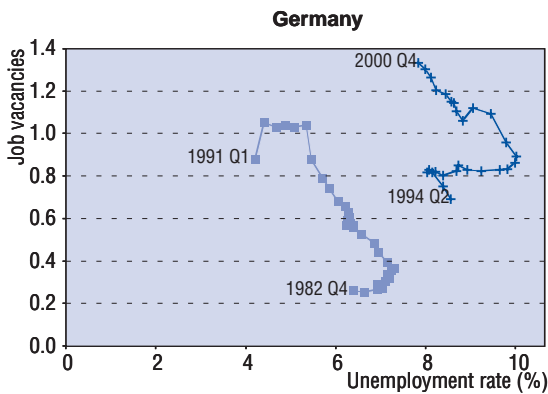
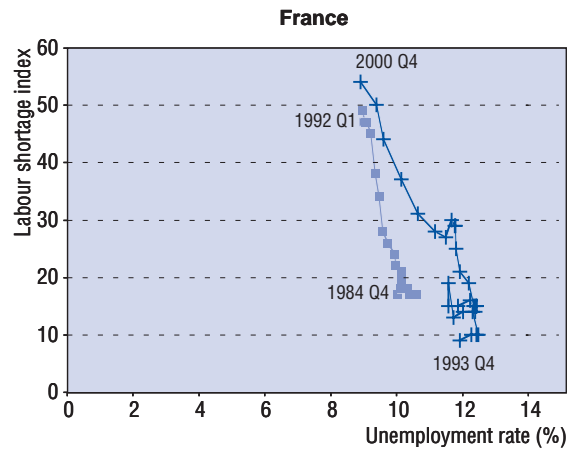
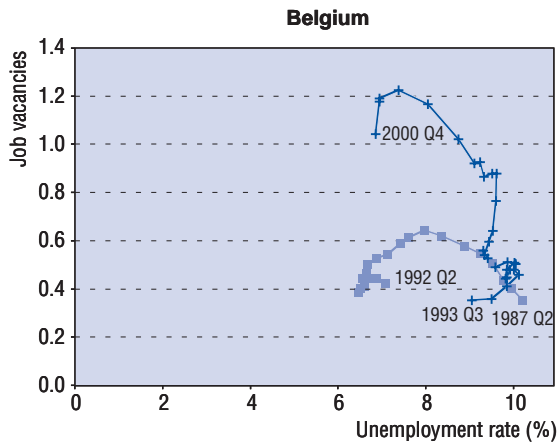
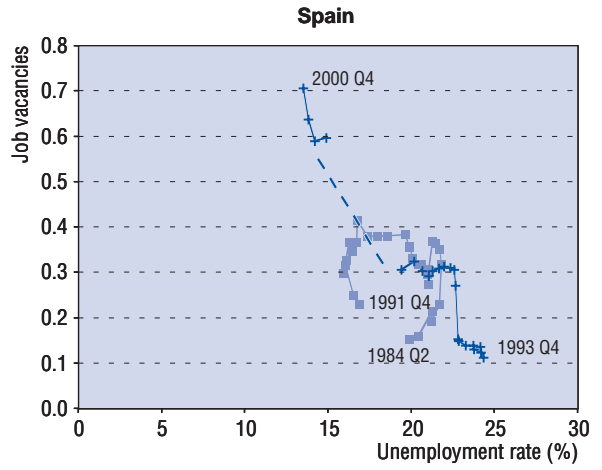
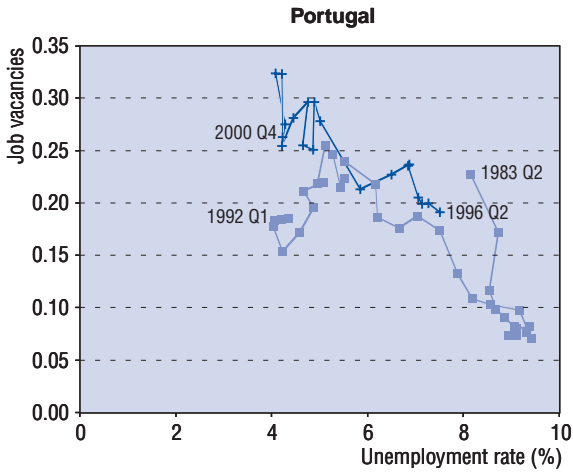
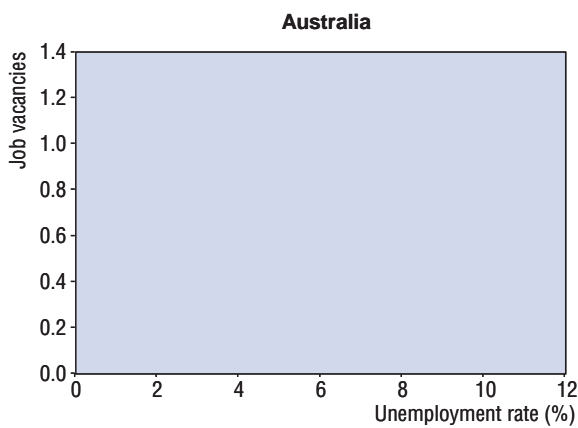
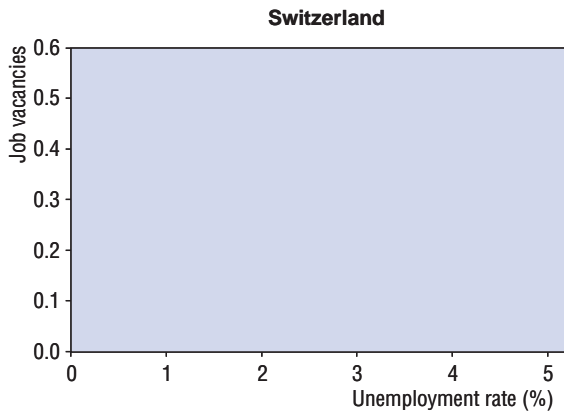
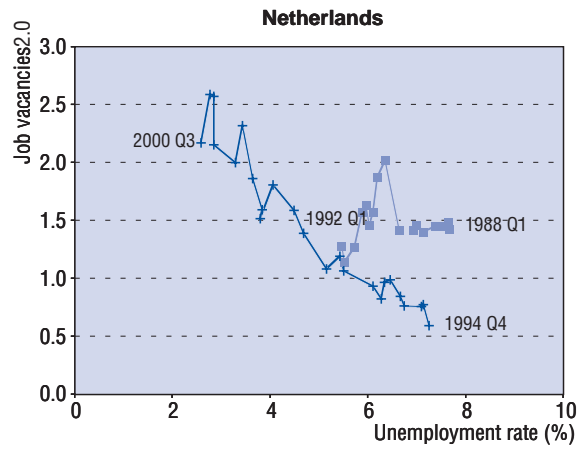
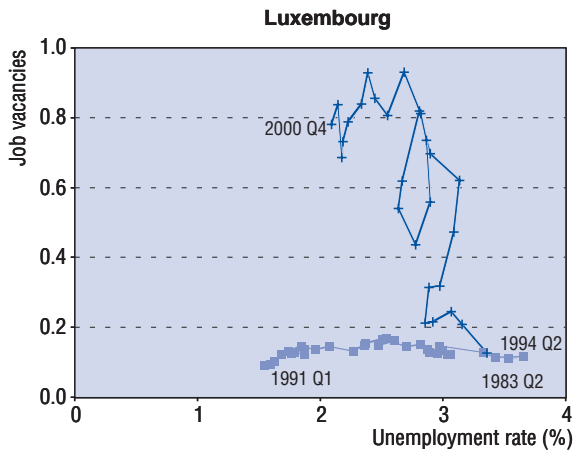


Chart 1.1. Job vacancies^a and unemployment (cont.)



a) Vacancy data are reported as a percentage of the labour force.

Sources : OECD, *Main Economic Indicators*; Institut national de la statistique et des études économiques; Training and Employment Authority (FÁS, Ireland); Richard Layard (Danish vacancy data); and Economic Cycle Research Institute.

II. Labour market policies: how the money has been spent

A. Introduction

The high levels of unemployment in almost all OECD countries during the 1980s and early 1990s entailed large increases in public spending on unemployment benefits. At the same time, considerable expenditure was allocated to so-called “active labour market programmes” (ALMPs). Many of these ALMPs were designed to help unemployed people find work faster. Others aimed to foster employment growth and reduce unemployment over the medium-term through structural change in the labour market. In 1992, OECD Labour Ministers agreed that “labour market programmes are important tools for pursuing structural reform” and endorsed a “long-term strategy for a progressive shift from passive to active labour market measures and related social policies”. The 1994 OECD *Jobs Study* explained that ALMPs are “aimed at improving the functioning of the labour market by enhancing labour market mobility and adjustment, facilitating the redeployment of workers [...] and, generally, enabling people to seize new job opportunities as they arise”, adding that they are “particularly appropriate instruments for improving the prospects of poorly qualified job-seekers and the long-term unemployed”. One of the recommendations of the *Jobs Study* was to “strengthen the emphasis on active labour market policies and reinforce their effectiveness”.

The aim of this section is to document the trends in public spending on labour market programmes, using the OECD Labour Market Programme (LMP) database, containing data from 1985. This was first restricted to expenditure on selected programme categories, but was later extended to include a limited amount of information on numbers of participants in these programmes.

The LMP database provides a valuable instrument for monitoring international trends in labour market programme spending, though its limitations need to be borne in mind. It is based on three principles (Box 1.2). The first is the distinction between “passive” programmes (taken to include early retirement schemes as well as the payment of unemployment benefits) and “active” programmes. The second is the importance of targeting – witness the special categories for young people and the disabled. The third is the separation of expenditure by government “functions”, namely, the Public Employment Service and administration, labour market training, and subsidies to employment.

These three principles remain of great importance. However, even as unemployment rates in most OECD

countries have declined to the levels of the mid-1980s, the role of ALMPs is being rethought. As a result, the database needs to be re-developed. Two of the most important reasons for this are: *i*) the blurring of the distinction between active and passive programmes, as unemployment benefit payments are increasingly made subject to conditions involving active participation in the labour market and *ii*) the emergence of new forms of policies, such as “Making Work Pay” policies, which were not foreseen in the original database. Work is now underway, in conjunction with EUROSTAT, the Statistical Office of the European Union, to construct an enhanced OECD database to track these policy developments better (see Box 1.3).

The structure of this section is as follows:

- Sub-section B describes the basic patterns of LMP expenditure, and outlines its relationship with the unemployment rate. It addresses the question, “Have OECD governments heeded the call to put more emphasis on active labour market programmes?”
- Sub-section C explores the changes in the structure of expenditure on ALMPs.
- Sub-section D reviews some of the developments in policies and measuring instruments emerging out of the experience of the past two decades.

B. How did labour market expenditure vary between 1985 and 1998?

Chart 1.2 shows that, on average for OECD countries, the average proportion of GDP devoted to labour market programmes varies strongly with the economic cycle. For example, it rose from 2.1% in 1989, before the recessionary period of the early 1990s, to 3% in 1993, when the average unemployment rate was at its peak.⁸ The average over the whole period, 1985 to 1998, was 2.5% of GDP for total LMP spending, of which 0.8% was for “active” measures.

Country detail is shown in Table 1.5. For 1998, the highest figures, for both total LMP spending and active spending, are seen in the Nordic countries, at 3.6% and 1.5%, respectively. Figures for the four southern European countries tend to be lower, averaging 1.6% and 0.7%, respectively, while those for the eastern European countries are lower still, at 0.8% and 0.3%. The remaining European countries occupy an intermediate position. Overall, spending in OECD Europe countries tends to be higher than in other OECD regions. The lowest figures for total spending in 1998 are for Mexico, the Czech Republic and the United States. The lowest figures for active spending are for Mexico, Japan and the Czech Republic.

Box 1.2. Main features of the OECD LMP database

The database consists of public expenditure data, beginning in 1985 for the majority of countries, supplemented by data on the number of participants for 10 countries from 1985 and for 16 countries from 1992. The latest year generally available for OECD countries is 1998. The information is based on data provided annually by Member countries in respect of each of their relevant labour market programmes, which are allocated to the appropriate category by the Member countries, in collaboration with the Secretariat, following guidelines laid down by the OECD. All Member countries are covered, with the exceptions of Iceland, the Slovak Republic and Turkey. However, not every country has provided data for every year. As a result, some countries have been excluded from the analysis in this section, and a number of estimations have been made, as explained in Annex 1.A.

Public expenditure on labour market programmes is defined to include all public outlays, or outlay equivalents for relevant purposes, both public sector consumption and transfers to individuals and enterprises. No distinction is made between central, local government and quasi-public sources of finance, such as social insurance funded by compulsory contributions. The emphasis is on labour market programmes, as opposed to general employment or macroeconomic policies, and so the database includes only expenditure targeted on particular labour market groups. For example, reductions of taxes and social security contributions are included only when they are made in respect of particular labour market groups. Payroll-tax reductions for lower-paid workers are considered general employment policies and are not included.

Participation in ALMPs is measured, for the most part, as the inflows into the programmes, *i.e.* the number of persons starting the programme over the course of the year in question. This generally corresponds to the type of data which is most readily available. However, stock data are included for some types of programmes, including direct job creation and work for the disabled.

Definitions of the categories

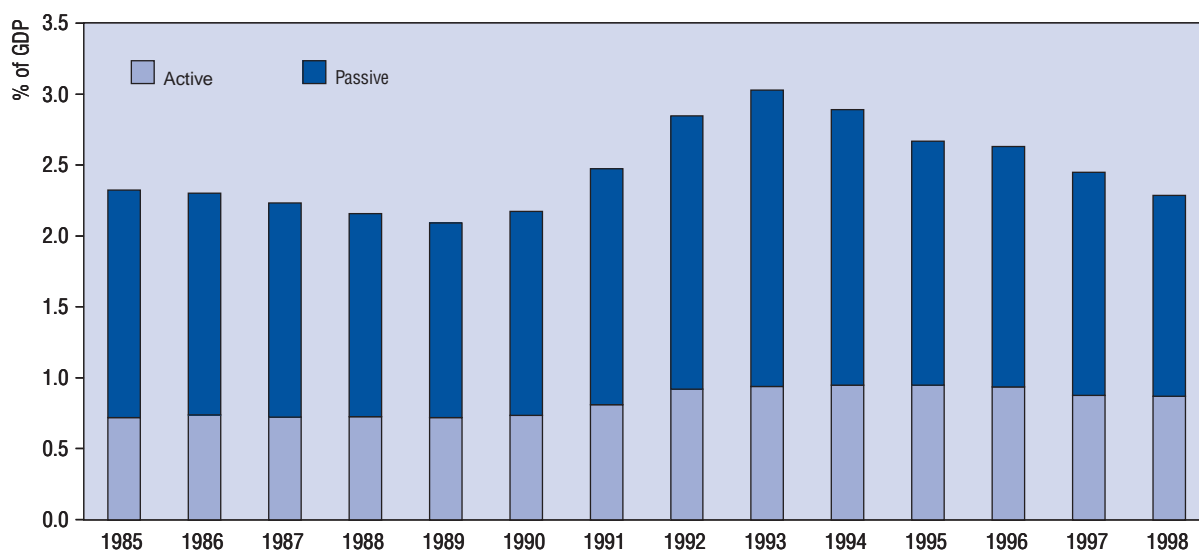
1. **Public Employment Services and administration** includes the following services: placement, counselling and vocational guidance; job-search courses; assistance with displacement costs; administering unemployment benefits; and all other administration costs of labour market agencies (at central and local level) including running labour market programmes.
2. **Labour market training** includes both course costs and subsistence allowances and is divided into two sub-categories: training for unemployed adults and those at risk; and training for employed adults. Special training programmes for youth and disabled are excluded (see below).
3. **Youth measures** include only special programmes for youth in transition from school to work. They do not cover young people's participation in programmes which are open to adults as well. The two sub-categories are: measures for unemployed and disadvantaged youth, targeted principally on those who do not follow regular upper-secondary education or vocational education and are unsuccessful in finding jobs; and support of apprenticeship and related forms of general youth training, covering a variety of forms of training and work practice in enterprises.
4. **Subsidised employment** covers targeted measures to promote or provide employment for the unemployed and other priority groups (but not youth and the disabled). It is divided into: wage subsidies paid to private sector firms to encourage the recruitment of targeted workers or continued employment of those whose jobs are at risk (not including general employment subsidies); support of unemployed persons starting enterprises; and direct job creation (in public or non-profit organisations) to benefit the unemployed.
5. **Measures for the disabled** include only special programmes for the disabled and do not cover the total policy effort in support of the disabled. The two sub-categories are: vocational rehabilitation; and work for the disabled.
6. **Unemployment compensation** includes all cash benefits to compensate for unemployment except early retirement. It covers unemployment insurance and assistance, compensation to workers whose employers go bankrupt and special support for various groups such as construction workers laid-off in bad weather.
7. **Early retirement for labour market reasons** is limited to special schemes under which workers receive retirement pensions either because they are out of work or because their jobs are released to the benefit of others. Disability pensions are excluded.

These main categories are defined in more detail in OECD (1990). In this section, "active" programmes are those included in categories 1 to 5 above, while "passive" programmes comprise categories 6 and 7.

Limitations of the data for analytical purposes

The following limitations need to be borne in mind when using the data for analysis [see also OECD (1988); OECD (1993); Martin (2000)]:

- Potential inconsistencies between data for different Member countries arise from institutional differences and different interpretations of the criteria and the categories.
- Spending on labour market programmes at regional or sub-national levels is not always captured fully.
- Public expenditure data alone cannot encompass a country's entire labour market policy, which also includes many legislative and regulatory policies. In addition, as one of the criteria is that programmes be targeted, the data exclude general macroeconomic policies, general tax exemptions, work-time reduction measures, and so on.
- As the database only refers to public expenditure, it excludes private-sector spending, for example, on programmes organised at the industry level and financed by special payroll taxes, private spending on apprenticeships, training, and so on.
- The data on participant numbers relate to annual inflows into various labour market programmes. They give no direct information on the average length of time spent in a programme nor on the number of repeated spells.

Chart 1.2. OECD spending on active/passive measures, 1985-1998^a

a) Not all OECD countries are included in the figures shown, and some missing data have been estimated by the Secretariat. See Annex 1.A for details.

Source : OECD database on Labour Market Programmes.

Chart 1.3 explores the relationship between LMP expenditure and the unemployment rate. The first panel shows the (unweighted) average for OECD countries. Several points emerge:

- Both passive and active spending rise and fall with the unemployment rate. However, the slope of the passive line is greater than that of the active line – passive expenditure is more responsive than active to changes in the unemployment rate. This is only to be expected. Active policies take some time to put into place, while the payment of unemployment benefits, the main component of passive programmes, does not. Moreover, benefits are usually administered as open-ended entitlements and tend to rise and fall automatically with unemployment.
- The relationship between passive spending and the unemployment rate has shifted over time. For example, at roughly the same level of the unemployment rate, passive spending was higher in 1991 than in 1987. However, by the end of the 1990s, again at roughly the same unemployment rate, the proportion of passive spending had fallen to just below the level of 1987. The reasons for this may include a tightening-up of the rules for eligibility in the more recent period, a change in the composition of the unemployed, a reduction of expenditure on early

retirement schemes and some transfer of expenditure to active programmes (see below).

- For active programmes, the relationship between spending and unemployment also appears to have shifted over the recent business cycle. On average, for OECD countries, active spending tended to rise with the unemployment rate up to 1993, but it fell only slightly when unemployment fell during the rest of the 1990s. This is consistent with a continuing effort to achieve structural reform after unemployment had peaked [OECD (1996a)].

The remaining panels in Chart 1.3 show the patterns of change for a number of OECD country groupings; the Nordic countries, Southern Europe,⁹ Central and Western Europe, North America and Oceania. The patterns for these different areas show considerable differences. For the Nordic countries, the proportion of spending on active policies responds particularly strongly to a rise in the unemployment rates (presumably because active programmes are offered to a relatively high proportion of the unemployed). In the southern European, and central and western European countries the line for active spending has shifted upwards noticeably. For North America, it can be seen that spending on passive programmes was much lower in 1998 than in 1989. This is linked to the fact that, in 1996, Canada reformed its Employment Insurance system while the United States introduced profiling of the

Table 1.5. Spending on labour market programmes, 1985, 1989, 1993 and 1998

	Total spending (as % of GDP)				Active spending (as % of GDP)				Active spending (as % of total spending on LMPs)			
	1985	1989	1993	1998	1985	1989	1993	1998	1985	1989	1993	1998
Canada	2.49	2.07	2.60	1.49	0.64	0.51	0.66	0.50	25.9	24.5	25.3	33.8
Mexico	..	0.01	0.01	0.08	..	0.01	0.01	0.07	..	59.8	56.4	98.2
United States	0.79	0.62	0.79	0.42	0.25	0.23	0.21	0.17	32.1	36.8	26.1	41.4
North America^{a, b}	1.64	1.34	1.70	0.96	0.45	0.37	0.43	0.34	29.0	30.6	25.7	37.6
Japan	0.50	0.40	0.39	0.61	0.17	0.16	0.09	0.09	33.5	41.1	22.8	15.0
Korea	..	..	0.06	0.64	..	..	0.06	0.46	..	..	100.0	71.7
Asia^{a, b}	..	..	0.22	0.62	..	..	0.07	0.27	..	..	61.4	43.3
Denmark	5.38	5.49	7.08	5.03	1.14	1.13	1.74	1.66	21.2	20.6	24.6	33.1
Finland	2.22	2.11	6.57	3.96	0.90	0.97	1.69	1.40	40.7	46.0	25.8	35.2
Norway	1.09	1.83	2.64	1.39	0.61	0.81	1.15	0.90	55.7	44.0	43.7	64.7
Sweden	2.97	2.17	5.73	3.92	2.10	1.54	2.97	1.97	70.8	70.9	51.8	50.4
Nordic countries^{a, b}	2.92	2.90	5.51	3.58	1.19	1.11	1.89	1.48	47.1	45.4	36.5	45.8
Greece	0.53	0.80	0.72	0.84	0.17	0.38	0.31	0.35	32.7	47.5	43.0	41.5
Italy	..	..	2.51	1.83	..	..	1.36	1.12	..	..	54.2	61.1
Portugal	0.69	0.72	1.74	1.60	0.33	0.48	0.84	0.78	47.3	66.9	48.2	48.6
Spain	3.14	3.18	3.83	2.25	0.33	0.85	0.50	0.70	10.5	26.9	13.1	30.4
Southern Europe^{a, b}	1.45	1.57	2.10	1.63	0.28	0.57	0.55	0.73	30.2	47.1	34.7	40.2
Czech Republic	..	..	0.30	0.36	..	..	0.16	0.13	..	..	54.3	35.7
Hungary	..	..	2.76	1.01	..	..	0.65	0.39	..	..	23.6	38.6
Poland	..	..	2.45	1.00	..	..	0.58	0.44	..	..	23.6	44.4
Above countries^{a, b}	..	..	1.84	0.79	..	..	0.47	0.32	..	..	33.9	39.6
Austria	1.20	1.20	1.74	1.71	0.27	0.27	0.32	0.44	22.6	22.6	18.5	25.9
Belgium	4.68	3.91	4.24	3.87	1.31	1.26	1.24	1.42	28.0	32.2	29.2	36.7
France	3.03	2.60	3.32	3.11	0.66	0.73	1.25	1.30	21.9	28.2	37.6	42.5
Germany	2.22	2.26	4.10	3.54	0.80	1.03	1.58	1.26	36.1	45.6	38.6	35.6
Ireland	5.04	4.17	4.64	3.44	1.52	1.41	1.54	1.54	30.2	33.9	33.3	44.7
Luxembourg	1.48	0.96	0.88	0.96	0.52	0.30	0.19	0.29	35.3	31.1	21.4	30.3
Netherlands	4.65	4.04	4.61	4.72	1.16	1.25	1.59	1.74	25.0	31.0	34.5	37.0
Switzerland	0.46	0.34	1.99	1.77	0.19	0.21	0.38	0.77	42.0	62.0	19.1	43.5
United Kingdom	2.86	1.53	2.15	0.98	0.75	0.67	0.57	0.34	26.2	43.9	26.4	36.4
Central and Western Europe^{a, b}	2.85	2.33	3.07	2.68	0.80	0.79	0.96	1.01	29.7	36.7	28.7	36.9
OECD Europe^{a, b}	2.60	2.33	3.50	2.69	0.80	0.83	1.12	1.05	34.1	40.8	31.8	39.6
Australia	1.72	1.04	2.51	1.48	0.42	0.24	0.71	0.42	24.7	23.3	28.4	28.4
New Zealand	1.54	2.66	2.40	2.21	0.90	0.93	0.79	0.63	58.6	35.0	32.8	28.3
Oceania^b	1.63	1.85	2.46	1.84	0.66	0.59	0.75	0.52	41.6	29.1	30.6	28.4
EU^{a, b}	2.91	2.53	3.63	2.80	0.86	0.86	1.13	1.07	31.7	38.6	31.3	37.7
OECD^{a, b}	2.32	2.09	3.03	2.29	0.72	0.72	0.94	0.87	34.2	38.4	30.3	37.3

.. Data not available.

a) The averages are calculated including only those countries for which data are available for all of the years shown, and some missing data have been estimated by the Secretariat. See Annex I.A for details.

b) Unweighted averages.

Source: OECD database on Labour Market Programmes.

unemployed (and there were also indirect effects from the reform of its welfare system) [see OECD (2001b)]. For Oceania, the curve for active spending turns down sharply after 1995, reflecting the considerable reduction in public expenditure on active programmes in both Australia [see OECD (2001a)] and New Zealand.

The answer to the question posed at the beginning of this section, “Have OECD governments heeded the call to put more emphasis on “active” labour market programmes?”, can thus be answered with a qualified “yes”. Between 1986 and 1998, two years of approximately equal unemployment rates for the OECD as a whole, the proportion of LMP

Chart 1.3. Active/passive spending and unemployment rates, 1985-1998^a

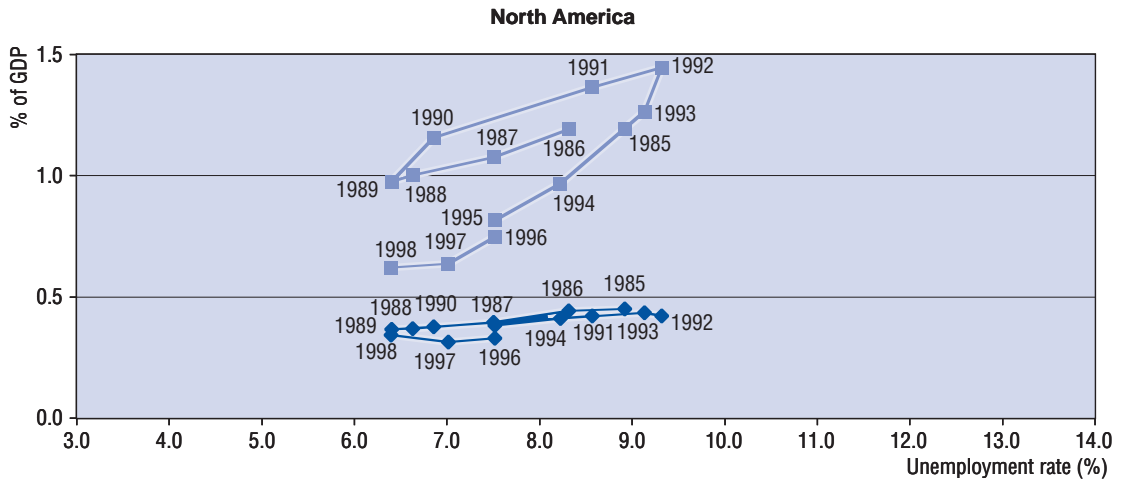
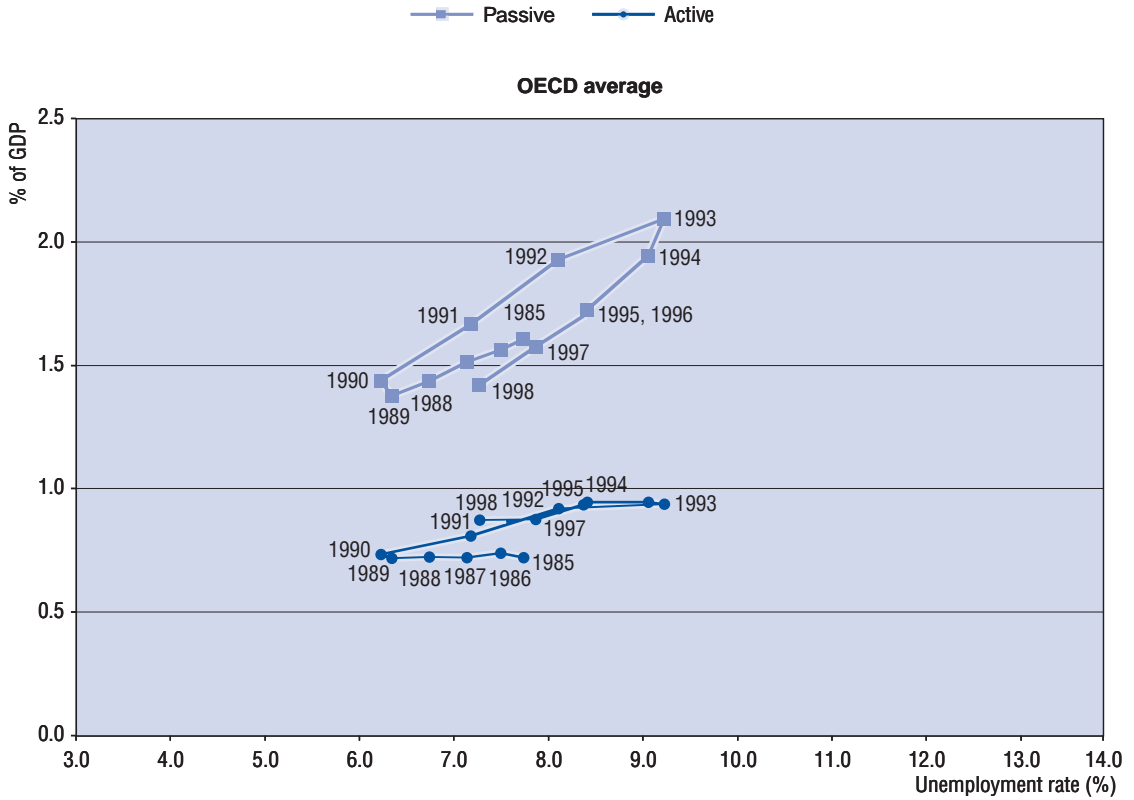


Chart 1.3. Active/passive spending and unemployment rates, 1985-1998^a (cont.)

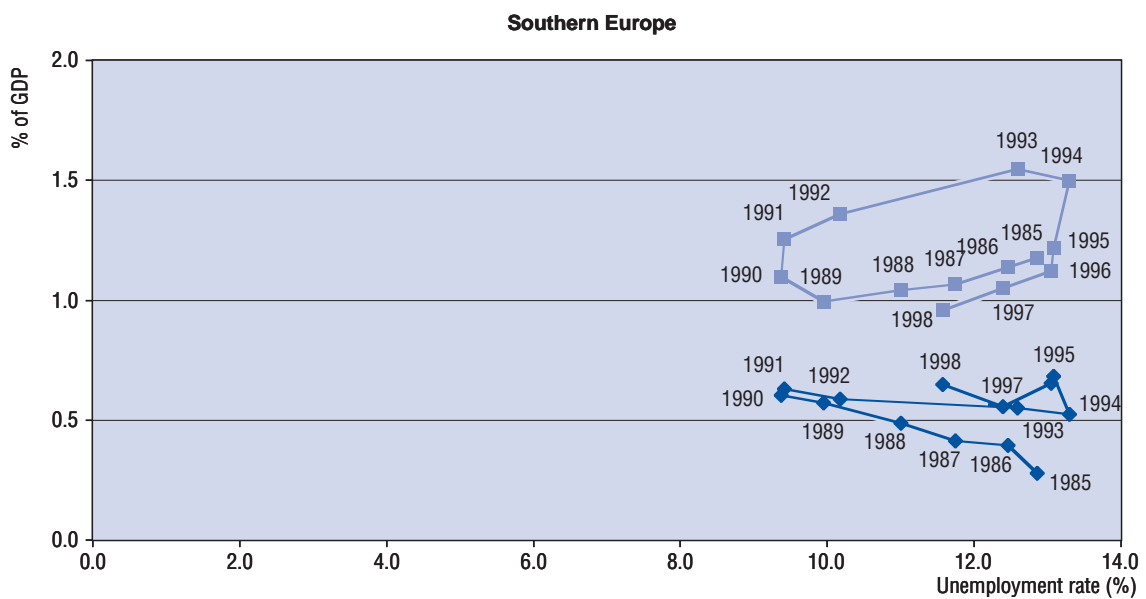
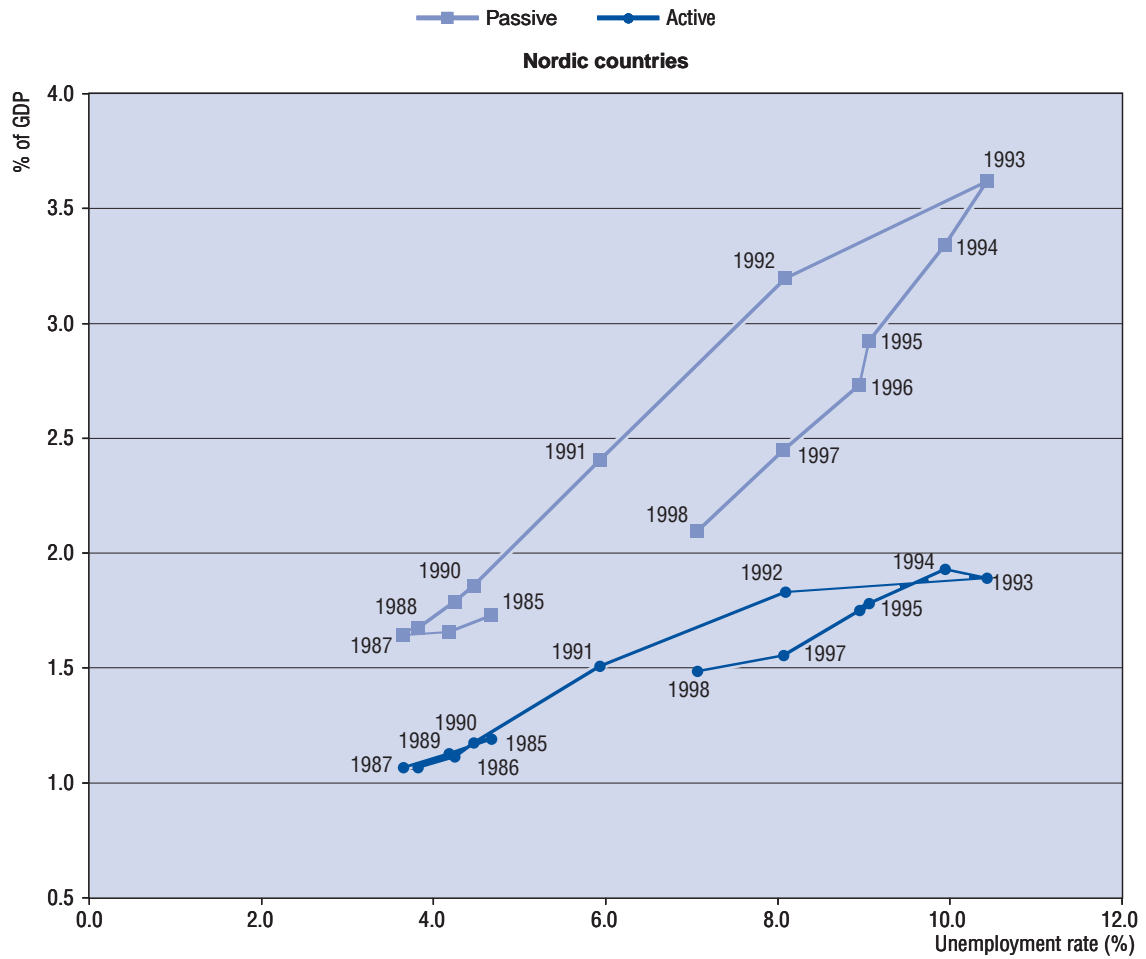
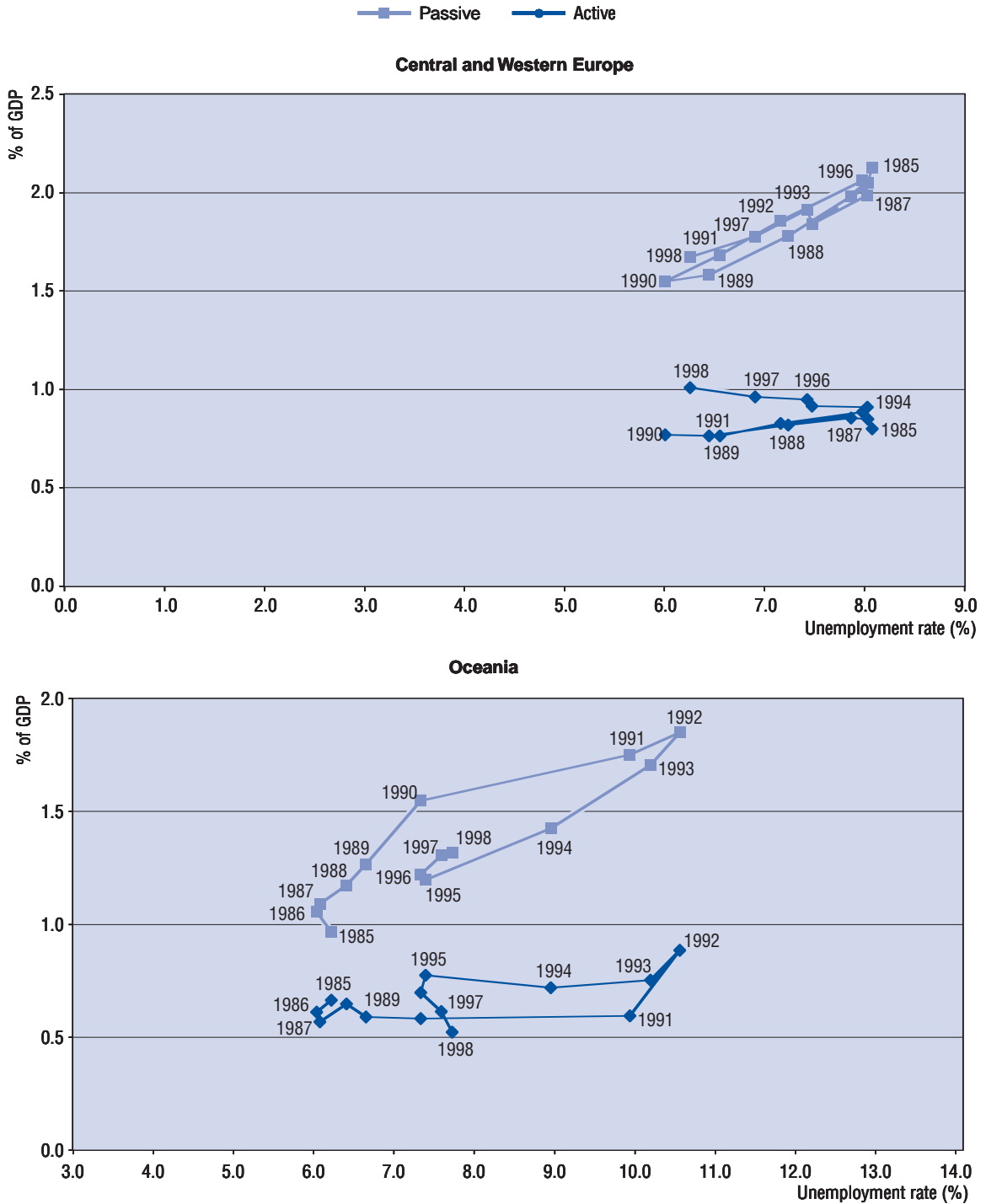


Chart 1.3. Active/passive spending and unemployment rates, 1985-1998^a (cont.)



a) The charts have been drawn on the same scale to facilitate comparisons. Not all OECD countries are included in the figures and regions shown, and some missing data have been estimated by the Secretariat. See Annex 1.A for details.

Source : OECD database on Labour Market Programmes.

spending allocated to active programmes rose in two-thirds of the OECD countries and the OECD average also rose very slightly, from 35.0% to 37.3%. There were falls in Finland, Japan, Luxembourg, New Zealand, Sweden and Switzerland. However, Finland, Japan, Sweden and Switzerland were among the few countries where unemployment in 1998 was considerably higher than in 1986, boosting the proportion of passive spending. In addition, it must be noted that, in Australia, Ireland, the United Kingdom and the United States, the proportion of active spending in total LMP spending rose because of a fall in passive spending as a proportion of GDP, rather than because of an increase in active spending.

As noted above, one of the reasons for the decline in passive spending as a proportion of GDP is that the contribution of early retirement schemes to the total of passive expenditure has tended to decline since the mid-1980s. Data on spending on early retirement programmes are available for only 10 countries since 1985: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, and Sweden. If the period is restricted to begin in 1992, data for Hungary, Ireland, Poland and Portugal also become available. As a proportion of GDP, spending has fallen rather consistently since 1985. The decline was from 0.5% in 1985 to 0.4% in 1992 (average

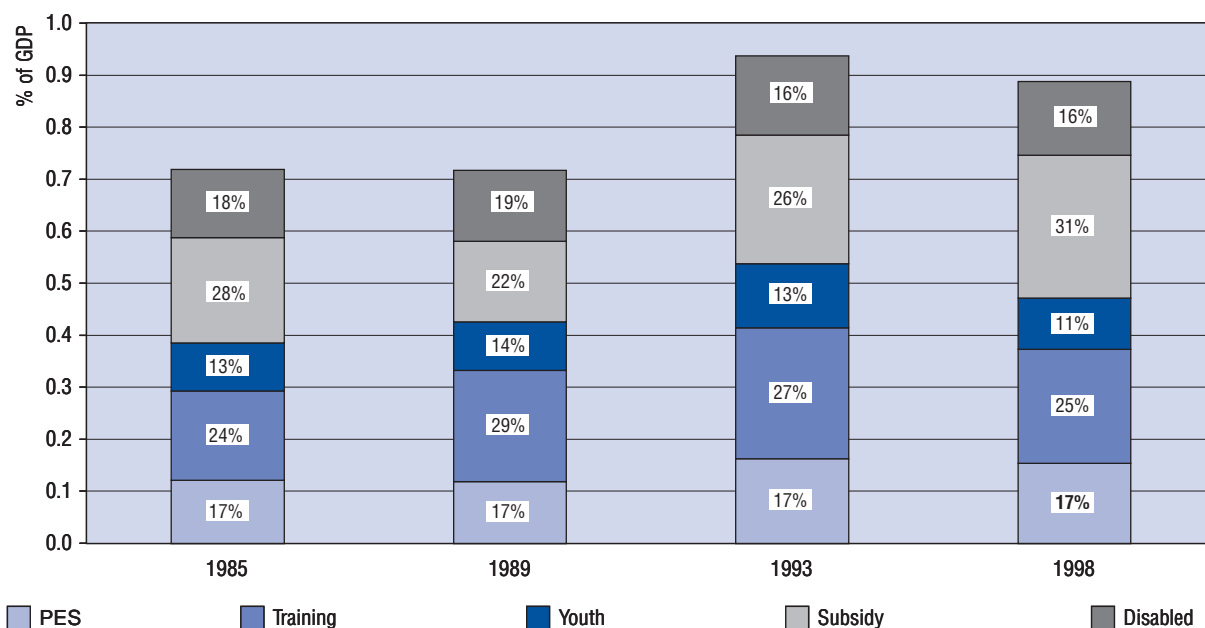
figures for the 10 countries) and from 0.4% in 1992 to 0.3% in 1998 (average for the 14 countries). This is in line with concerns about the long-term costs of such policies, recent reforms in some countries (*e.g.* Denmark, Finland, Germany and the Netherlands) and the move to what has been called “active ageing” [OECD (1994, 1995, 2000a)].

C. How did the pattern of spending on active measures change?

Chart 1.4 shows remarkably little variation in patterns of expenditure on average for OECD countries between 1985 and 1998. The main changes are a slight fall in the proportion of active expenditure allocated to programmes for youth and the disabled (over a period when the numbers of young people were falling and conditions for receipt of disability benefits were being tightened), and a slight increase in the proportion of expenditure accounted for by employment subsidies.

Chart 1.5, however, brings out considerable differences across regional groupings in 1998. Relative to other regions, the Nordic countries devote a high percentage of its active spending to training. A detailed examination of the database shows that, as in other regions, the bulk of this is devoted to training for the unemployed and those at

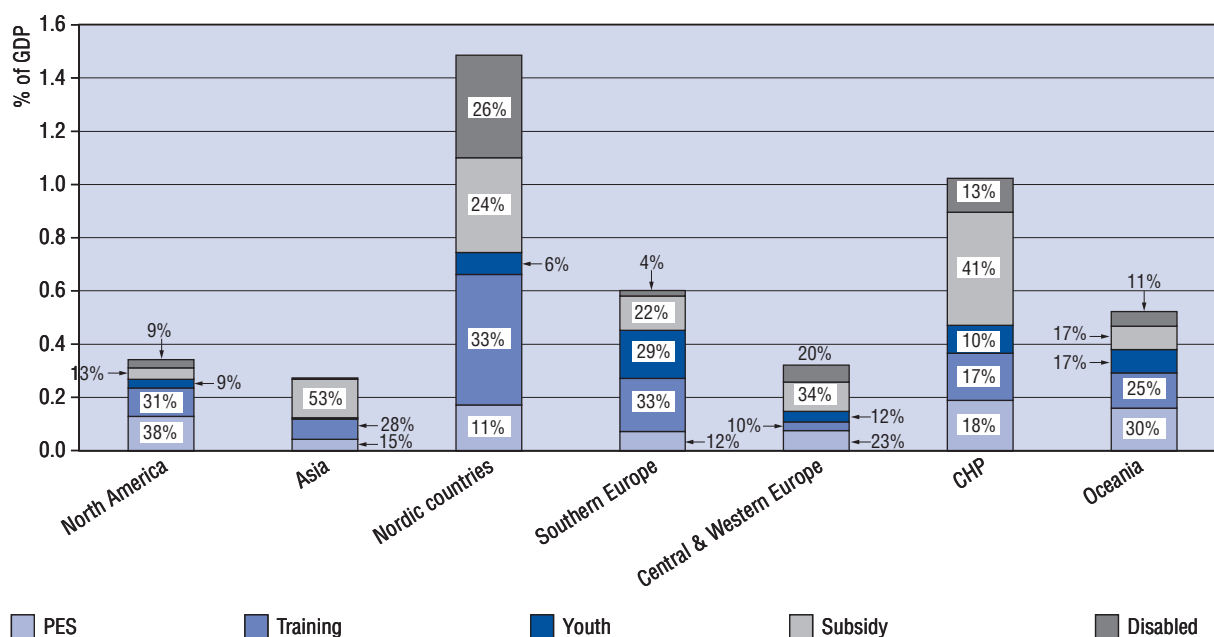
Chart 1.4. Composition of active spending in the OECD area, 1985-1998



Note : Unweighted averages.

Source : OECD database on Labour Market Programmes.

Chart 1.5. Composition of active spending in OECD regions, 1998



Note : Unweighted averages. CHP represents the Czech Republic, Hungary and Poland.

Source : OECD database on Labour Market Programmes.

risk, rather than training for employed adults (though Denmark is an exception here). Spending on measures in the “youth” category has risen sharply to 39% of total active spending, on average for the Southern Europe countries (in 1998) compared to 6% in 1985. Expenditure on employment subsidies now represents a particularly large proportion of active expenditure in Japan and Korea, as well as in Central and Western Europe, after increases over recent years. On average, just over half of this type of expenditure is devoted to direct job creation, which remains an important component of labour market policy in many countries. Some countries have developed more individualised programmes, while others have incorporated skills-training [Brody (2000)]. For North America, spending on programmes for youth and the disabled, and on employment subsidies, all represent small proportions of an already relatively small percentage of GDP allocated to active programmes.

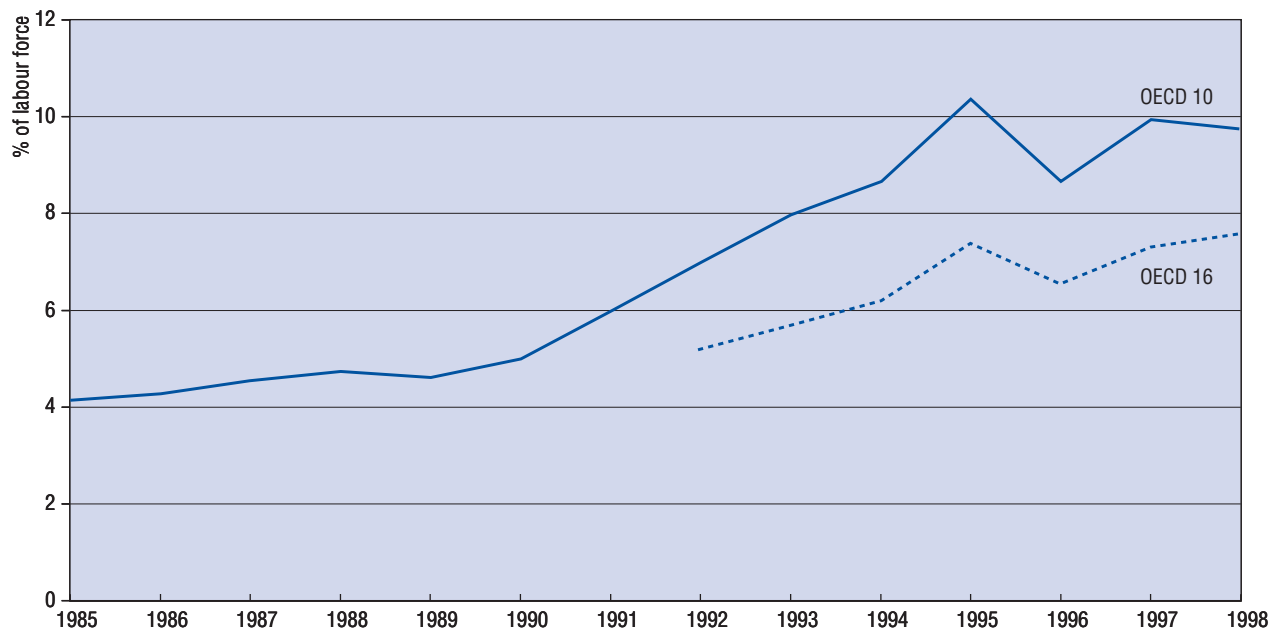
Chart 1.6 presents another viewpoint on the changing structure of expenditure, showing trends in the “participant inflow” – the annual inflow of participants into the various programmes. While active spending has risen only slightly as a proportion of GDP, the participant inflow has risen much faster: in 1998 over twice as many people entered ALMPs as did in 1985, and around 50%

more than in 1992. This very likely reflects greater use of “lighter” active measures, and reduced emphasis on expensive programmes, such as long periods of training [see OECD (1996b)].

D. New developments in policies and measuring instruments

The large volume of expenditure on labour market programmes has given rise to a number of concerns. Part of the reason for the emphasis on active programmes has been the perception that excessive reliance on passive policies might lead to substantial numbers of the unemployed gradually becoming detached from the labour market. However, in addition, there has been growing concern over the effectiveness of ALMPs themselves. While the number of rigorous evaluations remains inadequate,¹⁰ those that have been undertaken suggest that broadly-targeted programmes to tackle unemployment are rarely effective in achieving their stated objectives for programme participants. In addition, most measures designed to help disadvantaged youth, whether training or subsidies for job creation, appear to have had much less success than hoped for [OECD (1996b); OECD (1999a); Martin (2000)].

Chart 1.6. OECD participant inflows into ALMPs, 1985-1998



Note : Unweighted averages.

OECD 10 : Australia, Canada, Denmark, Finland, France, the Netherlands, Portugal, Spain, Sweden and Switzerland.

OECD 16 : Australia, Canada, the Czech Republic, Denmark, Finland, France, Greece, Hungary, Korea, Mexico, the Netherlands, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

Source : OECD database on Labour Market Programmes.

In response, many new ALMPs incorporate much more careful targeting. For young people, there is renewed emphasis in many countries on achieving a smooth transition from school to work as opposed to broadly-based measures for school-leavers [OECD (1999a) and OECD (2000b)]. Another trend is towards greater co-ordination of labour market programmes with each other, as well as with other economic and social policies. For example, an emphasis on increased co-ordination between active and passive programmes is found in recent reforms in the Canadian Employment Insurance system, the United States Welfare system, the Korean welfare system (now called the “Productive Welfare” system), and the Danish and Irish Unemployment Benefit systems; in the Swiss procedures for “activation” of benefit recipients; in the United Kingdom New Deal and in the French *Plan d’aide au retour à l’emploi* (PARE). Finally, a number of countries have introduced innovative programmes, for example the “Making Work Pay” policies seen in Belgium, France, the United Kingdom and the United States. These have elements of both social and employment policy, and are designed to support low-income

families while stimulating employment [OECD (1999c); OECD (2000c, editorial)].

Although, as shown above, expenditure on the Public Employment Service (PES) remains at a fairly low proportion of total active spending in most countries, it is increasingly seen as having a central role in the execution and monitoring of labour market programmes. More intensive assistance with job search has been found to be a particularly cost-effective form of active programme. It is inexpensive and evaluations from several countries demonstrate positive effects [Martin (2000)]. In addition, many countries are seeking ways of encouraging job search by placing more rigorous conditions on the receipt of benefits and monitoring more intensively the job-search behaviour of benefit recipients. The PES is thus seen as having an important role in the co-ordination of active and passive measures. A number of countries (*e.g.* France, Korea, the Netherlands, New Zealand, the United Kingdom and the United States) have adopted “one-stop shops” and similar initiatives to direct job-seekers more quickly to the most appropriate service [OECD (1999b); OECD (2001b)].¹¹

Box 1.3. New measuring instruments for labour market programmes

The European Union Employment Strategy incorporates close monitoring of national labour market policy efforts. In response, EUROSTAT has begun the construction of a new database on Labour Market Policies. This builds on the LMP database of the OECD, adding more detailed information on the characteristics of labour market measures and on flows and stocks of participants. Thanks to its multidimensional structure, it allows an examination of expenditure data both by type of action and type of expenditure. It also provides data on participants both by type of policy action and by personal characteristics. The database also contains qualitative information on programmes to allow cross-classifications of measures according to a number of dimensions, such as the financing institution, the target group, the area of application, etc.

The methodology of the new EUROSTAT database has been developed in close co-operation with the OECD, which, in turn, is now adapting its data collection framework to mesh with that of EUROSTAT. This will avoid unnecessary duplication of data collection work within EU member states and will allow a more informative and coherent database to be established across all OECD countries. However, the OECD database will remain the only source of historical data on labour market programmes for OECD countries, and so particular care will be devoted to maintaining consistency with the existing series.

An important classification of the new database is by “type of action”, which replaces the present categorisation of programmes. It comprises one base category: general Public Employment Services; and nine broad categories of labour market programmes: 1) intensive counselling and job-search assistance; 2) training; 3) job rotation and job sharing; 4) employment incentives; 5) integration of the disabled; 6) direct job creation; 7) start-up incentives; 8) out-of-work income maintenance and support; and 9) early retirement. Another important classification, by “type of expenditure”, refers both to the ways in which public funds are provided to target groups (*e.g.* periodic cash payments, goods and services, reduced social contributions, etc.) as well as to their direct recipients (*i.e.* participants in programmes, employers and service providers).

The trend towards a more active role for “passive” policies is also tending to weaken the distinction between active and passive measures that was one of the foundations of the OECD database. The revised database, currently under development, is designed to accommodate this trend, as well as to provide a basis for monitoring expenditures on new types of policy (see Box 1.3).

Conclusions

In 1992, governments in OECD countries announced their intention to transfer expenditure away from “passive” programmes of unemployment benefit payment and early retirement schemes towards “active” programmes designed to help the unemployed back into work. This section has shown that this intention was fulfilled, but only to a small extent. Between 1986 and 1998, OECD unemployment rose first to record post-war heights, and then fell back to its 1985 level. Over the same period, the average proportion of GDP

devoted to active policies in OECD countries increased a little while, for passive policies, it decreased. As a result, the average proportion of labour market expenditure on active programmes rose very slightly, from 35.0% in 1986 to 37.3% in 1998. However, this rise was not seen in every country.

At the same time, experience with active labour market programmes has shown the importance of more careful design and much greater emphasis on rigorous short- and long-term evaluation. Some relatively inexpensive policies (notably assistance with and active encouragement of job-search) have been found to be among the most cost-effective for substantial numbers of the unemployed. Another widely accepted priority is to continue to integrate active and passive labour market programmes and to improve the delivery of “passive” unemployment and welfare benefits, so as to encourage active participation in the labour market. As a consequence, the distinction between “active” and “passive” programmes should become less important in future.

NOTES

1. As elsewhere in this chapter, economic growth “in 2000” refers to estimates of the growth between mid-year 1999 and mid-year 2000.
2. See for example *The Economist* (2001); Cordon (2001); Dobbins (2000); Pisani-Ferry (2000); and Dunne (2000).
3. The periods of growth are determined by the business cycle peaks and troughs estimated by the OECD and the Economic Cycle Research Institute, where possible. Unemployment peaks and troughs were used in the absence of such data for Finland, Luxembourg, the Netherlands and New Zealand (where an intermediary peak and trough in the 1980s has been ignored to create a longer series).
4. Although the unemployment rates in France and Spain are high relative to other OECD countries, their levels are comparable to those seen in the expansion periods of the 1980s. For Spain, data between 1998Q2 and 1999Q4 have been omitted due to a break in the vacancy data series. With respect to Ireland, although the current level of vacancies and unemployment cannot be compared to the previous expansionary period, the increasing levels of vacancies coupled with signs of increasing wage pressure may indicate the presence of labour market tightening and skilled-labour shortages. For Germany, the curve between 1982 and 1991 refers to western Germany, and so cannot be directly compared to the most recent expansionary period.
5. There is also a shift in the curves for Belgium and Luxembourg. For Belgium, a major reason is likely to be the success of the PES in increasing the proportion of job vacancies notified to it, through the technological changes mentioned in Box 1.1.
6. Communication from the French ministère de l’Emploi et de la Solidarité.
7. Communication from the Norwegian Ministry of Labour and Government Administration.
8. The emphasis in this section is on average expenditures among OECD countries, rather than the average expenditure for the OECD economy taken as a single unit. Thus all averages quoted, both for expenditures and unemployment rates, are unweighted, and differ from the weighted averages which may be found elsewhere. The unemployment figures are taken, where possible, from the OECD Standardised Unemployment Rates database, as these are more suitable for comparisons, both over time and between countries, than national rates. See OECD *Quarterly Labour Force Statistics* for an explanation of their construction.
9. The chart excludes Italy, for which data are available only from 1992. However, for 1992 onwards, the inclusion of Italy makes very little difference to the overall pattern.
10. However, there are also signs, in several countries, of increased efforts to monitor programmes and evaluate their results [see, for example, WZB (1997); OECD (1999c, 2000d)].
11. In Australia, a large proportion of the placement function of the PES has been contracted out to a variety of private and community organisations [OECD (2001a)].

Annex I.A

Country groupings and estimations

Tables 1.A.1 and 1.A.2 show the country groupings employed for the expenditure and participation data and indicate where estimations were made.

Table 1.A.1. Regional groupings: expenditure data

Grouping	Countries	Period covered	ALMP forecasted/estimated values
OECD	Australia, Austria, Belgium, Canada, Denmark, Finland, France, Greece, Ireland, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and United States	1985-1998	Denmark 1985; Ireland 1992-93,1997-98; Japan 1985-86; Luxembourg 1998; Portugal 1985, 1997-1998; United States 1985
EU	Austria, Belgium, Denmark, Finland, France, Greece, Ireland, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom	1985-1998	Denmark 1985; Ireland 1992-93,1997-98; Greece 1998; Luxembourg 1998; Portugal 1985, 1997-1998
North America	Canada and United States	1985-1998	United States 1985
Asia	Japan and Korea	1990-1998	Japan 1985-86
Nordic countries	Denmark, Finland, Sweden and Norway	1985-1998	Denmark 1985
Southern Europe	Greece, Spain and Portugal	1985-1998	Portugal 1985, 1997-1998
Eastern Europe	Czech Republic, Hungary and Poland	1993-1998	Poland 1997-1998
Central and Western Europe	Austria, Belgium, France, Ireland, Luxembourg, Netherlands, Switzerland and United Kingdom	1985-1998	Ireland 1992-93,1997-98; Luxembourg 1998
Oceania	Australia and New Zealand	1985-1998	–

– Not applicable.

Note: The unweighted averages shown in the tables and graphs cover only those countries for which data are available for all of the years shown. Missing countries from OECD totals and other groupings: Czech Republic, Hungary, Italy, Korea, Mexico, and Poland (data start later); Germany (break in the series); Slovak Republic (member since 2000); Iceland and Turkey (no data).

Table 1.A.2. Country groupings: participant inflows

Grouping	Countries	Period covered	ALMP forecasted/estimated values
OECD 10	Australia, Canada, Denmark, Finland, France, Netherlands, Portugal, Spain, Sweden and Switzerland	1985-1998	Australia 1998; Canada 1985, 1997-1998; Denmark 1985, 1988; Finland 1985; Portugal 1997-1998; Sweden 1985-1986; Switzerland 1996-1997
OECD 16	Australia, Canada, Czech Republic, Denmark, Finland, France, Greece, Hungary, Korea, Mexico, Netherlands, Portugal, Spain, Sweden, Switzerland and United Kingdom	1992-98	Australia 1998; Canada 1985, 1997-1998; Denmark 1985, 1988; Finland 1985; Greece 1997-1998; Portugal 1997-1998; Sweden 1985-1986; Switzerland 1996-1997

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